

THE STRATEGY TO BRING Len BECOME WORLD CLASS COMPANY

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Abstract – Setting ultimate performance goal as company vision, becoming world class company, looks nice, but only a few company success to realize that vision. Many reasons, such as, unclear corporate strategic management, unfit between strategy-resources-execution, misalignment between strategy-programs-implementation, failure to identify customer needs-customer transformation-competitor transformation-environment dynamics, acceleration of technological change, globalization and many others.

After two years execution of Company Long Term Planning (RJPP) 2012-2016, it seems important to evaluate and analyse whether that RJPP 2012-2016 still can bring company to achieve the vision, in general objectives : to help company to know who they are - to know the core business, core product, capability, and performance, where they are to know how far the gap to the world class company, where they take place.

Portfolio analysis using BCG Growth Matrix and GE Business Screen combine with issue priority matrix IE Matrix to know whether the business lines located in the right industry which give best opportunity to grow and achieving a world class. So the company can take the decision whether to sell the business, or keep and doing some investment to gain the value from that business.

This research result in comprehensive company knowledge and understanding of business environment changing, so propose to do third wave transformation, from manufacture company to solution company, divided into nursery phase and transplantation phase with corporate parenting and Economic Value Added performance base.

1. Introduction

1.1. Methodology

This final project approached by study, evaluation and analysis in :

- a. Past 4 years condition, benchmark to world class company past 4 year condition to know how far the gap between Len to world class company.
- b. Environmental changing such as customer, competitor changing.
- c. Current strategy to know is current strategy can be run with current condition and is that strategy still suitable with environmental changing to bring Len becoming world class company.

1.2. Data Collection Method

Data primary collection method base on :

- a. Focus discussion group with CEO and VP Organization System Management.
- b. Presentation in front of BoD, Top and Middle Management.
- c. Discussion with VP Corporate Secretary.

Data secondary collection method base on :

- a. PT. Len Industri (Persero) long term planning 2012-2016 (RJPP 2012-2016)
- b. Published annual report
- c. Published book
- d. Published research result
- e. Internet

Len runing Manufacturing, EPC (Engineering, Procurement and Construction) and Trading as multiple unrelated 5 business line with 16 products such as :

- a. Railway Transportation with products such as Signaling System, Traction System, Utility for Railway System, run by PT. Len Railway System.
- b. Renewable Energy with products such as Solar Panel, Solar Power Plant, Solar Application Syst., Prepaid KWH Meter, run by PT. Surya Energi Indotama.
- c. Defense and Control Electronics with products such as Secure Communication Radio, Weapon Control System, Simulators, Identification System, run by Business Unit Electronics Defense.
- d. Navigation System with products such as Ground Equipment Airport System and Radar System, run by PT. ELTRAN and Business Unit Electronic Transportation.
- e. Telecommunication with products such as WiMAX 16d and 16e, Digital TV Broadcasting, Service and Engineering, run by Business Unit Information and Communication Technology.

After two years execution of RJPP 2012-2016, it seems important to evaluate and analyse whether that RJPP 2012-2016 still can bring company to achieve the vision, in general objectives : to help company to know who they are - to know the core business, core product, capability, and performance, where they are to know how far the gap to the world class company, where they take place to know environment changing and how they do adaptation to business environment changing and achieve ultimate goal performance becoming world class and longtime sustainability. Some RJPP 2012-2016 main strategies, need some investment amount Rp. 590.000.000.000,- It's exclude such investment which will be done to do business expansion as stated in RJPP 2012-2016. Means company should booked 2013 revenue amount 19,667 Trilyun Rupiah. Even the investment realised in few years at the first year 100 Billion Rupiah and second year 330 Billion Rupiah means in 2013 company should book revenue amount 3,33 trilyun Rupiah and in 2014 10 Trilyun Rupiah.

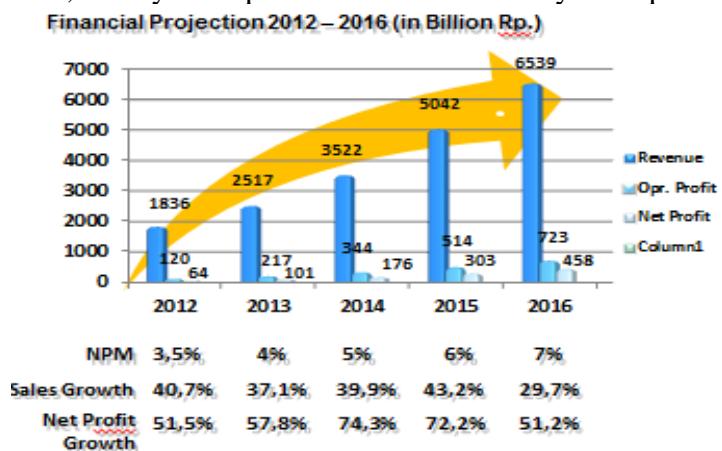


Fig 1.1 Financial Projection 2012-2016

From financial projection above we can see that company performance can not support investment plan in RJPP 2012-2016 if done in one year investment which need 590 Billion Rupiah.

