

FACTORS INFLUENCING THE OPTIMIZATION OF ORGANIZATIONAL
SUSTAINABLE PERFORMANCE:
A CASE STUDY OF PT. MULIA REALTY BATINDO IN BATAM, INDONESIA

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Research report in partial fulfilment of the requirement for the degree of Master of
Business Administration (International Business)

UNIVERSITI SAINS MALAYSIA

2014

ACKNOWLEDGEMENT

This international business management project is the challenging research yet enriches the knowledge. Firstly, I would like to thank my faculty, Graduate School of Business (GSB), USM for giving me this valuable opportunity to conduct the research in the beautiful country of Indonesia as well as experience the real-life work situation in PT. Mulia Ralty Batindo, Batam for the period of 21 days.

The research could not be done without the guidance and support of my supervisor. Therefore, I would like to express my gratitude to Dr. Rajendran Muthuveloo for his time and effort to help and motivate me throughout the course of doing this case study.

I would also like to thank Mr. Mulia Pamadi, the director of the company and all the department managers of PT. Mulia Realty Batindo who helped and supported me during the period of my stay in Batam, Indonesia.

Last but not least, I sincerely thank my parents, Selvaraju Sangan and Rakini Govindasamy; my brothers, Sures Kumar Selvaraju and Bragkash Selvaraju and my sis in law, Subaleka Satyanarayana for their caring, motivation and trust on me. Also I thank my close friends for their guidance and support in completing this project.

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ABSTRAK

Prestasi mampan organisasi cepat menjadi objektif strategik penting untuk setiap organisasi yang semakin meningkat dan dengan itu meningkatkan dan mengekalkan prestasi organisasi adalah sangat menjadi bagian integral dari dunia korporat.

Tujuan kajian ini adalah untuk mengenal pasti faktor-faktor yang mempengaruhi pengoptimuman prestasi mampan organisasi di PT. Mulia Realty Batindo di Batam, Indonesia. Sistem pengurusan prestasi organisasi dianalisis untuk mencari kelemahan dalam sistem yang sedang memberi batasan dan cabaran kepada organisasi, dalam usaha untuk mendapatkan pencapaian yang berterusan organisasi.

Analisis kajian kes yang dilakukan dengan menggunakan analisis SWOT dan Patuk diagnostik untuk Strategi Korporat untuk menentukan sama ada Sdn. Mulia Realty Batindo telah dipengaruhi oleh teknologi, jenis organisasi dan orang-orang yang akan membawa kepada prestasi mampan organisasi. Cadangan ini disediakan berdasarkan penemuan utama daripada analisis.

ABSTRACT

Organizational sustainable performance is fast becoming a critical strategic objective for any growing organizations and thus improving and sustaining the organizational performance is vastly becoming an integral part to the corporate world.

The purpose of this case study is to identify the factors influencing the optimization of organizational sustainable performance in PT. Mulia Realty Batindo at Batam, Indonesia. The performance management system of the organization is analyzed to find the weaknesses in the system that is providing the limitations and challenges to the organization, in its pursuit for organizational sustainable performance.

Analysis of the case study is conducted using SWOT analysis and diagnostic sotol for Corporate Strategy to determine whether PT. Mulia Realty Batindo has influenced by the technology, organizational type and people that would leads to the organizational sustainable performance. Recommendations are provided based on the key findings from the analysis.

CHAPTER 1

INTRODUCTION

1.1. Introduction

This chapter provides the background of the case study, the problem statement of the case study and review on the I-TOP model which is the basis of the framework for the case analysis. Subsequently, the research objectives and case issues of study are stated. Definition of Key Terms and Significance of Study are discussed in the last part of the this chapter.

1.2. Background of the Case Study

Sustainability plays a major significant role in the business world and it contributes to the performance of the organization. According to Labuschagne *et al.* (2005), business sustainability defined as a business strategies adoption that meet the needs of the organization and it is protecting, sustaining and enhancing the stakeholders rights, human and natural resources that needed in the future.

Organization sustainable performance implemented and developed using the effective and efficient corporate strategies of the organization. According to Epstein

and Roy (2001), the organization should decide in what industry they going to invest and operate in the future. The organization must know how the they going to utilize the internal and external resources of the organization and competencies to gain the competitive advantages in the chosen market and industry. The corporate strategies set by the organization drives them towards the organizational sustainable performance and given major impact to the corporate social, environment and financial performance of the organization. Thus, the organization should examine how effective the corporate strategies are could impacts the organizational sustainable performance in human and employee rights and environments protections elements (Epstein and Roy, 2001).

