

# Exploring Talent Management Potential in Digital-Savvy SMEs: A Case Study from Yogyakarta, Jakarta, and Bandung

Monica Yanuardani<sup>1</sup>  
Lund University - Sweden

## Abstract

Digitalization offers the new direction in creating opportunities for business to support national economic growth. Indonesia, as the rising star in Southeast Asia emerging market, shows a promising employment prospect along with the increasing growth of digital savvy Small-Medium Enterprises (SMEs). There is a growing need for SMEs to understand Talent Management (TM) better and optimize the digital economy potential in Indonesia. Nonetheless, TM in SMEs is still under research in Indonesia since most of the Human Resource Management studies were conducted in well-established large enterprises. Accordingly, this study aims to explore TM, especially in digital-savvy SMEs that using internet platforms in their business. By using cluster analysis, this study presents the pattern of TM issues: attract, select, develop and retain key talented employees. This exploratory study involved CEOs and managers of digital-savvy SMEs in Jakarta, Bandung and Yogyakarta. This study also aims to map the awareness of SMEs in harnessing the demographic growth of the young population in Indonesia. In addition, early identification of TM challenges - related to digital-savvy concern - will contribute not only to the SMEs in scaling up their business, but also newly stage entrepreneurs who are commencing their start-ups and attracting new talents. As part of the discussion, this study proposed a perspective that the digital economy will produce the “New Working Life” employment in the nearly future which entails the more flexible time, place, work tasks and social interaction which might answer the geographical challenges of the archipelago in Indonesia.

**Keywords:** *talent management; small-medium enterprises; digital-savvy talent; Indonesia digital economy*

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<sup>1</sup> Monica Yanuardani is a Student at Lund University, Sweden. Email: [monica.yanuardani.275@student.lu.se](mailto:monica.yanuardani.275@student.lu.se) [monica.yanuardani@gmail.com](mailto:monica.yanuardani@gmail.com)

# Exploring Talent Management Potential in Digital-Savvy SMEs: A Case Study from Yogyakarta, Jakarta, and Bandung

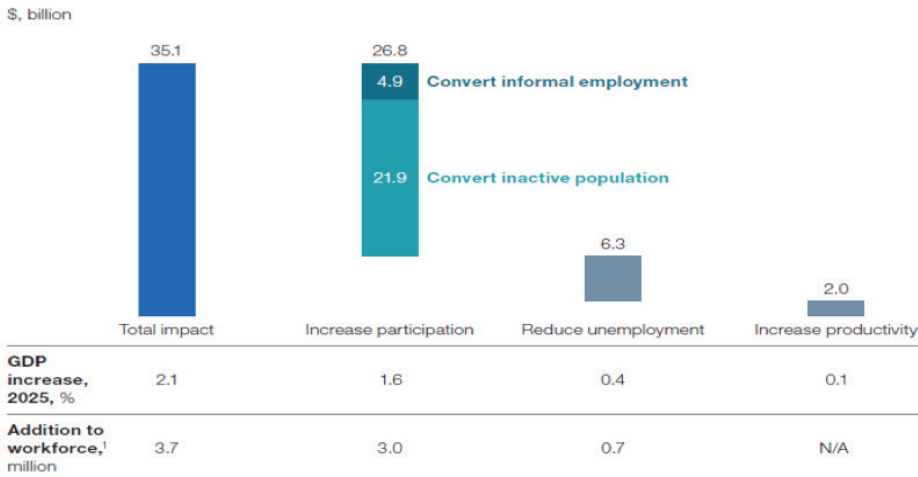
*Monica Yanuardani, Lund University*

## I. Introduction

Digitalization offers new opportunities for SMEs to reach the more significant global market. The notion of digitalization also disrupts the labor markets dynamic. Indonesia, as the rising star in Southeast Asia emerging market, shows a promising employment prospect along with the increasing growth of digital savvy Small-Medium Enterprises (SMEs). In emerging market countries, SMEs contribute up to 45% of total employment and 33% of GDP (OECD 2017). Indonesia remains one of the fastest-growing emerging market economies, with growth on working-age demographic by 1.6 percent or 2.5 million people per year during 2000–2016 (Kinda et al., 2017). Moreover, the International Labor Organization in 2017 reported that Indonesia poses a potential to strengthen the employment issue by preserving steady economic growth momentum and harnessing the technology in the entrepreneurship (Parray, 2017). Accordingly, in the next few years, the digitalization will remain as the new challenge for the labor market growth in Indonesia. Therefore, the talent management potential mapping in SME, especially harnessing the digital era, would shed light for the job demands overview across the archipelago of Indonesia.

