



THOUGHT LEADERSHIP

INDONESIA – PERSPECTIVE ON AN EMERGING GLOBAL SOURCING LOCATION

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EMERGING NATIONS

Economic growth propelled by the belief that BRICS nations would drive the new age of global growth has for long been accepted as the new normal. During this time, while some nations within this block did live up to the expectations (albeit briefly in the case of Russia), South Africa and Indonesia were included into this block given the transitions undertaken in these countries both politically and economically. While a lot still needs to be done to create appropriate sustainable business environments to grow new-age sectors, it is quite interesting to note the quick-paced actions taken within these nations to promote ICT sector development with the end goal of reducing poverty through creating a well-informed and knowledge-enabled citizenry. This paper looks at one location that has recently staked its claim to being a provider of services too – Indonesia.



NEW KID ON THE BLOCK

Indonesia, which comprises 17,508 islands, has a population of 245.6 million, the fourth most populous country after China, India, and the United States. It has Muslim population with about 300 ethnic groups, mostly deriving from European, Malay, Chinese, Arabic, and Indian influences. Being the largest economy in Southeast Asia, a member of the G-20 major economies, and the only Southeast Asian nation belonging to OPEC, the nation is poised to leverage a growing economy through adopting policies around liberalization of telecoms, deregulation in capital markets, reforms to tax, customs and financial services and inclusive growth. Indonesia's market economy is heavily influenced by its government with over 164 state-owned enterprises are under its management, and despite corrupt practices and adverse impacts during the economic crisis, growth has continued to be fueled by a burgeoning emphasis on domestic consumption.

Indonesia is positioned to make great strides in the development of its Information Technology sector. Today the country is moving away from its dependence on exports and restructuring its strategy to meet the challenges of an economy driven by IT and IT-related services. Many economists expect growth of USD \$700M this year, with a compound annual growth rate (CAGR) of around 15% over 2010-2014. As the country's IT service market grows, most of these will concentrate on services that include systems integration, professional services, training, support systems, internet services, and global sourcing. Indonesia is continually liberalizing economic policies to support its outsourcing industry, including the Indonesian call center market. Aside from this, the government is implementing developmental strategies including the simplification of investment procedure and tax deductible expenses, and of training and research improvements for development programs. Indonesia was severely impacted by the recent global recession, but has responded effectively and efficiently because of the lessons learned from their 1997-1998 crisis. The Indonesian government established fiscal policy tools to lessen the economic impact, and the two instruments that it used were the tax-saving program for households and businesses and additional spending on infrastructure projects for private sector and household spending¹.

While the positivity surrounding a more liberalized economy spells opportunities, inherent structural inefficiencies surrounding lack of infrastructure, spread of economic well-being, significant population under the poverty line without access to government services or even basic necessities have curtailed the nation's efforts at creating inclusive growth (notwithstanding the near impossibility of administering a population of over 200 million spread across 17000 islands). While Jakarta, the capital city has been the recipient of much of the benefits accruing on the nation, only two sectors seem to have created some level of opportunities – telecommunications and banking. While retail, hospitality and tourism have burgeoned in Jakarta and Bali (the tourist hotspot), there's much to be done in terms of creating sustainable economic environments that could wean people away from traditional cottage industries into contributing citizens. However, penetration

¹ www.sourcingline.com; states that Indonesia enjoys an outsourcing index of 6.7 (on a scale of 10) with a regional rank of 2

of technology products, fueled in particular by the rapid adoption of handheld mobile devices has seen a mammoth growth in technology products, services and applications. The demand continues to surge, further fueled by a strong resilient culture and localized nuances. In this context, Indonesia presents itself as a sizable marketplace ready to adopt new solutions and services through leveraging modern technologies. The standard assumption – emerging nations align themselves only to become suppliers of sourcing/ business services for other nations – doesn't hold sway in Indonesia. An increasing awareness to the benefits of technology and information is fueling much of the local demand. Given the nation's emphasis on domestic growth, there is significant room for players to provide and purchase outsourcing services so long as their impacts are localized, and aimed at Indonesians.

MISUNDERSTOOD DEFINITIONS CAN CREATE HAVOC

Unfortunately for the industry, a recent furor over outsourcing has been significantly amplified much to the chagrin of various players in the economy hoping to leverage outsourcing and create jobs/ value. There seems to be significant confusion in the basic understanding of what outsourcing means. Employers in Indonesia deployed the traditional method of recruiting contractors for low wages without attendant benefits around healthcare etc has for long been a way to contain costs in a significantly volatile economy (until it stabilized in early 2010). However, in October this year, given miserable work conditions, low wages and zero benefits, over two million workers (with support from various trade unions) from various industrial outfits went on a nationwide strike on 3rd Oct demanding fair pay and benefits, crippling productivity and putting a spanner in the works with foreign investments. While these workers belonged to the largely industrial and manufacturing sector, the term "outsourcing" that has been used frequently to describe the practice of employing labor on contract has taken the brunt of the wrath. Employers in turn have begun to hyperventilate about lost business opportunities. However, to placate the large base of contract labor, a regulation has been proposed by the Manpower and Transmigration Minister that employers were not permitted to augment their employees by leveraging contractors for jobs beyond five non-essential services - cleaning service, physical security, catering and mining supporting jobs.

The agony of a misplaced definition, lack of understanding of what outsourcing means, and confusing non-muster labor resourcing with a risk-based, results-oriented, technology-enabled, knowledge-centric industry is palpable to see, and quite concerning in the context of the larger missed opportunities one will encounter going forward in the nation. The inability to leverage a proven business model within the nation will perhaps come back to bite Indonesia significantly, unless the nation, and its Manpower Ministry clearly understands the distinct nature of outsourcing and its delineated disconnect with provisioning non-muster labor for cleaning, catering and security jobs. Much needs to be done to educate the nation in general about outsourcing, global sourcing and its benefits. While the current situation in the nation may warrant caution, and while I completely empathize with the plight of the non-muster labor, the damage a misnomer can cause is palpable. While a choice exists to either ignore the nation, or educate it, I would prefer the latter given its economic might, strong domestic consumption, demand for and appreciation of technology, and the general

opportunity outsourcing, and technology-enabled business services can create in alleviating the plight of the citizens. Hopefully the nation will learn to distinguish contract-labor with outsourcing clearly and not kill an opportunity to create prosperity and growth, just for misusing the term.

ABOUT THE AUTHOR



Bobby is one of the top 25 most powerful leaders in the global sourcing space, and the [founding] **Chairman & CEO** of **Matryzel Consulting Inc**, a strategy consulting, sourcing advisory and management firm headquartered in New York. Matryzel advises corporations and governments worldwide adopt concerted strategies aimed at enhancing competitiveness while focusing on their core competencies. He advises federal governments across four continents on ICT sector development with particular emphasis on policy development, industry-government partnerships aimed at creating GDP growth and enabling positive economic impacts. Bobby has advised Fortune 500 customer organizations on Strategic Planning, Mergers & Acquisitions, JVs, Private Capital Investment Evaluations, Process Reengineering, Pricing Strategies, Sourcing Relationships, Business & Financial Modeling et al, contributing immensely to global sourcing for clients. He is a sought-after speaker in conferences and round-tables worldwide where he moderates panels and presents content on thought leadership. He has been quoted and published in Forbes, fDi, Economist, The Outsourcing, ZDNet, CIO Africa, Brazil Exportati, Times of India, Business Week, New Straits Times, Malaysian Business, Technology Inquirer, Logically Worldpress etc.