In the current business world, the organizational sustainable performance refers to the maintenance of an organization's high performance level in respect of financial indicators, people management, quality of product and environmental contributions over the long term. Organizational sustainable performance plays an important role in its industry and it is indirectly contributing to the economic development of the countries in which it operates.

Asian Financial Crisis (AFC) in 1997 has severe impact on the economic development program of the several ASEAN economies. According to Kam and Kee (2009), Indonesia is the most affected country among the ASEAN countries. AFC in 1997, give the major impact to the economic of the Indonesia for almost ten years and Indonesia cannot regain the vitality and exuberance same as before this crisis happen. The Indonesian government developed the Special Economic Zone (SEZ),

consists of Batam, Bintan and Karimun Island (known as BBK) and this helps the Indonesian government to regain the growth and enjoy the economy in the past. SEZ attract the investor interest to invest again and helps in the development of the Indonesian economy.

The BBK is one of the famous and unique location for the successes of SEZs in Indonesia and it is attracting most of the foreign investors. Batam is one of the islands in BBK and Batam well known for the cheapest manufacturing base in ASEAN. Batam is a part of the growth triangle involved Singapore, Malaysia and Indonesia. Transportation and communication sectors are the highest GDP contribution sectors to the economy of Indonesia.

In Indonesia, the competitions between the organizations are more complicated compared with other countries. The organizations in Indonesia have to manage time, money and energy more efficiently to sustain in their business. The Sustainable Business Awards (SBA) is introduced in Indonesia to motivate the organization. The purpose of this award is to increase the awareness of sustainable business best practices and demonstrate how sustainable business benefits the companies, the environment and all stakeholders, for today and for the future.

There are a few factors which need to be well taken care of in order to maintain the success of the organization. Running an organization is one thing, but steering it and keep it moving is another thing all together. According to Svensson

and Wood (2005), organizational sustainable performance has a strong relationship between the leadership decision making and corporate strategy. Organization nowadays are lacking in leadership, management which leads to poor management and downsizing. Taking into consideration of the major Multinational Companies (MNC's) like Motorola, Intel, Dell, Agilent, Robert Bosch, AMD and etc, they are all dealing with the same challenges which is to maintain their organizational sustainable performance and to be the leader in the own market and various strategies being introduced to be sustainable. Despite the strategies introduced, organizations are still confronted with difficulties and failures.

The organization should have effective strategies and good leadership to achieve the organization's vision, mission and goal that will lead the organization to sustain in their business or industry. There are some important elements which the organization needs to be managed in order to maintain the success of the organization. Human character and behavior is one of the major elements which contribute to the organization's success. Management practices and hiring the correct type of characters of a person in specific job function as human is most complex elements. Each employee is unique from the others and it is a challenge to monitor them and create the harmonious environment between the manager and the subordinates.

Working conditions and organizational culture play a significant role in the organization sustainable performance. Attractive and comfortable working conditions will motivate the employees to engage in the organization and it is often

influenced to high sustainable performance. Cheung *et al.* (2012), concluded that organizational performance relating to an organization's culture with well integrated set of values, set of beliefs and behavior.

Technologies help the employees to think out of the box and it leads the organization towards the sustainable performance (Gadenne *et al.*, 2011). Organizations need to improve the product design, develop the innovative product and introduce unique products to the market at the right time. To become more competitive in the global market, technological innovation driven organization delivering new product to the market quickly and cost effectively. The organization should focus on producing the new product at the right time and with the good quality. According to Gadenne (2011), the product quality needs to be satisfied by the customers with the less number of customer returns. Less customer returns lead to less reworking costs and it leads to the organizational sustainable performance.

As illustrated, there are some factors that influencing the optimization of organizational sustainable performance. The organization has to build the effective strategy to manage their technology, environment and people in the company (Epstein and Roy, 2001). Selecting the right strategy will leads to the organizational sustainable performance.