The job creation, which coextensively grows with the economic growth, challenges the Talent Management concerns to the SMEs. The rising time of start-up soon will be transformed by the time to scale-up. A recent report regarding digital potential in Indonesia, explained that by converting informal employment, employing the stable population, and reducing unemployment, it is possible for Indonesia to increase 3.7 million jobs and USD 35 billion a year to Indonesia's economy by 2025 (Das et al., 2016). Despite the economic importance of the SME in job creations, yet there is a dearth of empirical research related to the potential human resource addressing the digital opportunity.

**Figure 1.** The projection of digital technologies potential for Indonesia’s economy growth by 2025 (McKinsey Indonesia 2016, p. 15)



In the conceptual framework of Talent Management (TM), indeed there is still challenging debates of its definition and framework. This study adopted the TM research, particularly in SMEs, which previously developed on 2013 by Festing, Schafer and Scullion in Germany (Festing et al., 2013). The TM studies mostly developed in the developed western context; thus, we attempted to portray in the Indonesian context and challenges in this current study. Moreover, by adopting the conceptual framework of TM developed by Festing and colleagues (Festing et al., 2013), the current study aimed to shed light not only in the local perspective but also in the global perspective especially to whom who are interested in Indonesian labor potential studies. Accordingly, this study aims to explore TM, especially in digital-savvy SMEs that using internet platforms in their business activities. This study is an explorative quantitative study using cluster analysis which mainly aims to explore how the digital-savvy SMEs attract, select, develop and retain their employees.

The remaining structure of this paper is structured as follows. First, we briefly review the TM literature. Second, we address the overview of the TM issues that we framed in this study mainly in the digital-savvy SMEs in Indonesia. The description of the methodology employed for our empirical exploration and the findings are presented and discussed in the subsequent section. The limitation, future research direction and research implications of this study will be presented in the last section.

## II. Literature Review

### 2.1 The Importance of Talent Management in SME

Managing talent in the large enterprises is different from managing talent in SME (Cardon and Stevens, 2004; Ruby,s and Gilman, 2012). However, indeed most of the studies have focused on the organizational context of large multinational enterprise (Stahl et al., 2007). SME relies on the accountability of small team members. Thus, they are usually characterized by the less specialized officers who are dedicated to Human Resource (HR) management (Klaas et al., 2000) The large companies adopt the more sophisticated HR practice while SME focused on how to utilize the existing in more effectively and efficiently (Valverde et al., 2013). Notably, in SME the critical and strategic HR decision is usually taken by the founder/owner of the enterprise who may not be familiar in the term of strategic HR but has the HR-business link in their mind (Kühlmann, 2000). Some studies explained TM issues in SMEs are rarely a top priority because their business strategic emphasize ensuring and expanding market power while reacting to changing market demands (Edwards and Ram, 2009). Consequently, HRM in SMEs is often highly informal and mainly concentrated on administrative tasks and less strategic. According to the context of managing talent in the SME, this current study will invite the founder or owner of the enterprises in exploring the talent management issues in SME.

The main important and influential factors in the research of TM are the embeddedness in a globalized competitive world and the rapid growth of the knowledge-based economy (Festing et al., 2013). First, the embeddedness in a globalized competitive world is characterized by the emergence of “micro-multinational” which affected by the rapid growth of SME globally (Scullion and Brewster, 2001). This phenomenon of globalized “micro-multinationals” become the double-sword for SME in creating a challenge on global talent competitions and at the same time creating opportunity in global collaboration. Second, the rapid growth and knowledge-based economies result in the growing need of employees who are having the more complex role which highly requires complex cognitive abilities, for example, a marketing officer who can do programming (ILO, 2009). Moreover, after the global recession phenomena back in 2007-2009, these two important factors supported the increased trading of more flexible employment professionals which enabled less dependency on the single employer (Baruch and Dickman, 2011).

## **2.2 The relevance of the Talent Management in Indonesia SME: the digital growth opportunity**

Societal development in many countries makes talent management one of the most critical challenges for organizations. Recently Indonesia shows an increasing number of start-up with harnessing the technology (Parrray, 2017). Indonesia pushes to create more digital startups and prepares to support the industry roadmap of “Making Indonesia 4.0” which entails the country’s vision to boost the manufacturing industry’s competitiveness through the use of technology (Kemendrian Preindustrial, 2018). Furthermore, based on this Industry Roadmap, Indonesia prioritize the development of human resource which harnesses the education of STEAM (Science, Technology, Engineering, the Arts and Mathematics) that will support the demands of future industries. However, there remains limited research in identifying the potential opportunity for the Indonesian talent development taking into consideration the potential economic growth from the digital-savvy SME.

