Indonesia is viewed with an approving gaze by the world. In fact, it was considered a potential next-generation economic giant along with the BRIC countries from early on. However, we found it had fallen out of that group, unnoticed. The currency crisis of Asia that occurred in 1997, along with the political turmoil that resulted in the collapse of the regime, led this country into its slump.

However, with the start of the current S.B. Yudhoyono administration, and created by its very first democratic election, Indonesia once again regained its footing. It’s been maintaining a 6% growth rate that promises Indonesia sustainable growth. The Yudhoyono administration laid out the aggressive economic plans with these achievements in place.

The centerpiece is the Master Plan to accelerate and expand Indonesia’s economic development. This plan is to invest in the key industries starting in 2011 up through 2025. The total amount is over $440 billion dollars, which, prorated, is equal to 60% of the annual GDP. Those key areas are spread over 22 types of industries: infrastructure such as electricity, roads, and rail; the mining of oil, gas, coal, nickel, and copper; the agriculture sector such as palm oil, rubber, food, and fiber; the production of steel; and so on. It is an “every-direction” model; in other words, a total improvement project that covers nearly all industries. Among those industries, the most visible are the infrastructure and mining, 70% of the entire budget for those two areas. This project includes the “Six Economic Development Corridor Plan” to connect all the islands around the country with an infrastructure network.

Their goal is to become a top-ten economic power by the year 2025. The sleeping giant pulls Asia. While the demands of China, that have been leading the world Machinery market, slows down, Indonesia has come to the surface instead. That unpredictability surprised even the people involved in the market. The advantages that Indonesia has in the spreading machinery market are the rich natural resource, the “non-aging” population of 240,000,000 people, the robust domestic demands, and the investment of foreign capital. Yet, the driver of the growth is Indonesia itself. That is the unity that goes beyond the ethnic diversity.
As a matter of fact, the mining market in Indonesia has been growing significantly with their own self-help efforts separate from the government’s measures. "Although domestic processing is required immediately, the technology cannot keep it up. Especially, in the case of coal, the point is to either improve the quality of the coal or implement liquefaction, but is there technology that can make that possible?" In fact, in this restriction-targeted field, there is still a mining company that received permission to export without additional processing (as of July 9th).

Kalimantan is the largest in Indonesia. Its annual production in 2011 was approximately 40,000,000 tons. The total reserves are 620,000,000 tons.

What such global players trust are the cost performances are.

In order to grow as a global player, quality and a low cost operation must be ingrained. It’s indispensable to adopt machines with high reliability and high productivity. It’s also necessary to nurture the human resources that are skilled at the new machines and technologies.

Hitachi’s mining machines that support the competitiveness of the global player.

The Indonesian companies grew less dependent on regulations.

"Are you sure it’s doing that well?" Mr. Tsutomo Kijima, an analyst at Barclays Securities openly shows his surprise when he was analyzing the world machinery market last year. In fact, the growth rate was remarkable. For example, the demands for hydraulic excavators grew approximately 250% in three years; that is, from 5,400 excavators in 2008 to 13,600 in 2011.

The way above made GDP per capita growth of 150% during the same period of time (from $2,237 to $3,469 in US dollars).

What’s pulling this rate up is mining (see the chart). Indonesia is a prominent country rich in natural resources that produces tin, nickel, copper, oil, natural gas, etc. As for the nation’s Master Plan, 30% of the budget is invested into the mining industry. Especially, coal is expected to keep growing in the export markets due to demands of electricity from a remarkable growing Asia.

Generally, the scenario of economic development starts with exporting natural resources and investing the obtained foreign currency into nurturing the domestic industries. That is exactly what’s happening to Indonesia.

Coal in particular is expected to grow well. In State Measures, the government clearly positions coal as one of the national sources of revenue. 80% of the domestic production is allocated to exports and they became the second largest coal exporting nation after Australia in 2010. Compared to Australia, Indonesian coal has an advantage in transportation costs because they are closer to Asia, the center of the world’s consumption.