As a conclusion, organizational sustainable performance, by having a strategy to support the influencing factors of the success dimensions intended to be achieved,

would have it easier in establishing a performance management strategy that would bring in the competitive advantage to remain in the business. This case study is intended to examine factors that influencing PT Mulia Realty Batindo to optimize the organizational sustainable performance.

1.3. Problem Statement

Organizational or real estate organization is one of the important key performance success factors for the organization itself, shareholders and as well as for the origin country. However, larger organizations or Multinational Corporation (MNC's) is having a high demand for the sustainability elements in their organizations. PT Mulia Realty Batindo tends to lose talented and skillful employees as well as losing business to the competitors. New technologies and innovations should be introduced to the market fast before the competitors take advantage and grab the market share.

According to Nandakumar (2011), firms adopting cost leadership or differentiation perform better than firms which do not have a dominant strategic orientation. Most organizations lack the focus on product differentiation and on new product introduction (NPI). Performance measurement of an organization differs from one organization to the other and puzzles as well. Hiring the right people, displaying the appropriate management style, introducing the right technologies and all contributes to the organization's success as well.

According to Waal (2009), failure rates of performance management implementations has decreased in the past decade and that the most severe problems organizations encounter are due to the lack of the top management commitment. Competitors are becoming more alert to the technological changes and taking prompt action to be ahead and they continually request for the quality improvement, rapid product delivery, competitive pricing, and some other features that are best achieved in the complex environments by the innovative organizational practices.

As mentioned above, there were few experimental studies carried out on the factors influencing the optimization of organizational sustainability, which produces different experimental results where optimization refers to the appropriate strategies applied by organization to maximize the performance. Detailed studies are needed to determine which common factor which leads to optimization of organizational sustainability, therefore this research is aimed to conclude the real factors involve.

This case study looks into the elements of the organization that influencing the sustainability performance in the subsidiary of the Mulia Batindo Group. This case study focuses mainly on PT Mulia Realty Batindo a real estate company provides building contractor and has built several projects in Batam, Karimun and Bintan, Indonesia.

There are few elements will be analysis to understand the relationship between the Technology (T), Organizational Environment (O) and People (P) which

have the effects on the subsidiary of Mulia Batindo Group sustainable performance. The research identifies which are the real factors are influencing the subsidiary of Mulia Batindo Group sustainability performance and whether is it from a single factor or from the combination of all factors introduced in this study.

1.4. Review on I-TOP Model

Corporate strategy formulation is one of the important factors to achieve the actual goal of the organization through organizational sustainable performance. The three strategic models commonly used in corporate strategic formulation are Market-Based Model, Resource-Based Model and I-TOP Model.

Market-Based Model (Gadenne, 2011) of Above Average Return that basically tries to capitalize opportunities available in the industry, which the organization is operating in to optimize the rate of return. Resource-Based Model (Gadenne, 2011) of Above Average Return tries to utilize existing unused funds or capacity within the organization to capitalize opportunities in the industry to optimize their rate of return.

Muthuveloo. R (2013) introduced the third model called as I-TOP model. This model is built based on the experience in the business development industry and continuous research work. This strategy is a very flawed model that helps the organizations to optimize the Return on Investment (ROI) in order for the

organization to be the ROI champion in their respective business world. An organization can become a top or a leader in the industry, when only the organization optimized the Return on Investment (ROI). The organization can become the ROI champion through optimizing the Technology Infinite Possibilities (T), Organizational Environment (O), and People (P).

Technology Infinite Possibilities (T) are one of the elements to maximize the Return on Investment which will lead to the organizational sustainable performance. The organization should think differently from the competitors by injecting ideas of novel and noble via Blue Ocean Strategy and Business Intelligence. This can help the organization to focus on optimizing the Return on Investment (ROI) rather than getting into a competitive dynamic world where the organization always has to spend a lot of time in outdoing their competitors.

Organizational Environment (O) is a major element to optimize the Return on Investment (ROI). The organization should create comfortable and attractive working conditions that lead and inspire the employees and the cultivation of culture in an organization is also an important factor. The working environment often influences the employees' commitment and performance of the organization.

The human resources department in each organization has an important role to identify the right People (P) to the right role or position in the organizations. People in this context refer to the employees and different types of people have

different type of characters and personalities. Parker *et al.* (2006) predicted that there is a link between a person's appraisal, emotions and behavior where appraisal from management towards an employee's working role contributes to motivate the employee to strive for more and eventually contributing to the organization's success.