At least, there are three reasons why it is crucial to research on TM that Indonesia could benefit in order to support their future digital-savvy industries. First, Indonesia is predicted to benefit in the bonus of demographic growth with the young population, placed as the fourth largest country in the world, and on the track to become the 7th largest economy in the world by 2030 (Oberman et al., 2012). This demographic advantage demands a better investigation of TM in SMEs due to support one of the economic backbones of the country. Second, there is an exponential growth of “micro-multinationals” enterprises boost by the globalization business (Scullion and Brewster, 2001). Accordingly, while another part of the world is facing the aging populations, Indonesia might contribute to supplying the demands with skilled labors who are having global competitiveness. Third, in the long run perspective, digital-savvy SME might shape not only the future of economics but also the future of work (Carlson et al., 2006; Festing et al., 2016). This current study proposed a perspective that the digital economy might produce the “New Working Life” employment for Indonesia which entails the more flexible time, place, work tasks and social interaction. This “New Working Life,” thus, might answer the geographical challenges of the archipelago in Indonesia.

## **2.3 The current study of Talent Management Concept**

It has been indeed long debate in the scientific conversations regarding the clear-cut concept of “talent management” research field (Dries, 2013; Mayers and Van Woerkom, 2014). The current study chooses to adopt the TM in the broad definition

that developed by Stahl and colleagues (Stahl, 2012). Their perspective in TM is the ability of an organization to attract, select, develop and retain key employees in the global context. Stahl and colleagues developed the concept based on the three trends of best practices in managing talent globally; 1) Recruitment, staffing and succession planning, 2) Training and Development and 3) Retention management (Stahl, 2012). The reason to adopt this framework because of the broadness of the TM concept that might a suitable start for framing the exploration area of TM in digital-savvy SME in Indonesia which remain under-researched. The whole concepts were initially being applied to the companies with more well-established human resource management. Thus, this study also aims to portray to what extent does the concept applied in less-stable human resource organization such as the digital-savvy SMEs.

SMEs are facing the liability of smallness; it implies that smaller organization have fewer resources and more challenges to overcome. Thus, where the sources are scarcer than in large enterprise, fewer sources working as HR specialist and setting up the formalized HR. Following the Indonesian Law, UU UKM 20/2008, the microenterprise is defined as the enterprise with less than IDR 300 million total annual sales and the medium enterprise with less than 2.5 billion total annual sales. This study focuses on the digital-savvy SMEs which mean the enterprise that uses the online digital platform in their business activities.

### **III. Methodology**

Since the little number of specific researches about TM in Indonesia, the chosen research approach is explorative and serves the objective of initially mapping the field. We are inviting more than 100 SMEs in Java Island through an online survey and received 51 responses in the current study. We are focusing on the enterprise who are using the technology in their management system as well as their marketing and/or sales using the online platform. However, the so-called digital-savvy SMEs are still challenged under debate to the frame by the technology-based enterprise; thus, this study is distinctive in such scope.

### **IV. Questionnaire and Data Analysis**

The questionnaire consists of four sections. The first part consists of 8 items demographic questions, the second part consist of 5 items related to the awareness of TM in general. The following section focus on the primary study of attracting and select the talent (6 items) Likert scale (i.e., 1 not a priority to 7, highest priority). The section presented in the statement that represents “attract-talent” (i.e., considering

recruiting from vocational school) and “select-talent” (i.e., considering hiring a consultant or hiring agent). The last part we ask about “developing and retaining talent” (8 items) Likert scale (i.e., 1 not a priority to 7, highest priority). The section presented in the statements that represent the “developing-talent” (i.e., consider the training and development management in the enterprise) and “retained-talent” (i.e., consider developing a succession-planning in the organization).