However, the air that surrounds the market started changing recently. The government enacted a new law that requires additional processing of the exported goods to develop the domestic industry. It also raised the custom rate as well. Other possible concerns are a possible supply shortage and a potential movement toward resource nationalism.

Nevertheless, it’s widely predicted that what the government enacted is unlikely to happen without some change. Mr. Hariyanto Wijaya, an analyst at Mandiri Sekuritas, an Indonesian securities company, questions it. "Although domestic processing is required immediately, the technology cannot keep it up. Especially, in the case of coal, the point is to either improve the quality of the coal or implement liquefaction, but is there technology that can make that possible?" In fact, in this restriction-targeted field, there is still a mining company that received permission to export without additional processing (as of July 9th).

As a matter of fact, the mining market in Indonesia has been growing significantly with their own self-help efforts separate from the government’s measures.

Adaro Energy is one of such cases. It’s the largest mining company in the nation and has been raising its sales amount for the past twenty years, starting before the currency crisis.

Mr. Chia, Director of Adaro Energy, says. "It’s not just because of the cost that Indonesian coal is thought highly of."

"They are regarded highly in the developed countries, starting with Japan. Why? It’s because of the quality."

Typically, steam coal that is used at thermal power plants has an issue with the sulfur content and the ash content. The lower those ratios are, the higher the cost performances are. The average sulfur content of Australian coal is 0.5%. Compared to this, the Adaro’s coal has only 0.1%. In terms of the ash content, the Australian coal has over 10% and Adaro’s is 1%.” Mr. Chia says.

Mr. Kijima asserts, "the mining companies in Indonesia have high competitiveness as global players, not just in transportation costs but also in the total management of the product."

What such global players trust are the machines of Hitachi Construction Machinery. Starting in 2011, Adaro decided to adopt tens of Hitachi mining equipment across its group.

"It started with the excellent performance of the Hitachi machine that our mining contractor was using. In addition to that, the Australian executive who previously worked for Adaro strongly recommended Hitachi because of his experiences at his former work place. According to him, “Hitachi’s machines had extremely high reliability. And, their support was superb.”

In order to grow as a global player, quality and a low cost operation must be ingrained. It’s indispensable to adopt machines with high reliability and high productivity. It’s also necessary to nurture the human resources that are skilled at the new machines and technologies.

By holding numerous meetings with Hitachi to develop the optimum mining plan, and after a prudent analysis, we have made decisions on such items as the costs the maintenance, the management, the application and so on. We are content with the operation rate after this adoption. We believe that it is the best choice.

Mr. Chia speaks. “In the mining business, it’s important that the machine manufacturer and the mining company trust each other and help each other to reach the goal. We sensed that we would be able to partner with Hitachi closely and for a long time.

Adaro’s Totupan coal mine in South Kalimantan is the largest in Indonesia. Its annual production in 2011 was approximately 40,000,000 tons. The total reserves are 620,000,000 tons.

Building a super team to grow into a fully comprehensive energy company

PT Adaro Energy Tbk
Director
Mr. A.H. Chia

We have a plan to raise the current 47,000,000 ton production up to 80,000,000 tons and to 100,000,000 tons in the future. We are aiming to become a leading company in the world, not only as a coal company but as a fully comprehensive energy company.

For that, we need to insire local environmental protection, an economic benefit return to the local area, an infrastructure, and the building of the foundation for education, in addition to the production of high-quality, low-cost products. It’s because, keeping a sustainable business is not possible without the local community’s understanding. We have put focus on such efforts and our stockholders have a strong interest in that.

In order to attain our goal, we believe that our relationship with Hitachi will be the key. Hitachi’s products are considered to be highly reliable by the mining companies all over the world. Besides, Hitachi has plenty of know-how about how sites work.

Although our relationship has only just begun, I believe that we have been building a relationship based on trust. From now on, there will be plenty of room for us to grow further, such as increasing the size of machines for optimization of production.

There’s still something both parties should do continuously, which is verifying the outcome results.