The combination of the Technology Infinite Possibilities (T), Organizational Environment (O), and People (P) would help the organization and management to maximize the Return on Investment as well as help to sustain in the business world.

1.5. Research Objectives

The main objective of this research are as follows:

1. To investigate whether Technology (T) leads to the Optimization of Organizational Sustainable Performance in PT Mulia Realty Batindo
2. To investigate whether Organization Type (O) leads to the Optimization of Organizational Sustainable Performance in PT Mulia Realty Batindo
3. To investigate whether People (P) leads to the Optimization of Organizational Sustainable Performance in PT Mulia Realty Batindo

1.6. Case Issues

In this study, the following are the case issues to be examined:

1. Whether Technology (T) leads to Optimize the Organizational Sustainable Performance in PT Mulia Realty Batindo?
2. Whether Organizational Environment (O) leads to Optimize the Organizational Sustainable Performance in PT Mulia Realty Batindo?
3. Whether People (P) lead to Optimizing the Organizational Sustainable Performance in PT Mulia Realty Batindo?

1.7. Definition of Key Terms

The key terms in this case study are defined as follows:

- Organization Sustainable Performance – The actual goal achieved by the proper organization strategies (Muthuveloo and Ping, 2013).
- Income (I) – Monetary reward which could motivate human to be satisfied with work and be productive. (Tang, 2006) examined the pay model and concluded that Income leads to pay satisfaction for employees
- Technology (T) – Green technology, latest up to date technology, new product introduction, (Alain *et al.* 2011) suggested that for optimum the organization performance, focusing on the innovativeness is crucial.

- Organization Type (O) – Local, international, multinational and transnational. Refers to the type of organization which leads to higher performance (Muthuveloo and Ping, 2013).
- People (P) – Performer, follower, transactor, transformers. Refers to the type of human characteristics and personalities which differs from one person to another. (Jimenez-Jimenez, 2008) considered human resources have a major impact on a firm's productivity and facilitate the success of an organization.

1.8. Significance of Study

Optimization of organizational sustainable performance is the most important elements to sustain in certain industry. There are three important factors that that influencing the optimization of organizational sustainable performance; Technology, Organizational type and people. This report is using the case analysis method to explore the factors influencing the optimization of organizational sustainable performance in Mulia Batindo Group and its' subsidiaries of PT. Mulia Realty Batindo in Batam, Indonesia.

The factors influencing the optimization of organizational sustainable performance would serve as a major element that can be adopted by PT. Mulia Realty Batindo in Batam. The result of this research will benefit the PT. Mulia Realty Batindo to be aware of the common factors which could lead to organization failure of no actions or strategies in place. From the practical point of view; technology, organizational type and people are the most effective factors that

influencing the optimization of organizational sustainable performance. Besides that, this study will provide recommendations on to overcome the weaknesses and threats of the PT. Mulia Realty Batindo to optimize the organizational sustainable performance.

1.9. Organization of Chapters

- Chapter 1:** Provides the background of the case study, problem statements, research objective and case issues.
- Chapter 2:** Briefly discusses about an overview of the country background and analysis of the country related to the case issues.
- Chapter 3:** Covers the industry profile, analysis of the industry, literature review and definition of the terminology used in the case study.
- Chapter 4:** Covers the data collection method, linkages between data sources and interview schedule.
- Chapter 5:** Covers the company profile and analysis of the company.
- Chapter 6:** This chapter presents the case write-up of the PT. Mulia Realty Batindo
- Chapter 7:** Covers the research contribution of practitioners and academicians.

CHAPTER 2

COUNTRY ANALYSIS

2.1 Introduction

This chapter provides an introduction about Indonesia and Batam, where the research company is located. The following section provides an overview about the Batam using PESTEL analysis. The characteristics of the economy are highlighted in this chapter embracing the economics features, growth and business environment. However, the study about the economy provides a link for the organization chosen and the industry involved and provide the knowledge on the Industry in Indonesia and Batam that will further elaborate in the Chapter 3.

