Core values measurement: Case study of state-owned enterprises in Indonesia

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ABSTRACT

Indonesia’s state-owned enterprises are now on the verge of adopting a new management system called values-based management (VBM) or management by values (MBV) initiated by the Ministry of State-Owned Enterprises (SoE) by introducing a set of core values, namely AKHLAK (abbreviation from Bahasa Indonesia’s words: Amanah / Trustworthy, Kompeten / Competent, Harmonis / Harmonious, Loyal, Adaptif / Adaptive, and Kolaboratif / Collaborative). This study uses an inductive/qualitative approach to understand how these core values are measured. The implication of this study will help SoEs to decide whether to use indirect or direct measurement methods in their effort to translate core values into values-based management. The initial finding shows the sample SoEs do not have a solid understanding of the differences between direct and indirect values assessments yet utilize the method of choice quite exclusively and extensively.

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Introduction

Indonesia state-owned enterprises (SoE) are a group of profit-oriented companies with the majority of their stocks owned by the Republic of Indonesia through the Ministry of State-Owned Enterprise (Ministry). Indonesia’s SoEs are doing business in various industries such as banking, construction, telecommunications, insurance, defense, energy, tourism, transportation, et cetera throughout Indonesia, making Indonesia’s SoEs the most significant economic engine in Indonesia.

SoE operates in many businesses within geographically diverse local cultures, making one Indonesia’s SoE having distinct culture compared to another, represented by different core values possessed by each company. More than 100 different sets of core values are used by different SoEs, and the number is much higher if its subsidiaries are included. Values are principles, philosophy, goal, and social standard which considered to have intrinsic value (Russell, 2001), some companies extract common individual values and simplified it to become universal values which represent the company’s character. Based on Ministry’s findings, these core values from various companies can be grouped into several values that can represent those universal values.

SoE, like any other business organization, is a very complex social system, and the evolution of its complexity driven by technological advancement, decreasing of transparency, increasing influence from stakeholders mostly from central or local political power; workers demand, customer needs, civil society, government, et cetera. The success of an SoE is almost always measured by financial perspective such as profit which using control as a primary tool, and none utilize values-based management (VBM) perspective. VBM is considered to be the following management philosophy to overcome business complexity. However, references about how values being integrated into management systems and measuring those values are still scarce. Therefore, this paper proposed to understand how values, especially core values, are measured to help SoEs decide whether to use indirect or direct measurement methods to translate core values into values-based management.

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Literature Review

Theoretical and Conceptual Background

Values

The term ‘values’ is different from ‘value’, and both have several meanings; values can have a meaning as a set of high-level organizational statements (vision, aspiration, objective) or individual statements (belief). Both organizational and individual statements are essential; managers need to align individual values with organizational values to achieve goals (Hoag, 2006). Value is more associated with financial terms (e.g., ‘the ultimate management task is to maximize shareholder value’), or added value used mainly in marketing practice.

On June 1st, 2020, Indonesia SoE Minister announce AKHLAK (abbreviation from Indonesian words: Amanah / Trustworthy, Kompeten / Competent, Harmonis / Harmonious, Loyal, Adaptif / Adaptive, and Kolaboratif / Collaborative) as the only core values to be used within SoE ecosystems starting from the SoE ministry, SoE companies, SoE companies’ subsidiaries, and its sister companies. These values are implicitly influenced by Islamic values akhlaq, which can be directly translated as ‘good deeds’. Islamic values have been part of Indonesian culture before the European conquest in most parts of South-East Asia. Muslim’s prophet Muhammad (peace be upon him) taught akhlaq as the ultimate mission of his prophecy.

Each AKHLAK value has operational definition as follow:

<table>
<thead>
<tr>
<th>Value</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amanah</strong></td>
<td>Kami memegang teguh kepercayaan yang diberikan (We uphold the trust given)</td>
</tr>
<tr>
<td><strong>(Trustworthy)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Kompeten</strong></td>
<td>Kami terus belajar dan mengembangkan kapabilitas (We continually learn and develop capabilities)</td>
</tr>
<tr>
<td><strong>(Competent)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Harmonis</strong></td>
<td>Kami saling peduli dan menghargai perbedaan (We care to each other and respect differences)</td>
</tr>
<tr>
<td><strong>(Harmonious)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Loyal</strong></td>
<td>Kami berdedikasi mengutamakan kepentingan bangsa dan negara (We prioritise our dedication for nation and country)</td>
</tr>
<tr>
<td><strong>(Adaptive)</strong></td>
<td>Kami terus berinovasi dalam menggerakkan atau menghadapi perubahan (We continually innovate to respond and make change)</td>
</tr>
<tr>
<td><strong>Kolaboratif</strong></td>
<td>Kami membangun kerja sama yang sinergis (We build strategic alliance)</td>
</tr>
<tr>
<td><strong>(Collaborative)</strong></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Ministry of State-Owned Enterprise Republic of Indonesia, 2020)

Indonesia SoE Ministry instructed SoEs to integrate AKHLAK core values into their management system to ensure every employee possesses the behaviors aligned to the core values. It is expected that such alignment will positively be impacting business performance. Management creating an environment within the business organization (intra-company), and values-based management is a concept used by the employer to define the predictability of the behavior within the environment. Previous research has been conducted to provide insight on how behaviors aligned with core values positively impact performance excellence in higher education institutions (Ab Hamid et al., 2011).