2. Business Issue Exploration

2.1. Conceptual Framework

Start from company vision and mission, this framework explore :

- Environment overview such as industry growth, company benchmarking, customer transformation and global business overview.

- World class company overview, such as world class company characteristic, transformation and world class company with multiple line business strategy.
- Current performance and strategy about Production and R&D analysis related to business line growth, financial condition related to how strong the financial to support RJPP 2012-2016.

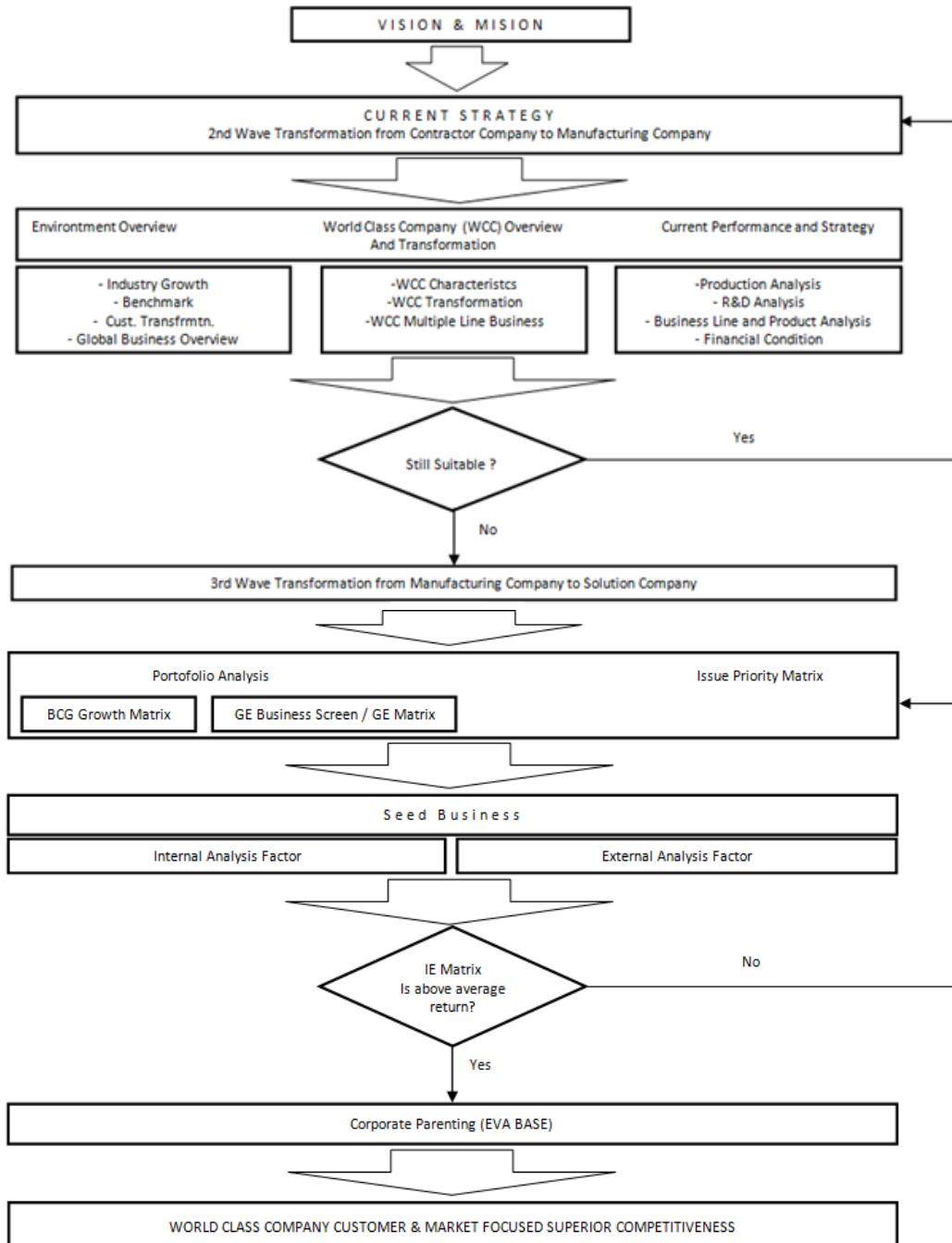


Fig 2.1 Conceptual Framework

2.2. Business Line Growth Analysing Comparing to Products Growth

Company revenue growth impressively with average 37% in past 5 years, and every Business Line growth. It's important to do comparison analysing of Business Line growth compare to Products growth, to know, is that revenue growth base on products growth and to identify which products contribute to revenue growth, have sustainability.

