A study in complex change: Transforming a global public-sector organization

Agus D. W. Martowardjo discusses the strategies and culture changes he implemented to set a new path for Bank Indonesia.

Joydeep Sengupta
Bank Indonesia was facing something of an identity crisis in 2013. It was still the central bank of the Republic of Indonesia—famously descended from the Java Bank, which was established in the 1800s to manage the circulation of currency in the Dutch East Indies. But regulatory changes enacted in 2013 meant that Bank Indonesia needed to transfer certain bank-management tasks to a central financial authority while simultaneously taking on new ones and defining a broader value proposition for itself and its customers. The bank would need to do all this amid ever-evolving economic and industry trends—for instance, the rise of shadow banking¹ and the rise of the digital economy and big data.

How would the bank redefine some of its core activities while maintaining its reputation as a high-quality central bank? The responsibility fell to Agus D. W. Martowardjo, a longtime public-sector leader and finance expert. In this interview with McKinsey’s Joydeep Sengupta, Martowardjo—the former bank governor of Bank Indonesia—outlines the challenges of enacting transformational change at a large, global, public-sector organization.

McKinsey: You were appointed five years ago to lead a change initiative at Bank Indonesia. Why was such a transformation needed?

Agus Martowardjo: By the end of 2013, we were mandated to transfer all “micro” aspects of banking supervision—like quality control of assets and maintenance of capital adequacy—to the Financial Services Authority.² This was a significant change, as about 40 percent of Bank Indonesia activities involve some sort of “micro” supervision—not only in the head office but also in our representative and regional offices all over Indonesia. The idea was that Bank Indonesia would retain responsibility for “macro” or system-level tasks—making decisions and setting policy, for instance. The goal was to make sure that oversight of monetary, financial stability, payment systems, and money circulation was being managed appropriately, and that Bank Indonesia was constantly improving.

McKinsey: When and how did you start the transformation journey?

Mr. Martowardjo: It all started shortly after I joined. The rupiah at that time had depreciated up to 21 percent amid the so-called “taper tantrum.”³ Businesses and individuals were withdrawing the money they had invested in Indonesia, and we had to stabilize the currency. By the time I joined, Bank Indonesia had only eight months to adjust the policy rate and stabilize the currency and the financial system. Even with these urgent issues to attend to, we had to forge a new path for Bank Indonesia, a new mission. I’m a part of the board of governors, which is the ruling body of Bank Indonesia, and we needed to develop a long-term strategic plan. Then we could redesign our organization in a way that would not only address short-term needs but also ensure our long-term stability and viability.

Before we could begin any change initiatives, we needed to understand what we had. We used surveys and other instruments to find the pain points in the organization—which processes were working, and which weren’t? We collected data from about 2,500 employees—we had a 76 percent response rate—and we used the information from this analysis to create our strategy and a 10-year plan. We divided the transformation into two stages: The first five years would be focused on organizational restructuring and enhancing, and the second five years would be focused on shaping the end state.

McKinsey: In this digital day and age, when timeframes are so short, it seems counterintuitive to take a 10-year view.

Mr. Martowardjo: Yes, it is a little counterintuitive. But the change required was so
extensive and so complicated we needed to have a comprehensive vision of where we wanted to go.

**McKinsey:** How did you get the board of governors and employees alike to commit to this change and, more important, own the entire 10-year plan?

**Mr. Martowardjo:** It was important to communicate our mission clearly at the outset. I started at the top and cascaded downward. I shared with the board of governors and senior-management team the potential challenges, the survey data, and some initial hypotheses about what our transformation strategy should be. After several intensive meetings, we agreed on five themes to ensure a successful transformation, and we shared them across the organization.

The themes are policy excellence, outstanding execution, institutional leadership, motivated organization, and state-of-the-art technology. We initially set up 25 strategic programs against these themes; we’re now up to 30 such programs. Each is owned by a department head and sponsored by a board member. We also established a transformation office to monitor the pulse of the organization as we executed change, to report progress, to get rid of bottlenecks in decision making, and to act as program incubator. This office was focused solely on the strategy programs we set up.

Through these actions, we have been able to ensure that everyone in the organization understands the bank’s mission. Once they can see how it affects their day-to-day activities, everyone feels empowered to contribute to the transformation program, and it becomes easier to monitor and measure our progress.

**McKinsey:** What sort of progress have you made against the five themes?

**Mr. Martowardjo:** We are still in the first phase of the transformation, but we have already developed many new capabilities. Under the theme of policy excellence, for example, we have reformulated our policy rate to enhance the effectiveness of monetary policy transmission. We have also asked all Indonesian corporations, or all foreign companies that operate in Indonesia, to use rupiah in their transactions. They are not allowed to use foreign currencies, unless those transactions are allowed by law. In 2014, before we enacted prudential regulations, the use of foreign currencies for domestic transactions reached about $6 billion per month; by December 2017 it was down to $1.6 billion.