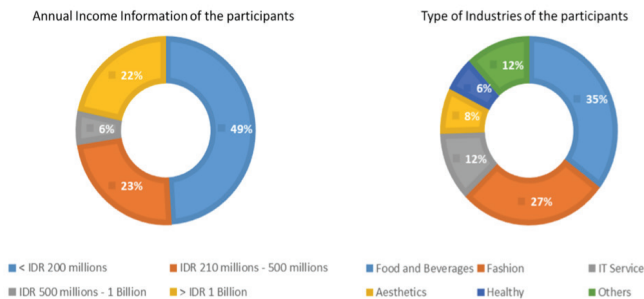
In this study, similarities in the use of TM practices of attract-select talent and develop-retain talent are analyzed using the hierarchical cluster analysis developed by Ward (1963), which form a hierarchical group of mutually exclusive subsets based on their similarity in specific characteristic. The clusters were formally identified by Euclidean distance coefficient values. The clusters were examined with Kruskal Wallis to test the differences among clusters. The data analysis was conducted using SPSS 24. The finding will be presented in the next section and categorized themes as follows; descriptive, the section on attract-select talent clusters and the section on develop-retain talent. The discussions are provided within each categorized finding. The limitation, future research direction and research implication for policy recommendation will be presented at the end of the paper.

## V. Result and Discussion

### 5.1. Demographic of the participants

The majority participants of our study are the digital-savvy SMEs in Yogyakarta (51%) followed by Jakarta (21%) and other cities, including Bandung (28%). More than half of the participants established their enterprise between 1-3 years (65%) and mostly categorized as small enterprises (80% of the total participants). We ask CEO (60%), COO (14%) and Managers (36%) about their view on Talent Management as depicted in all questions in the questionnaires. We invite many types of industries in the current study with the various level of annual income. As an overview, see Figure 2 for the description of the participants’ annual income and type of industries.

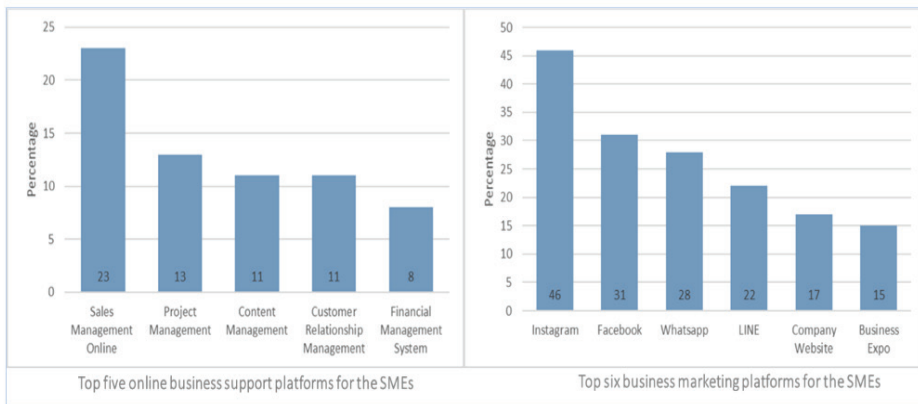
**Figure 2.** The annual income and type of industries of the digital-savvy SMEs participated in the current study



Based on our current survey, 80% of the participants are using an online platform in their primary business activities. The platforms are used for various purposes such as for management system and product marketing. The current study found that “Sales Management Online” (e-commerce) become the top (23%) platform used in our participant, for example using services from companies such as *Bukalapak*, *Tokopedia* and *Blibli* (for details see Figure 3).

In the marketing activity, the current study examined that social media, Instagram (46%), become the top most popular platform (for details see Figure 3). In order to support their business demand, most of the participant revealed that they dedicated particular budget of recruiting new talents (60.8%) which mostly use for the job portal advertising, job opening in the job fair and the recruitment test. However, most of the participants still have no dedicating budget for training and development (68.6%).

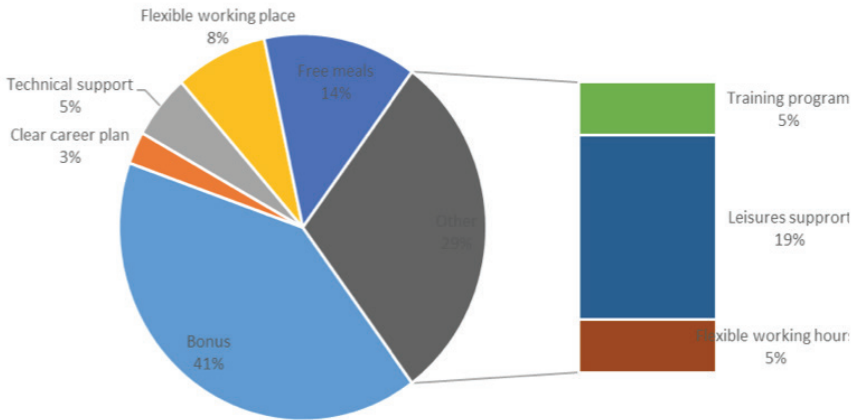
**Figure 3.** The top five online business support platform and the top six marketing platforms of the digital-savvy SMEs