Table 2.1 Business Line Growth Analysing Comparing to Products Growth

BUSINESS LINE	PRODUCTS	REVENUE (Rp)		
		2010	2011	2012
Control System	ATC	123.281.566.063,00		
	Signaling System			60.052.509.021,08
	Sist. Nav. Bandara			32.520.000,00
	Smart Card/e-KTP		503.158.726.115,81	584.782.196.014,87
	Station Simulator	115.903.635.755,00	81.987.929.247,09	30.543.764.964,05
BUSINESS LINE	PRODUCTS	REVENUE (Rp)		
		2010	2011	2012
Defense System	Alkompur	862.274.546,00		
	Alin/Alogin	18.196.285.454,00		24.926.471.700,00
	CMS/BMS	27.897.160.000,00	30.000.000.000,00	1.099.468.300,00
	Surveilance		5.600.000.000,00	
	Transponder			485.000.000,00
Navigation System	Climate Radar	3.240.000.000,00	44.319.743.630,13	118.984.006.947,46
	TEWS	11.587.999.230,00	18.372.000.000,00	20.841.000.000,00
	Telecom	2.506.318.182,00		
	Pswt Kalibrasi	179.281.100.770,00		
	Flight Simulatorortor		68.173.834.730,25	208.804.963.052,54
	Sist. Nav. Bandara		3.601.711.639,62	
Railway Transportation	Signaling System	369.572.780.352,00	314.753.239.767,46	1.086.499.084.446,56
	Sub Station		105.465.388.183,36	
	Traction System	42.545.454.600,00	20.822.582.049,18	58.944.331.454,64
	Train Dispatcher	1.405.274.000,00		
Renewable Energy	PJU	6.203.919.045,45	15.475.380.000,00	24.932.998.988,18
	PLTS	25.693.904.284,57	111.223.796.624,69	76.030.639.382,35
	Solar Module	12.610.355.157,25	22.562.796.240,03	67.512.741.683,89
	SHS	13.361.031.512,73	15.406.001.772,39	13.652.339.945,58

From Business Line Growth Analysing Comparing to Products Growth, there are some basic things that should be given serious attention and right strategy:

1. Income sustainability has not been strong.
2. Revenue growth is not based on product strength.
3. Len should give more attention for core business line such as Railway Transportation and Renewable Energy while make some preparation, to born core product to boost Control System, Defense System, Navigation and Telecommunication business line.

2.3. Research and Development Program Analysis Compare to RJPP 2012-2016

This analysis do to know is R&D Program align with RJPP 2012-2016 and also to know how strong R&D support each Business Line Development Program.

From R&D programs 2010-2013 compare with RJPP 2012-2016 business lines strengthening and development program, we can conclude some points :

1. Railway Transportation with core product signalling receive biggest support and best consistency from R&D which can be shown from signalling & traction R&D program.
2. Renewable Energy with core product solar module already entered product diversification achievement with R&D in KWH and Inverter.
3. Telecommunication which still doesn't have core product start to do R&D in Development of TV Digital Transmitter.
4. Defense Business Line, supported with manpack VHF but this product's R&D tend to decreasing because manpack have developed 5 years before 2011 and customer still doesn't use this product.
5. Navigation and Control System have no R&D support.
6. No R&D program for new business development such as LED, LTE, JAATS, Monorail, Integrated Learning System, Integrated Weapon System.

2.4. Production Analysis

Business Line Revenue comparing to Production Program analysis, is to know alignment of Reposition Strategy in RJPP 2012-2016, Len as Manufacture, Subsidiary Company as EPC, which aim to enhance profit by substitution import product.

Table 2.2 Production Analysis

Comparison	Year				
	2008	2009	2010	2011	2012
Signaling / Railway Transportation					
Revenue	210.508.200.000	253.720.000.000	415.486.000.000	392.330.120.000	2.178.830.000
Production Program			48.024.043.557	61.595.416.587	345.967.123.
Renewable Energy					
Revenue	105.254.100.000	219.680.000.000	121.815.000.000	179.959.680.000	178.557.000.
Production Program			67.729.852.240	31.047.872.195	48.385.845.
Information & Communication Technology					
Revenue	5.012.100.000	300.000.000	28.197.000.000	555.000.000	237.577.000.
Production Program			29.657.726.200	9.701.690.720	21.207.821.