To ensure outstanding execution, another one of our themes, we have separated our policy-making, operations, finance, and risk-management functions, so we can institute more checks-and-balances among the groups and build cross-functional expertise long-term. We have centralized our procurement system. We have also established a dedicated function to manage risk for all of Bank Indonesia and embedded an internal control officer in each department as the first line of defense. And in the area of motivation and human resources, we established the Bank Indonesia Institute, which is focused on educating our employees. The institute offers special training sessions for employees in each function.

**McKinsey:** What challenges have you faced during this transformation, and how have you overcome them?

**Mr. Martowardjo:** The biggest challenge has probably been getting people to move beyond the status quo. It seems like the larger the organization, the longer it takes to adapt to change. If we want to introduce reforms, we need to over-communicate, act in a consistent manner, and provide proof that we are following global best practices. People must believe that the environment they are moving toward is a better one.

As far as our stated themes go, two areas have been particularly challenging—revamping our payments systems policies, and implementing state-of-the-
art technologies. In a transformation, you need everything we have talked about—vision, strategy, and a commitment from everyone up and down the organization. Those are critical internal factors. But there are external factors involved with improving payment-systems policies or implementing new technologies that we also need to consider—changes in the field of financial technology, for instance, that demand that we keep pace with innovation while still preserving the stability of our systems.

After a long time in development, we launched the National Payment Gateway in 2017. It’s a shared infrastructure for secure, integrated, and affordable electronic-payments through different channels across the nation. The implementation of new

---

**Agus D. W. Martowardojo**

**Vital statistics**
Born 1956, in Amsterdam
Married, two children
Lives in Jakarta, Indonesia

**Education**
Holds a bachelor’s degree in economics from the University of Indonesia
Completed programs at the Harvard Business School, Wharton Executive Education, Stanford University, and State University of New York

**Career highlights**

**Bank Indonesia**
(2013–2018)
Governor

**Government of Indonesia**
(2010–13)
Finance minister

**Bank Mandiri**
(2005–10)
Chief executive officer

**Bank Permata**
(2002–05)
President director

**Bank Mandiri**
(1999–2002)
President director, and chief executive officer

**Bank Eksport Impor Indonesia**
(1998–99)
President director

**Bank Bumiputera**
(1995–98)
President director

**Fast facts**
Has received a number of awards, including the East Pacific Central Bank Governor award from *GlobalMarkets* newspaper in 2017, the Finance Minister of the Year award in 2012 from *The Banker*, and Indonesia’s Best Executive award in 2009 from *Asiamoney*.

Received the Bintang Mahaputera Adipradana medal, the Republic of Indonesia’s second-highest civilian honor, in 2014.

Served as chairman for several global financial organizations, including the Association of State-Owned Banks, the Indonesian Bankers Association, and the International Islamic Liquidity Management group.
It takes time and a clear transition plan to do these things; we do not want to sacrifice quality for speed. But we are highly motivated and capable of making these things happen given our new organizational structure. The board of governors reviews the implementation of our transformation program monthly; I chair the meeting myself. We continually identify areas that need improvement. In talent management, for instance, we are focusing on introducing new programs for millennials. Our senior managers publicly share success stories so that when challenges do occur, the organization has tangible proof that they can be addressed. And at every layer of the organization, we have installed change agents—that is, evangelists for the transformation plan.

**McKinsey:** You have managed transformations in both the public and private sectors; what are the differences and what are the similarities?

**Mr. Martowardjo:** There are some differences; in public institutions, for instance, you are dealing with more and larger stakeholders than in private-sector companies. Often, you are dealing with lifetime employees in public-sector organizations, many of whom have never worked in any other institution. So change tends to happen more slowly, because trust needs to be built up over time. In both sectors, the focus should still be on creating excellent performance, maintaining organizational integrity, and building a culture of continuous improvement. Requires much more time, and you must have a clear strategy to guide the transformation.

**McKinsey:** How did you need to change your own personal leadership style?

**Mr. Martowardjo:** I did not need to change much. Communication skills are always critical, no matter the management situation. A sense of vision and commitment—these leadership traits are necessary regardless of the organization you are in.

**McKinsey:** Public-sector transformations can often take years—extending past the tenure of the leaders appointed to manage them. How can change leaders ensure continuity after they’re gone?

**Mr. Martowardjo:** Within this first five-year period, we will finalize our initial goals around restructuring and enhancing the organization—and this is the very infrastructure that will allow the organization to carry out the rest of our 10-year plan, which is focused on shaping the end state of the organization. I am confident the road map we have established will help future leaders carry on the programs we have set in motion and will, in turn, inform the next 10-year plan at Bank Indonesia.