2.2 An Overview of Indonesia

The name of Indonesia origin from the Greek words “Indós” and “nèsos”, which means island. The declaration of Indonesian Independence was announced on August 17, 1945 and Sukarno appointed as the first President of Indonesia. The national independence marked as the start of the diplomatic, armed resistance of the Indonesian National Revolution and fighting against the forces of the Netherlands and pro-Dutch civilians. The United Nations formally acknowledge the date of

independence as 27 December 1949 and the documents were signed by Sukarno and Mohammad Hatta, who is appointed as President and Vice-president.

Republic of Indonesia is a sovereign state in Southeast Asia and Oceania. Indonesia comprises of 13,466 islands that encompasses with 33 provinces and 1 Special Administrative Region. Indonesia is world's fourth most populous country with an estimated of over 249 million people. The capital of the Indonesia is Jakarta and is the nation's largest city, followed by the Surabaya, Bandung, Semarang and Medan. Indonesia shares land borders with Malaysia, Papua New Guinea and East Timor. The neighboring countries for the Indonesia are Philippines, Australia, Palau, Singapore and Indian Territory of the Andaman and Nicobar Islands.

Indonesia is famous for the republic with presidential system and the power is concentrated in the central government. There are some major reforms are undergone by the Indonesian political and governmental structure after resignation of President Suharto in 1998. The amendments are made in Constitution of Indonesia 1945 in executive, judicial and legislative branches. President of the Indonesia plays a role as a head of government, head of state, director of domestic governance, policy making and foreign affairs and it is plays a major role as a commander-in-chief of the Indonesian National Armed Forces.

The president of Indonesia can appoint a council of ministers, who is not required to be an elected member of the legislature. In 2004's presidential election,

people directly elected the president and vice president for the first time and the president may serve a maximum of two consecutive five year terms. People's Consultative Assembly (MPR) is the highest representative body at national level and its main functions are amending and supporting the constitution, formalizing broad outlines of state policy and appoint the president. People's Representative Council (DPR) has a major role in national governance since reforms in 1998 and Regional Representative Council (DPD) is a new chamber for matters of regional management.

Indonesia is one of the largest economy countries in Southeast Asia. Indonesia is a member of the G-20 and founding member of ASEAN. Both private and government sectors play a significant role in Indonesia's economy, which will be called as a mixed economy. Table 2.1 describes the growth of the GDP from year 1998 to 2013. There is a huge decline in the GDP around 1998 to 1999 around -6.65 percent per year. The economic of Indonesia started to grow at 4.60 percent per year from year 2000 to 2004. Indonesia average annual GDP growth is around 5.64 percent from year 2005 to 2009 and the growth percent increased to 6.15 percentage per year from year 2010 to 2013.

Table 2. 1: Average Annual GDP Growth from 1998 - 2013

Year	Average Annual GDP Growth (%)
1998-1999	-6.65
2000-2004	4.60
2005-2009	5.64
2010-2013	6.15

Sources: World Bank, International Monetary Fund (IMF) and Statistics Indonesia (BPS)

Table 2. 2: GDP of Indonesia from 2006 -2013

	2006	2007	2008	2009	2010	2011	2012	2013
GDP (in billion USD)	285.9	364.6	432.1	510.2	539.4	706.6	846.8	878.0
GDP (annual percent change)	5.5	6.3	6.1	4.6	6.1	6.5	6.2	5.8
GDP per capital (in USD)	1,643	1,923	2,244	2,345	2,984	3,467	3,546	3,468

Sources: World Bank, International Monetary Fund (IMF) and Statistics Indonesia (BPS)

The economy of Indonesia faces the downturn in year 2000s causes of the global financial crisis. According to the table 2.2, the GDP annual percent change is declining from year 2006 to 2009 and the amount is from 5.5 percent to 4.6 percent. There is increasing in GDP annual percentage change from year 2010 to 2012 amounted as 6.1 percent to 6.2 percent. Year 2013 faces a slide downturn as compare with year 2012 and the GDP annual percent change is 5.8 percent. GDP for the year 2013 amounted as US\$878 billion and GDP per capita for the year 2013 is US\$3,468. The GDP for year 2013 increase from year 2012 around US\$31. 2 billion and the GDP per capita is decreasing around amounted 78.