From production program we can see that only renewable energy that give equal increasing from revenue to production activity but in railway transportation there is such a big gap between revenue growth acceleration to production growth acceleration.

2.5. Manufacture and World Class Company Point of View

According to 2013 Global Manufacturing Competitiveness Index, Deloitte Touche Tohmatsu Limited (DTTL), Manufacturing today includes all facets of research, development, production, sales, distribution, logistics, customer service, marketing and support. It extends from the making of physical product to delivery of services. Properly understanding the breadth of manufacturing is essential to enacting policies to improve standards of living and be more competitive in the long term.

Dr. Dawei Lu wrote, ultimate winning factors to be world class in 21st century is all the known winning factors in the past and unknown for the future. (Dr. Dawei Lu, In Pursuit of Worldclass Excellence, 2011, Dr. Dawei Lu & Ventus Publishing ApS bookboon.com, p9)

2.6. Customer Overview

From doing anything, government will transform to concentrate only as regulator, and hands over the infrastructure development to BUMN and Private investment.

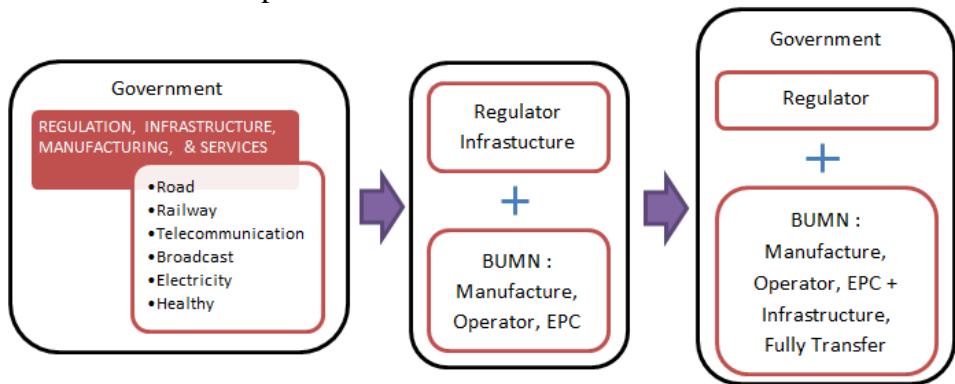


Fig 2.2 Indonesian Government Transformation

2.7. Benchmark Overview

It's good to benchmark Len as a corporation with Alstom and General Electric which are two best of world class company, listed in Fortune 500 2013 and also have multi business line.

Table 2.3 Len Consolidation Benchmark (1)

NO.	COMPANY	REVENUE (Million Euro)				
		2008	2009	2010	2011	2012
		1 € = Rp. 13.400	1 € = Rp. 15.500	1 € = Rp. 13.900	1 € = Rp. 12.500	1 € = Rp. 12.500
1	Alstom		19.650,000	20.923,000	19.934,000	20.269,000
2	Len Industri	37,404	49,460	93,742	173,127	233,849

Table 2.4 Len Consolidation Benchmark (2)

NO.	COMPANY	REVENUE (Billion USD)				
		2008	2009	2010	2011	2012
		1 \$ = Rp. 9.300	1 \$ = Rp. 11.000	1 \$ = Rp. 9.700	1 \$ = Rp. 9.250	1 \$ = Rp. 9.000
1	General Electric		155,800	149,100	143,000	144,900
2	Len Industri	0,054	0,070	0,134	0,234	0,325

Len left far behind Alstom, 86,87 times smaller and 445,85 times smaller than General Electric.

2.8. World class and global company operation transformation

Because of competition gradually shifts, from quality to quality, price and service. So all company continually and consistent to evaluate and find a way how to deliver the products and services in lowest and quickest way while keep quality level. Principally the company will consideration their attendance in a country comprehensive with their supply chain.



Fig 2.3 World class and global company operation transformation

2.9. Global Business Overview

Indonesia is among the three mainstream (zone) economic conditions, U.S. Economic Zone, Euro Economic Zone, New Emerging Countries Zone (China, India, South Korea, and Thailand), and Established Countries (Japan and Taiwan).

Crisis in U.S. and Euro decreasing the demand and give impacts on New Emerging countries, like industry over capacity, so that will make many companies change and transform their business model and strategic.