The discussion about the relationship between business performance and employee morale is closely related to how each value support or against organizational values. Findings show that no organizational values can accommodate all individual values (Chakraborty, 2001). Values-based management is expected to be a tool to redesign the culture within an organization that is getting complex from time to time (Deckert, 2007). Almost all leaders in any organization believe the key to success starting with its people, but only a small number of them understand how those people were taking part in growing the organization. In his book Good to Great, Jim Collins concludes after a series of literature reviews; “people are not organizations’ most important asset, but the right people are” (Collins, 2009).

The debate arises on how to determine the so-called ‘right people’, the topic is primarily on whether the people allowed to express their values indirectly and assess the alignment with current culture and desired culture (Barrett, 2013) or the people can be directly assessed as the subject of values assessment similar to performance assessment (Zhen, 2012). State-owned enterprises have separately prototyped these two approaches to comply with Ministry’s instruction in building values-based management. One of the Ministry’s initiatives is to combine individual values assessment with performance assessment and creating a 2x2 matrix to classify state-owned enterprise’s talents, and this idea was taken from General Electric’s (GE) management practice in the reign of Jack Welch (Buchko & Buchko, 2012).
Those who have high performance and high values match are considered as organization’s stars, those who have low performance and high values match are given a second chance to improve their performance in the next performance appraisal cycle, those who have low values match are shown the exit door. As cruel as it sounds, GE's management by values proven to be successful in driving business performance, and in 20 years of Jack Welch's tenure has increasing GE market value by approximately 4000% (40 times).

Values-Based Management

Values translated into values-based management becomes the soul of the organization. In contrast with Management By Instruction (MBI) or Management By Objectives (MBO), values act as an informal driving factor that able to answer the challenge of organizational environment complexity and increasing customer demand (Dolan & Richley, 2006). Organizations face a more autonomous workforce in responsibility-sharing and the transformation of managerial function to act more as leaders and facilitators. These two trends will eventually reduce the complexity of the organization and, along the way, able to cope with the increasing uncertainty of the organization’s environment.

Figure 2 illustrates the schematic evolution from MBI to MBO to MBV. This evolution is a direct consequence of the four trends faced by organizations in the last decade, forcing organizations to remain adaptive and competitive in an everchanging and unpredictable market (Dolan & Garcia, 2002).

One of the ministry's transformation programs is to internalize AKHLAK as uniform core values in SoE's ecosystem. This internalization aligned with the current organization's evolution to shift from MBI or MBO towards MBV. MBI and MBO, the legacy from the 19th and 20th-century management practices, can no longer support organizations to remain functioning, competing, and adapting to a more challenging, demanding, globalized, volatile, uncertain, complex, ambiguous, and everchanging environment. 21st-century environment characterized by four trends; (1) trend towards product quality and clients’ satisfaction, (2) trend towards autonomy and professional responsibility, (3) trend towards manager to become leaders and facilitators, and (3) trend towards teams, networks, and flat structure (Dolan & Garcia, 2002).

MBI and MBO base their operating systems on the hierarchy to control employees to achieve the organizational goal, but this excessive control was causing the employee to stop thinking and doing differently because they were forced to obey the instructions and objectives. MBV, in contrast, avoiding controls but operate to develop the personal and professional potential of every member within the organization.
Values Assessment

The study on values assessment has received little attention in management research, and some are applied in Total Quality Management, such as Abdullah et al. (2012) who proposed a conceptual framework, namely value-based total performance excellence model (VBTPEM) to identify value-based indicator of leadership, strategy, change management, employee, stakeholder, but yet measuring core values individually neither directly nor indirectly. Other studies try to measure each core value in relationship with performance (Cheung et al., 2012) indirectly, but then the research still far from integrating core values into VBM.

Beer & Micheli (2018) overview Social Values Measurement (SVM), which integrates technical and social elements about performance, to enhance Performance Measurement and Management (PMM) traditionally considered as too mechanistic in influencing human behavior and failed to anticipate manipulation of performance information. Some researchers argue that if social aspects are not strengthened, technical ones tend to dominate over time, making PMM systems less personal and more focused on performance results, potentially alienating employees (Bititci, 2015).