Widespread economic distresses across Indonesia contribute to the political crisis in 1998. The crisis has major effects to the large capital outflows and it leads to the rupiah to go into free fall. By year 2000, the rupiah back to stability and

economic growth return to 4% per year. However, the rupiah still fluctuates and drop below Rp 12,000 per dollar in September 2014. Indonesia gained its investment grade rating in the late in 2011 after losing it in the year 1997. However, in the year 2012 an estimated of 11.7% of the total population in Indonesia lived below the poverty line. In year 2013, the official open unemployment rate was at 6.6% and its increases 0.5% compared to the year 2012.

Indonesia consists of 300 distinct native, ethnic, linguistic groups and 742 different dialects and languages. Javanese are the politically dominant and largest ethnic group. Shared identity is developed in Indonesia, which defined by an ethnic diversity, language of national and pluralism of religious in the population of Muslim. The national language in Indonesia is a form of Malay. The language based on the prestige dialect of Malay, from the Johor-Riau Sultanate, which for the past centuries has been the Lingua Franca and standard of which are the official languages in Malaysia and Brunei.

Despite its large population and densely populated regions, Indonesia has a vast areas of wilderness that support the world's second highest level of biodiversity after Brazil. The flora and fauna in Indonesia consist of Asian and Australian mixed species. Indonesia is one of the Asian members of the Organization of Petroleum Exporting Countries (OPEC) with sort of mineral resources. The country has abundant natural resources, yet poverty remains widespread. However, Indonesia continues to have stable progress in economy regardless of major natural disasters with the support of proper macroeconomic policies.

2.3 An Overview of Batam

Batam Island is one of the largest islands in Riau Island Province and there are 329 islands around the territory of the Batam city. Batam is one of the popular tropical holiday destinations in South East Asia among tourists and famous as the oil rich province. The area of Batam Island is 415 sq. Km. Due to the demand of space and progress of investments, the Batam Industrial area was expanded with the inclusion of two other islands, namely Rempang and Galang. The new names for Rempang and Galang are Bareleng and Batam-Rempang-Galang. Total area of Batam became 715 sq. Km. All the islands are connected with the Trans-Bareleng road, which include 6 bridges.

Batam is located about ten miles south of Singapore, north of Rempang, west of Bintan Island and east of Bulan Island. Batam and Bintan separated by the Riau Strait and Batam is located in between the Straits of Malacca and Singapore water. The main transportation system from Singapore to Batam is water transportation. The ferry terminals are located at Singapore Cruise Centre, Tanah Merah at Singapore and Johor Bharu at Malaysia and the terminals located at Batam Island are at Batam Centre, Sekupang and Waterfront. Batam Fast and Wavemaster are the famous ferry transport companies in Batam. The travelling duration is around 30 minutes to 45 minutes.

Batam is one of the popular islands in Asia and well known as a fully free-trade zone. Batam has two different climates; dry and wet seasons. The dry season

start from May to October and the average temperature are range from 26 to 32°C. The wet season start from November to April and the humidity in the Batam ranges from 73% to 96%.

2.4 PESTLE Analysis

PESTLE Analysis is a widely-used tool that helps to analyze the political, economic, social-culture, technologies, legal and environment situation of a country. The analysis will help to obtain a deeper understanding about the overview of the business operations as well as the threats and opportunities associated with.

2.4.1 Political and Legal View of Batam

Batam, Indonesia is a republic island with presidential system and the decision making authority are based in the central government. The Batam center is surrounded by the local government officials. The Batam province divided into 12 districts and these districts are including several adjoining islands such as Rempang, Galang and Bintan as well as Batam Island itself. In August 2014, the government has implemented some new regulations on Batam Island. The Batam Centre, Ferry Terminal has a sign of finger over a pair of the lips and this sign is defined as the visitors have to be silent when the queue for immigration clearance. The visitors have to follow the immigration officers' instructions or will be sent back to Singapore immediately.

There are a number of facilities offered to foreign investment in Batam such as allowance to establish 100 percent foreign ownership, streamlined procedure for foreign investment, foreign investment license for 30 years and extendable, simple immigration procedure for expatriates, land lease up to 80 years and extendable and easy import and export procedure. The foreigners are allowed to own a house and shop houses on Batam Island even they did not work in Batam.