3. Business Solution

From business exploration we get conditions :

- RJPP 2012-2016 which put subsidiary company as EPC to get corporate revenue to achieve world class company will face some problem such as :
 - Subsidiary company can not compete with world class company face to face,
 - Doesn't have leveling to do synergy BUMN.
 - Can not face customer transformations which force company to do infrastructure investment project which need such big investment.
- Company financial conditions not strong enough to support strategies in RJPP 2012-2016.
- R&D and production improvement can not growth as fast as business line growth, and can not serve all business line on the other hand not all business line not base on product growth means still don't have core product.

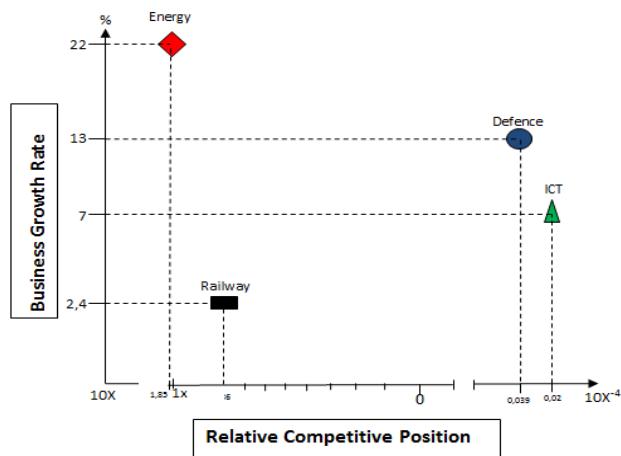


Fig 3.1 BCG Growth Matrix

This is BCG Growth Matrix modified which X axis, comparison between Len's business line revenue compare to the biggest competitor revenue, because there's some limitation data about market share. As we can see, Energy business line have best relative competitive position and biggest global business growth rate.

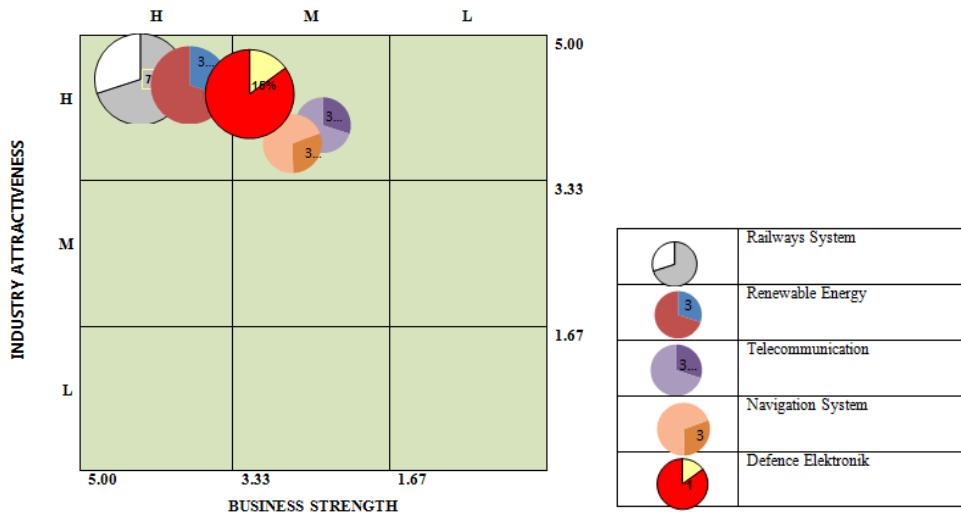


Fig 3.2 GE Business Screen

From GE Matrix, Railway and Renewable Energy be in quadran high industry attractiveness and high business strength but from BCG Growth Share Matrix, Renewable Energy business line have best relative competitive position and biggest global business growth rate. So Energy Business Line take as a sample Synthesis of External Factor (EFAS), Synthesis of Internal Factor (IFAS) to know Energy Business Line Position in IE Matrix.

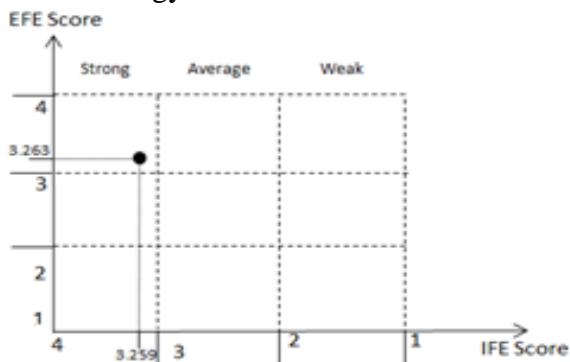


Fig 3.3 IE Matrix

4. Implementation Plan

4.1. 7S McKinsey Framework

The basic premise of the McKinsey 7S framework is that there are seven internal aspects of an organization that need to be aligned if it is to be successful.