Indonesia is a nation that highly regards diversity and still unites for a shared goal. Because of such a culture, a mining company with a multinational operation can grow in Indonesia. We do not need an individual Superman but we want to build a multinational Super Team. There is no doubt in my mind that Hitachi is essential to its success.

The ethnic DNA that supports the growth of Indonesia.

Indonesia’s demands for construction machines in the respective fields

infrastructure
coal
copper tin and others
hydroelectricity
forestry machinery
agriculture
mining equipment

Adaro has the mining rights in total four mining areas in Kalimantan and Sumatra. The total reserves Adaro has is approximately 4,800,000,000 tons.
The concept of “Product Support” was born here. Balikpapan, Kalimantan the foremost line and base of the mining product support.

Detailed contractual items that meet the customers’ needs show deep know-how.

Balikpapan in East Kalimantan State is where PT Hexindo Adiperkasa Tbk (Hexindo) undertakes its sales and service of Hitachi Construction Machinery’s products in Indonesia and where it has its mining product support unit. It supports over 500 pieces of mining equipment operating in the entire Kalimantan area with over thousand-staff system.

The product support service is done while the machines are running or, if the machine is stopped, only for the minimum time required. Hitachi Construction Machinery established this concept of “product support”, which is now practiced at mining sites all over the world, whilst here in Indonesia it has been operating for 20 years.

Although it’s simply called “product support”, there are various parts to it. Hexindo has multiple service menus that depend on the needs of the customers. For instance, in addition to a routine inspection and a basic parts plan, they provide options such as the CSC (Customer Support Contract) that stations a technical support technician at the site, SSSA (Site Support Agreements) that additionally provides a maintenance plan to a CSC, and FMC (Full Maintenance Contract) that guarantees the minimum operation time of the machines. Separately from these, they have the VHS (Vendor Held Stock) that improves the immediate delivery availability of the parts, and there is an oil and fat providing contract that provides the appropriate Lubricants for the Equipment.

Furthermore, these contracts list very detailed contractual items such as the Remanufacturing parts plant. The parts that have been replaced are returned as the component life has been achieved or reburied within the Plant. “Even learning how the parts deteriorate by carefully examining and analyzing the parts themselves has great value to the company.”

What’s as important as stock maintenance is the human resource development. Last year, we started a new training center for mining product support. We also depend on the remanufacturing parts plant and the parts storage facilities that were expanded in 2008. The remanufacturing parts plant will make a cost reduction possible. The parts storage facility will make prompt and precise supply possible. Tanaka says “The strength of Hexindo is that they are able to provide a direct service at a high level by being directly connected to the manufacture.” With this structure, the systems that we have developed over the previous 20 years, we have implemented a highest level of quality in the region. This is not easy for other companies to mimic.”

A regeneration operation at the remanufacturing parts plant. On one hand, understanding the damage is a valuable asset. Therefore, the fulfillment of the parts warehouse and the system are connected directly to customer satisfaction. Here, we have a warehouse that can contain approximately 10,000 different types of parts, half a year’s supply of parts, and there is an oil and fat provisioning contract that provides the appropriate Lubricants for the Equipment.

“Kernijin”

What our customers want are the skills and the comprehensive experience of our people who have thorough knowledge of mining.

What our customers ask for a guarantee for the fastest and most immediate delivery rate. In fact, we can say that parts are the lifeline of the “Product support”. A defect of just one part can make the machine nothing more than a piece of dead iron. Therefore, the fulfillment of the parts warehouse and the system are connected directly to customer satisfaction. Here, we have a warehouse that can contain approximately 10,000 different types of parts, half a year’s worth of stock, on an approximately 4,000 square meter floor. Last year, Hexindo sold approximately $148,000,000 dollars of parts in total. 80% of them were sent out of this warehouse.

We build the system so customers can check their stock on the internet. “We want to continue to promote the importance of parts.” Mr. Sabar and the department head of parts inventory and system, Mr. Kartono (left), show their enthusiasm.