Regarding keeping their employees satisfied, some of the digital-savvy SMEs participants in this current study (52.9%) gave more than standard compensation (salary, insurance, and work leave). Most of the participants (52.9%) described through 37 responses on how they give extra benefit to their employee (see Figure 4). The findings revealed that most of them still rely on retaining by bonus compensation (40.5%;15 responses). However, the findings suggest an exciting highlight that the benefit of a working place (8%) was one of the alternatives that considered among the samples. This finding may imply that the digital economy is potentially creating a flexible “New Working Life” in Indonesia today’s’ employment. Accordingly, this benefit should be more nurtured across the digital-savvy SMEs in the future.



**Figure 4.** The Benefit alternatives of the SMEs participants for their employees



### 5.2. Cluster Analysis

Based on the findings in the cluster analysis on the attract and select talent, the agglomeration coefficient, and the dendrogram suggested the three-clusters solution (see Table 1). The outcome revealed that Cluster 1 (70.5%) obtained the highest mean scores almost in all items. The examination of Kruskal Wallis test revealed an interesting finding that attracts and select talent from the personal network is the only not significant result,  $\chi^2(2) = 0.52, p = 0.773$ , implying that almost all of the participants still manage in the attract and select talent in their personal network. Furthermore, the result revealed that the priority level for attracting and selecting talent through the professional network is the second highest. This finding suggests that the awareness of joint-force or networking between digital-savvy SMEs in attracting and selecting talent is potential to be developed.

**Table 1.** Cluster Analysis Result of Attract and Select Talent, Comparison of Means (M) and Standard Deviation (SD) Across Sample

What is your priority on attract and select the talent for your enterprise development?	Cluster 1 (N=36)		Cluster 2 (N=9)		Cluster 3 (N=6)		Chi-square $\chi^2$	p
	M	SD	M	SD	M	SD		
Attract talent from higher education or universities	4.28	1.72	1.11	0.33	1.00	0.00	28.46**	0.000
Attract talent from vocational school	4.08	1.61	1.22	0.44	1.00	0.00	27.64**	0.000
Attract talent from personal network	5.64	1.44	4.67	2.65	5.83	1.47	0.52	0.773
Attract talent from professional network	5.03	1.44	4.44	2.30	1.00	0.00	14.65**	0.001
Select talent from website or e-recruitment	4.61	1.64	4.33	2.35	1.00	0.00	14.07**	0.001
Select talent from the hiring agent or head-hunters	3.33	1.53	1.22	0.44	1.00	0.00	22.42**	0.000

Note: Seven-point Likert Scale were used for all questions; Scale 1, not priority to 7, highest priority; \*\* $p < .05$

The second cluster analyses examined the TM in general to address the issues of developing and retaining talent. The agglomeration coefficient and the dendrogram were suggested the three-clusters solution (see Table 2). The outcome revealed that Cluster 2 (68.6%) obtained the highest mean scores on all items. The examination of Kruskal Wallis test revealed that all items were significantly different among the three clusters. The findings highlighted that

the items that are focusing on TM strategic issues of employees' performance assessment, employees' retention program and compensation benefit issues are significantly different between the three clusters. These findings suggest that there are discrepancies in perceiving TM in the participants. The majority of the digital-savvy SMEs participants perceived the strategic TM as the priority already. However, the current study did not examine to what extent the current awareness and preparation of more strategic talent management among the participants. Accordingly, the study sees this as the opportunity of developing the knowledge of the CEO, COO and the managers of SMEs in building a strategic TM in the future.

**Table 2.** Cluster Analysis Result of Talent Management in General, Comparison of Means (M) and Standard Deviation (SD) Across Sample

What is your priority on talent management in general to develop your enterprise?	Cluster 1 (N=7)		Cluster 2 (N=35)		Cluster 3 (N=9)		Chi-square	p
	M	SD	M	SD	M	SD		
Employer Branding	3.43	0.79	5.31	1.47	3.56	2.56	11.04**	0.004
Employer Branding Development	3.71	0.49	5.63	1.37	3.33	2.40	16.12**	0.000
Recruitment System and Process	4.29	1.11	5.11	1.66	2.89	2.62	6.44**	0.040
Employees Training and Development	3.57	0.79	5.89	1.18	2.44	1.88	25.13**	0.000
Developing Organization Succession Planning	3.86	0.90	5.31	1.43	1.67	1.32	22.70**	0.000
Employees Performance Assessment	3.71	0.76	6.03	1.04	1.56	1.01	33.64**	0.000
Employees Retention program	4.43	0.79	6.11	0.90	1.56	1.01	31.17**	0.000
Compensation and Benefit	4.14	0.90	6.06	0.97	1.22	0.44	31.23**	0.000