4.1.1. Strategy

Multi business company creates value by influencing or parenting the business they own and the successfull of parenting companies is how to fit between parents and its business. After identify which business line which have the best potential to bring Len to be World Class by using BCG Growth Matrix, GE Business Screen, IFAS-EFAS and IE Matrix, we can determine two resume :

1. Renewable Energy is a seed that become the first one to boost to be world class company, this phase called nurseries phase.
2. Railway, Defense, Telecommunication, and Navigation is being prepared with parenting to the Renewable Energy strategy, this phase called transplantation phase.

Seed business is the business that have the biggest opportunities to improve, the parent knows how to addres, and they have critical success factor that the parents understand well.

This business should have priority in the company's portfolio development and the parenting characterism that located its heartland business should from the core of the parent organization.

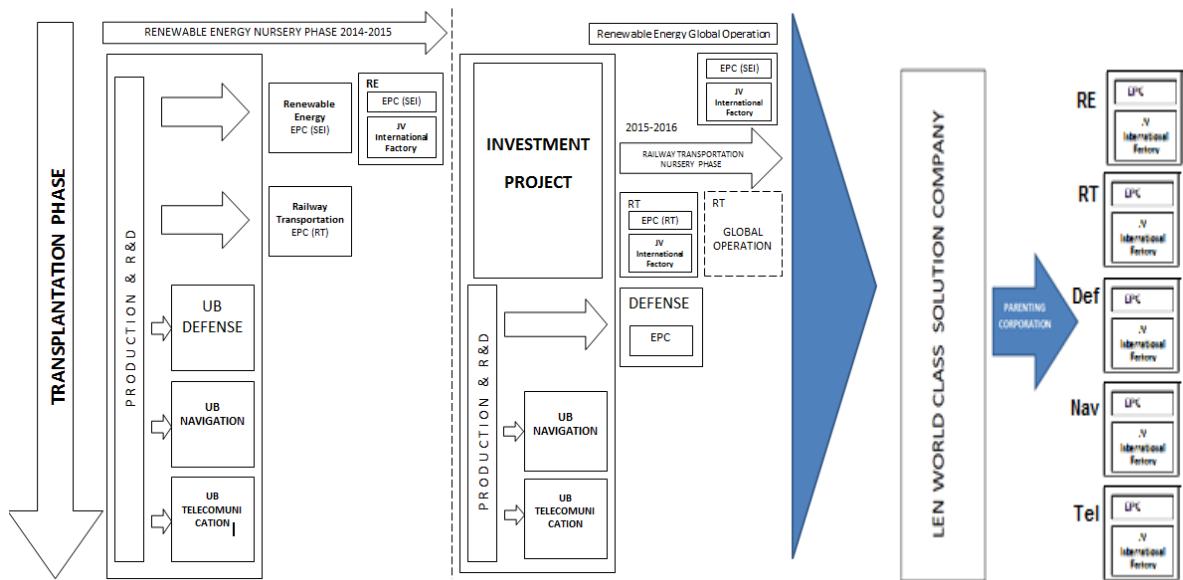


Fig 4.1 Corporate Strategy Road Map

Nursery phase divided into 5 steps, and all steps should be carried as Parenting Advantage and transfer to another business line.

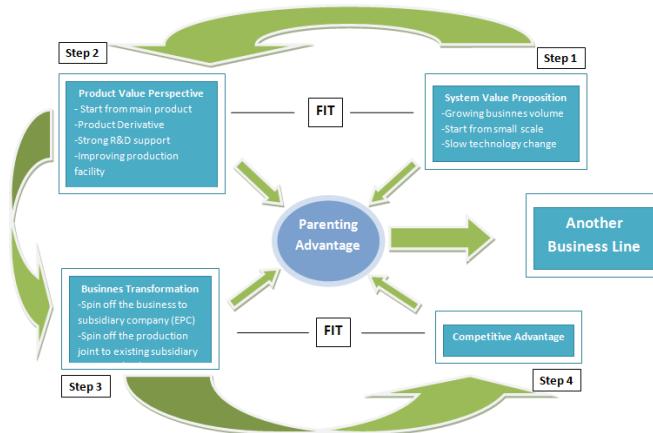


Fig 4.2 Strategy fit to Parenting Advantage

Len as holding as Solution Company doing everything, facing directly with customer, system design, manufacture, shipment, installation, integration, financing until services. In internal, holding distribution the projects to each subsidiary company. Manufacturing subsidiary company can sell their products to other customer beside group member, so this can enhance marketing & sales channel.