What’s as important as stock maintenance is the remanufacturing of the parts. Since replacement parts and components of large machines are often transferred overseas, it takes a long time to be delivered. Therefore, the parts remanufacturing business that quickly regenerates and replaces parts is a big benefit for the customers in both time and cost. In case of the cylinders, the prices are about 30% of the new ones. Mr. Muklas, the general manager of the remanufacturing plant (right), says, “When they break, we can take the replacement part out of the stock right away. It takes less downtime this way.”

A training center specializing in mining has started. It is contributing to all of Indonesia.

What the “Product support” unit must fulfill is the needs most urgently now is human resource development. The “Product support” at Hexindo has over 1,000 staff members. Yet, it’s still short by about 250 people. As a solution, in addition to its existing training center (CT) in Jakarta, they opened a new one in Balikpapan last year that specializes in Mining Product Support.

The trainers receive the training over the course of three years. The training includes classroom lectures, practical training, and OJT (On-the-Job-Training) at the customer’s sites to play an active part as support engineers at both domestic and overseas mining sites. We also have a training program strictly for our customers.

Having the re-education program for the site support engineers is the biggest distinctive feature of this new training center. The technology keeps changing so fast. Having the support engineer acquire the newest technologies and knowledge is tied to our guarantee of quality. Training Center Head, Mr. Syamsul (center), comments “The know-how we have built is incorporated in this training center. Another strength of this training center is that we can receive feedback from the sites through the customers on a regular basis. The growth is also interested. Not just for Hexindo’s skill building but also to expand all of Indonesia’s skill set.”

Continue to develop the products for the growing fields and maintain the quality and service value.

Despite the Indonesian government action that imposes custom and obligates local processing of the mineral resources, I feel that the impact is not so big. It’s because, typically, business in Indonesia expands without the government’s policy. As for coal, I feel rather uneasy about the direction America’s shale gas is heading. If America starts exporting shale gas, the price of coal and natural gas will decline. We have to prepare for them to be competitive in quality and price. In the market, there are expecta-
To create the Hexindo Culture by integrating the Gotong Royong spirit into the Kenkijin spirit.

Interviewer: Sales are doing well. What’s driving the mining demands?

Hirose: The total number of excavators from mid-sized to ultra-large sold was approximately 1,200 in 2008 and it grew to 2,900 in 2011. We estimate that it will reach about 3,500 in 2012. Although mining is getting a lot of attention, in our company’s case, I want to emphasize that our sales are well balanced. As you can see, our sales are quite even: 29% for mining, 25% for forestry related, 32% for agriculture, and the last 14% is for construction. Especially in the forestry field, both M and F models (M=Madd, a soft-ground model / F=Forest, a forestry model) are selling well and they take up half of the demand.

Interviewer: With the Master Plan of the government, it seems that the infrastructure demands will grow.

Hirose: The bidding for the subway construction in Jakarta has finally started. There, we are trying to sell our applied machines such as “Chameleon” (see page 18). From now on, we will aggressively sell our applied machines like those, as well as the bulldozers and backhoe loaders of our American partner, John Deere & Co.

Interviewer: In order to propel “localization”, the key is human resource development.

Hirose: That’s exactly where we are putting our best efforts. Especially because of the shortage of the service personnel, we are developing our training center. Last year, we opened one in Bantul, the Gadjah Mada University, is raising our corporate value.

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Global e-Service

We want to let our customers know that the merit of this service is to get closer to them.

The location and condition of the machines of our customers are monitored all the time. We want to let our customers know that the merit of this service is to get closer to them.

The Global e-Service in Indonesia started in early last November. Four specialists at Hexindo started it up. As of July this year, about 3,200 machines are operating throughout Indonesia with satellite communications.

They monitor the machines in daily operation. When any trouble happens to the machines, they analyze the alarm information and direct the cause and countermeasures to the service base, trying to decrease the down-time.

"Since we are able to understand the trouble precisely beforehand, the loss in time we used to have is reduced dramatically. Currently, we are developing the system that identifies a vehicle with the satellite communication service at its operational site. When it’s completed, the efficiency of the service will be improved significantly," says Puji.