Extensive use of SVM are dominated by not-for-profit organisations, while the use of it in for-profit sector is usually utilised in Corporate Social Responsibility reporting as a measure of community impact. Although studies show that up to 95% out of 250 largest corporations in the world actively measuring social impact, the void remains in both academic and practical world where references on conceptual framing on measuring values is still lacking (Ebrahim & Rangan, 2014), especially core values measurement using either indirect or direct values assessments.

Indirect Values Assessment

Values construct in management research has suffered from an agreed-upon conception of universal values, content, and structure, relations among these values, and reliable methods to measure them. Such a condition is confirmed until a theoretical model proposed by Schwartz (2012), who gathered more than 150 universal values and then refined by Barrett (2013), who constructed indirect values assessment for each person to represent ten personal values, ten current values, and ten desired values. However, the assessment of the Indirect values focused more on policies and perceptions (the means) where every individual has the freedom to interpret each value according to their understanding, which many practitioners felt such indirectness is too subjective and too broad to be translated into uniform management terms.

Direct Values Assessment

Empirical research conducted is by Buchko & Buchko (2012), unveiling how General Electric transformed from nearly bankrupt into one of the most valuable organizations, and Zhen (2012), who observed a similar approach made by Alibaba when it rapidly escalated as one of the tech giants in the world. Both GE and Alibaba directly assess every employee on how they live the corporate values based on 360-degree feedback given by superiors, subordinates, and team members. Direct values assessment focused on the social results (the ends) rather than the means and placed people as both subjects and objects of the assessment with a clear definition of the expected outcome. Through its directness and subject-object balance, people are naturally pushed towards new levels of accountability and transparency (Ebrahim, 2003).

Methodology

The methodology proposed is inductive/qualitative approach using the Case Study method, it is considered fit to be used to understand a phenomenon on-field reality and answering the questions of 'how' and 'why', where one context cannot be separated clearly from the phenomenon. This method works effectively for inductive and exploratory research, and to such an extent, it can explain relationship causality among phenomena that cannot be explained by the quantitative method.

There is no golden rule about research design using Case studies since it focuses more on quality than quantity. The interview process was conducted on 5-10 individuals (Creswell, 2007) who considered having a holistic and systemic understanding of how to translate core values into the management system. This paper represents the interview data from the 8 largest SoEs in Indonesia, varying from C-level (HR Directors) to C-1 (HR General Managers).
Data analysis can be considered the critical phase in qualitative research due to its comprehensive approach and complexity. The data analysis process in Case Study Research, unlike its quantitative counterpart, is not a linear one. It is conducted back-and-forth. This process can be described in Figure 4.

![Figure 4: Case Study Data Analysis Spiral; Source: Creswell, 2007.](image)

Initial data gathering has been conducted before writing this paper as a purposive sampling, which will determine the theoretical sampling or other data source to be gathered. Qualitative research, which this paper used as its primary methodology, requires constant interactions with data (desk study, people, quantitative data) to understand the phenomenon. The next step of this research is to further expand the sampling until data saturation is reached and a conclusion can be reached.

**Conclusions**

Initial data gathering shows an intriguing case emerge to operationalize these values into measurement methods and tools. It seems two sides are taking a position on either using the indirect or direct method, with each assumption on how these two methods of core values measurement championed to be the starting point to translate core values into values-based management.

Studies regarding values-based management have long been conducted in the western hemisphere, but very scarcely in the eastern context, and none in Indonesia. The discussion about MBV in Indonesia is relatively new; moreover, Indonesia's SoEs have distinct values from private or multinational companies' counterparts. Case studies regarding values-based management implementation in Indonesia SoEs may beneficial in building theory about values-based management, especially when it comes to the choice of method and tools in integrating values into a management system.

Field research regarding core values integration into management systems is scarce, mainly about the abstract proposition. There are no empirical studies conducted in Indonesia, moreover its SoEs, and this case study will reveal how values-based management is translated and its choice of measurement methods.
SoE managers struggle to translate values-based management with the case at hand without sufficient references. This case study will help them design proper VBM integration according to the local context, thus provide them with a good background on whether to choose indirect or direct values assessment to measure values internalization’s success.

Initial data gathering has been conducted to the eight largest SoEs in Indonesia, showing equal proportion on both sides of the method chosen, i.e., direct and indirect core values measurement. Interestingly enough, almost all of the SoE in the sample does not have a solid understanding of the differences between direct and indirect values assessments, yet utilize the method of choice quite exclusively and extensively. Further data from the rest of the SoEs is required to better understand the polarity and can be further utilized as the baseline for building a theory on Indonesia’s SoEs values-based management.

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