4.1.2. Structure

The way the organization is structured and who reports to whom. The new structure for new strategy is :

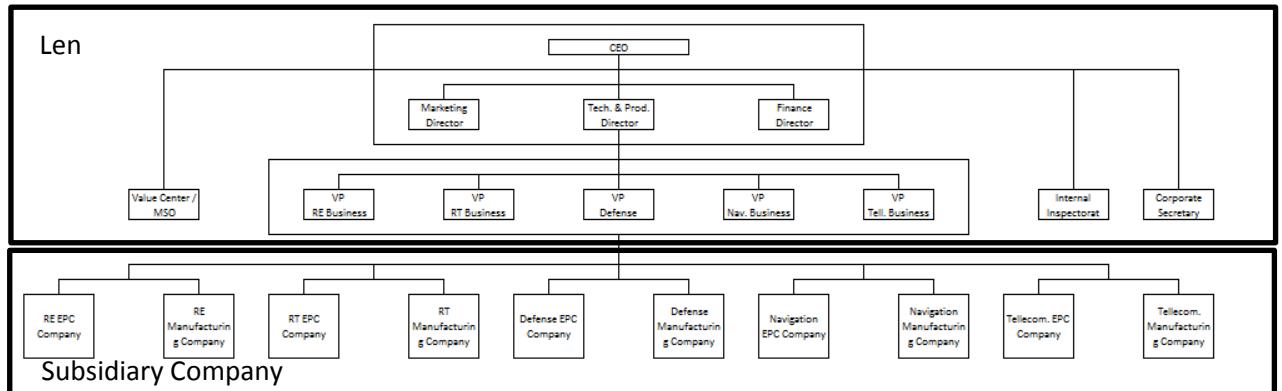


Fig. 4.3 New Structure

4.1.3. System

The daily activities and procedures that staff members engage in to get the job done. Systems targetting, monitoring and evaluations base on Balance Score Card below :

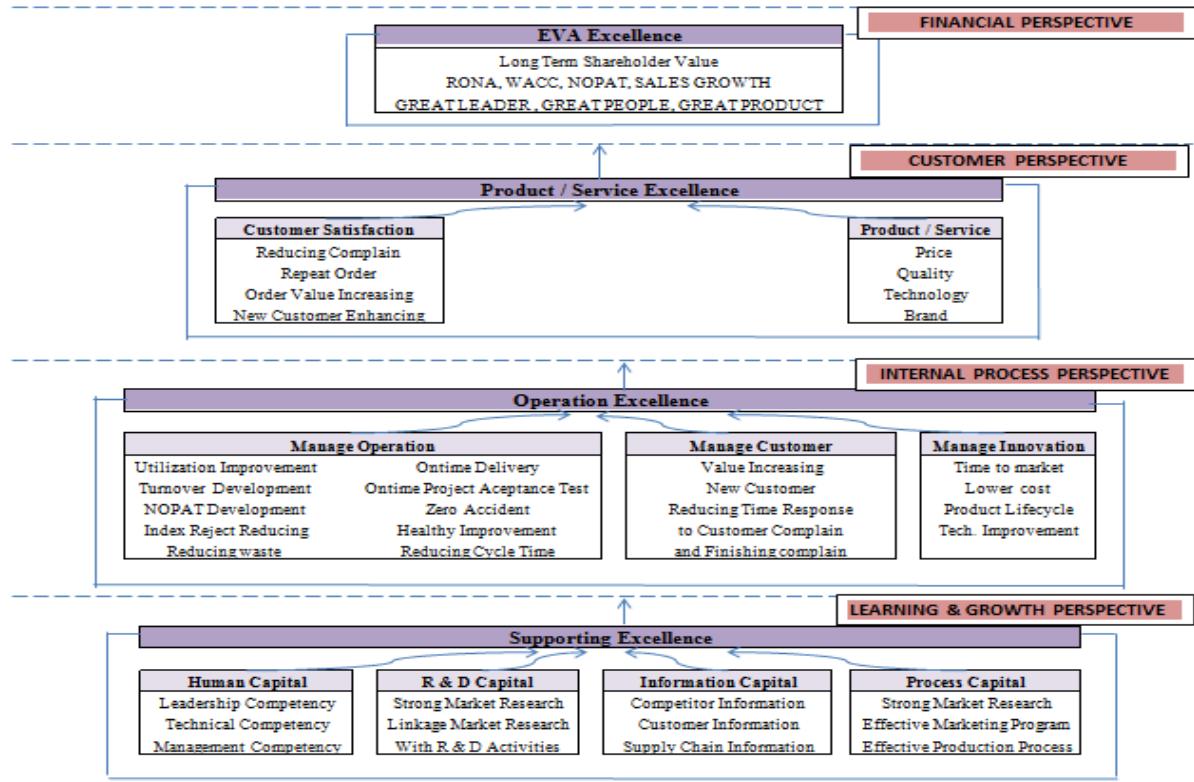


Fig. 4.4 Balance Score Card System

4.1.4. Shared Value

Called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.