Further, the government in Batam also increases the competitiveness of Batam by offering the following incentives:

- a. No import or export duties on the machine, the equipment, the spare parts and the raw material. The whole island is declared as a duty-free zone with no import or export taxes on any items.
- b. No Value-Added Tax (VAT) for all processing industries for the export purposes. Unlike the other parts of Indonesia. Batam is a bonded zone, thus, it does not apply for VAT to processed products or for the consumption goods, and neither does sales tax on the luxury goods. If the manufacturing company's products are sold in other non-bonded parts of Indonesia, they will then be applied 10 percent of VAT.
- c. Generalized System of Preferences (GSP) facility with 28 donor countries; also Common Effective Preferential Tariff for ASEAN countries.
- d. Investment allowance with a reduction of income tax for certain industries with various incentives in a reduction in calculation of net income, accelerated depreciation, compensation for losses and lower tax rate consideration.
- e. Double Taxation Avoidance Agreement with 51 countries.

- f. Competitive cost of investment due to competitive tariffs on land leases, labor cost, utilities and other operating costs.

2.4.2 Economic View of Batam

Batam Island went through the major transformation from the biggest forest to the famous industrial zone and harbor. The Indonesia government declared Batam Island as an Industrial Zone in year 1971 and Batam Industrial Development Authority (BIDA) established to support the development of Batam. The state-owned company plays a major role in industrial development and the company expanded the operations in light manufacturing industry, real estate industry, oil and gas industry and chemical industries.

Batam is developed to serve the four main functions; trade, industrial, transshipment area and tourism. The foreign companies like to operate their businesses in Batam because of the lower labor costs and special government incentives compare with other neighboring countries. According to the framework agreed on June 2006, Batam, Bintan and Karimun are declared as bonded area or formally called as a Special Economic Zone. All the imported and exported goods for the purpose of production, such as raw material and capital goods are tax exempted. Batam well known as one of the facilitators of the Controversial Ivory Trade.

Batam has 21 industrial parks with more than 1,000 foreign companies currently reside. Today, Batam Free Trade Zone plays an important role in the world of the electronics manufacturing hub, created significantly with a capital of Singaporean. Initially, Batam was appointed as an industrial area by Indonesia Presidential Decree No74/1971. Batam then was declared a bonded zone for export-oriented industry by a presidential decree in November 1978.

Batam Island gives the freedom and there is no restriction for industries to invest. There are a lot of industries in Batam and it can be categories into three groups; heavy, light and chemical. Construction, pipe threading, steel fabrication, oil exploration equipment, heavy equipment, offshore jackets, and oil rig fabrication, repair shipbuilding are categories into heavy industries. The light industries include toys, garments, cosmetics, shoes, leather, health care product, foods, drinks, car accessories, ladies accessories and bag. The chemical industries in Batam Island consist with chemical companies, fatty alcohol companies, paint producing companies, and pipe coating companies. The chemical industry is allowed with adequate control of hazardous waste.

Batam is more suitable for some industries and the largest operating industry in Batam is the electronics and computer industry. This is because the labor in Batam is not limited and there are easy to train by expertises. Batam is located strategically within a route of international shipping between the Pacific Ocean and Indian and it helps to increase the frequency of shipping the products and distribution of the product. The strategic route plays major roles in the Batam Island's economy.

2.4.3 Social View of Batam

Batam Island is well known for its multiracial society with its diverse culture. Being the largest island in Riau Island Province, it is one of the best islands to invest with fully free trade zone features. Though the culture is a blend of different racial, business etiquettes and relationship values are given much significance.

According to the Head of population and Civil Batam, the population of Batam Island increased an average of 100,000 people in year 2013 and increase around 97,757 people in the year 2012. The population growth in the year 2012 consists of the newcomers contributed about 65 percent and about 35 percent of new entrants' souls. According to the Registry Survey April 2012, the total population of Batam Island is 1,153,860. The largest population of Batam Island is at Batam Centre and consist of 162,238 people. All the people like to live in Batam Centre even the Island covers with different neighboring islands. The growth of annual population considers significant because of the active recruitment of labor in order to expand the industry.

The population of Batam is ethnically different from overseas and Indonesia and there is a mixture of races, languages, religions and beliefs. The majority religion at Batam is Islam followed by Protestantism, Buddhism, Catholicism, Confucianism and Hinduism. Bahasa Indonesia is a national language and is commonly used by Indonesian regardless of various in the language and culture in this Archipelago. There are some other languages are widely used in Batam, such as Malay, Chinese