Note: Seven-point Likert Scale were used for all questions; Scale 1, not priority to 7, highest priority; \*\* $p < .05$

## VI. Discussion and Conclusion

### 6.1. Research Implications

The present findings of the current study provide practical implication that can be foster by the stakeholders of the TM in SMEs. For the SMEs actors and the policy-making institutions (i.e., Badan Ekonomi Kreatif Indonesia), these current study findings illustrate the advantage to map the demands potential for future talents of Indonesia on harnessing the digital economy business. For that reason, development of active research on demand mapping in term of talent management focusing in digital enterprises (especially the digital-savvy SMEs) between government and the enterprises should be promoted in the near future.

For the educators and educational policy-making institutions (i.e., The Ministry of Education in Indonesia), the current study findings can extend the knowledge and challenge the future research on supply mapping for preparing the students as the human resource supply in the future especially in the digital economy era. The insights from the current study might also inspire them to creatively think on developing the skill that is practically useful for future business in Indonesia, for example, to be not only being a technology-savvy person but also nurturing creative writing.

The further implication in the educational point of view, the current study also might inspire people to follow the trend of the society on marketing their own business, accordingly for example, a woman in Sumba island can build their handmade songket (traditional clothes) brand by managing their social media online and inviting investors or collaborators in Java Island. Concerning the illustration of the implication above mentioned, this current research also aims to create awareness of integrated research between Indonesian governments institution on mapping the gaps of TM across archipelago – namely demand versus supply mapping of digital economy talents.

## 6.2. Limitation and Future Research

However, the current paper acknowledges several limitations. The paper has followed an explorative approach with a short questionnaire in the survey online. Although our study involved the CEO, COO and managers of the SMEs who provides an alternative perspective, the future research needs to involve more HR practices to be captured to make more comprehensive overview in TM issues. Moreover, regarding the sample, in which mainly in Java Island, the future research should be able to capture greater area of the Indonesian archipelago. Regarding the insights of the cluster analysis, the future research also can benefit from mixed-method design research with focus-group-discussion to better understand the dynamic of TM in digital-savvy SMEs, for example, on how the top-level management of SMEs defines their middle-term human resource strategy.

Concerning the strategic level of TM, this current study recognizes a critical element of strategic human resource management in SMEs especially for those start-ups that facing the phase of scale-up their organization. The critical element of effective TM in SMEs is that it should be linked to the strategy and corporate culture of the company (Scullion and Brewster, 2001). Accordingly, the future research might emphasize issues related to both strategy and corporate culture, for example, careful selection of talents, intensive training, and performance management that support the succession planning of the company. More in-depth research and analysis of the respective streams (human resource strategy and corporate culture), would enrich the understanding of TM and place it in the context of comprehensive strategic human resource management. The research would also be beneficial in the longitudinal design to examine the trends of TM in digital-savvy SMEs context which in turn, might shed light in supporting National TM forecasting in Indonesia.

### 6.3. Conclusion

Overall, the current study demonstrated that the digital-savvy SMEs are mostly not pursuing the long-term and more strategical TM, for example, succession planning not considered as a priority yet. Thus, the study invites all employers of SMEs, especially those with digital-savvy business, to start examining their TM development as the war of talents with larger enterprises also will not diminish in the near future and thus, they need to be critically examined their limited resource (i.e., budget) to harness the challenge and opportunity at the same time. In response to such demographic challenges, the current study proposes a joint-force strategy in SMEs.

The associations working on a digital business that spread all over Indonesia, ought to highlight the importance of the network approach in talent management toward developing a more professional Human Resource Management function. The network approach also might potentially contribute to gaining more competitive advantage to attract and retain the talent of SMEs, i.e., the coalition on the recruitment of digital-savvy talent war in Indonesia. The present study findings, finally, contend for the Indonesian policy maker to facilitate the use of Information Technology through policies as well as develop easy internet access (i.e., ensuring internet across all islands) to develop awareness in business potential of Indonesia for Indonesian.

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