- Personal Character : Integrity, Innovation, Independence, Insistence.
- Working Principle : Customer Focus, Continous Improvement, Commitment, Competence.
- Performance : Effectiveness, Efficiency

4.1.5. Style

The style of leadership adopted.

Getting the right people on the bus (and the wrong people off the bus) and creating a culture of discipline. Discipline People, Discipline Thought and Discipline Action. Leadership as Company Roles, Leader as Designer, Leader as Teacher, Leader as Steward.. Build a level 5 Leadership which combination of personal humility and professional will.

4.1.6. Staff

The employees and their general capabilities.

Not only complete with Job Analysis and Career Path, company should also facilitate the staff to get best understanding of knowing of who themselves-their strength-their values- and how they best perform. Encourage staff not to try to change themselves, but push them work hardly to improve the way they perform. And not to put them on position where they cannot perform or will only perform poorly.

4.1.7. Skill

The actual skills and competencies of the employees working for the company.

Company working system should can produce people with Leadership Competency, Technical Competency, Management Competency.

4.2 Leadership Development Program

Proposal of PT. Len Industri (Persero) Leadership Development Program

Leadership Roadmap :

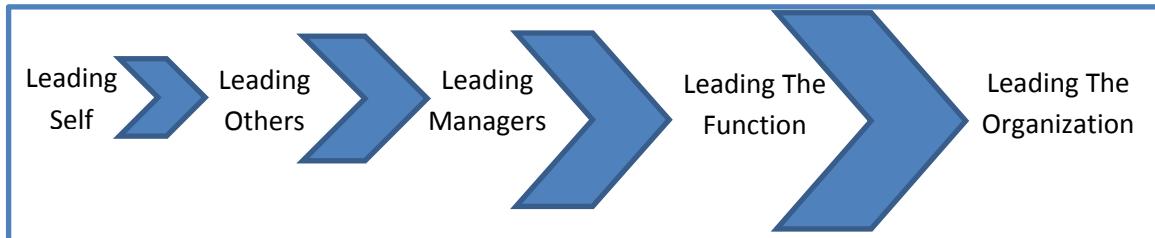


Fig. 4.5 Leadership Roadmap

To get leadership competency in project, management, and organization and base on leadership roadmap above we can define five main activities.

1. Job card
This is a system to form and evaluate a growing of the leader self capability by getting various work experience.
2. Team Work
Enhancement of working in team capability and forming of Team Leader. People learn best from their peer, with various character and level of skills and knowledge. This is the priliminary way of forming of thinking and acting how to communicate, transferring idea, influencing, directing, and alignt team member to achieve team goals.
3. Task Force Team Work. This is also team working, but team member come from several interested occupational groups (marketing, sales, production, research, and finace). This method hopely can removes the restraints of authority on the individual's willingness to assert and exchange ideas. People interact more freely, listen more objectively to critisme and other poitns of view and finally learn from this healthy interchange.
4. Joint Responsibility of Two or More Teams.
Formally both hold equal responsibility like one from cvommercial and the other from production, As a practical matter, it may turn out that one or the other of the peers dominates the management.

5. Tandem Program, with the formation of one – one relationship between senior people and potential leader. Selected potential leader will give a special assignment partner with close working with senior leader for define time. So there is a emotional interchange not only knowledge and skill interchange.

Leadership Career Path and Requirements

1. Managerial Level have minimum experience as three times project manager value above Rp. 50 B or five time above Rp. 25 B and one times minimum as task force leader and one time joint responsibility team with complexity :
 - Inbond Logistics : manage all thing which purchase from local and importir supplier.
 - Operation Process : manage all thing about in house processing.
 - Outbond Logistics : manage all thing about shipment, installation, construction, and field acceptance test.
 - And have minimum get one time special assigment tandem with senior leader.
2. Organizational Leader (Lead more than one manager) : minimum have two times managerial leader at difference field and innovation activity on improvement of process, thinking, culture.
3. Director minimum two times as organizational leader with difference field and innovation on improvement of working system and structure.

This leadership career path supported by formal and informal educational and training program, integrate with 360 degree feedback, experiential classroom style programs, business school style coursework, executive coaching, reflective journaling, and mentoring.

Each level completed with an assessment of key developmental needs and then evaluate the achievement of goals after a given time period.