Sometimes the branches come to these four, who have a background in technology and IT science. It is one of their roles to share this information and find solutions.

What Puji’s group is giving high priority to is the promotion of this system to the customers.

"The value is not understood well enough yet. There are many customers who do not have a PC. So, how we let them know the merit of this system is critical; as well as how to improve the overall quality of products. Also, characteristically, those who have a long-range view and pursue the product quality."

"The value is not understood well enough yet. There are many customers who do not have a PC. So, how we let them know the merit of this system is critical; as well as how to improve the overall quality of products. Also, characteristically, those who have a long-range view and pursue the product quality." says Puji.

Considering these factors, I believe the human resource development system by Hexindo and Hitachi Construction Machinery is excellent. Since the other party to the program, Hitachi Construction Machinery and the greatness of their brand name.

"The value is not understood well enough yet. There are many customers who do not have a PC. So, how we let them know the merit of this system is critical; as well as how to improve the overall quality of products. Also, characteristically, those who have a long-range view and pursue the product quality." says Puji.

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As the third hub in Asia, the plants in Indonesia continue to improve their production capacity.

With small ingenuities, the new plant has improved its productivity, reducing its initial cost.

What's pulling the growth of Indonesia is the foreign demand for the natural resources from Asian countries. However, the market for the construction machinery that digs them out is predominantly domestic demand. “The current domestic demand is 76%. There is still so much more potential for further growth.”

The President / Director of Hitachi Construction Machinery Indonesia (HCMI), Tadashi Motoki, foresees the future of the Indonesia’s construction machinery market. To meet the increase in the demand, HCMI is pushing a major reorganization and expansion of the Cibitung plant in the suburban Jakarta and is rushing to complete a new plant at the same time. With these developments, we will increase our annual production of the mid-sized excavators from current 4,000 to about 5,500 in 2013 and, as for the ultra-large boilers, from 213 to as many as 243. “Needless to say, we are targeting even higher numbers,” says Murakami, the Production Director.

The expectations are high for the new plant, scheduled to start its operations in October of this year. 20,000 square meters out of the 100,000 square meter lot is the new plant building. Okawara, the Deputy General Manager, says “in order to ensure the global quality of the excavators, our highest priority is to produce products like the plants in Japan do; we made many small improvements in cost and work efficiency after we first designed the plant.”

“For instance, we adopted a layout where we changed the direction of the movement of the bogie by 90 degrees from what it used to be and eliminated the wasted movement of the bogie. We also increased the work space by 600 square meters compared to the same-size buildings by extending the rail of the ceiling crane and making the tip stick out of the building a little. In addition to that, we reduced the construction cost by approximately 150,000,000 yen by dividing the floor based on the weight of the products and constructed the structure to fit each floor.” We had already acquired the property with future expansion in mind. “This plant is planned to be the world base of boilers for the ultra-large machines. Eventually, the expanded structures will be combined into a single building. To avoid a stoppage in the operation of the plant, we made the structure this way so that all we have to do is to remove the walls”, says Okawara.

As for the plant in Cibitung, a new painting plant was established and the #4 plant and the warehouse have been expanded. The training center has been improved as well. The property size has been expanded from 191,000 square meters to 214,000 square meters.

“With both the expansion and the building, we pursued the productivity level of our Tsuchiura plant. The existing plants have being improved a few percentage points by such things as rearranging the position of jigs and the equipment,” Murakami says.

We have high expectations for the new TC. The number of work booths has been increased from 8 to 24 to handle the increasing welding and painting training.

“We want to improve ourselves, especially in the welding technology, because it has a decisive effect on the quality of the products. Currently, we send 30 essential employees to the Tsuchiura plant every year for a three-year study course. We want to improve our painting skills to become a new strength of the company,” Murakami says.

Although the Indonesian market starts with domestic demand, Motoi gazes beyond that. “We aim to have the best construction machinery plant in Southeast Asia. For that, we will improve the productivity, and the delivery ability and we will develop the type of machine that wins.” These kind of tools will be completed soon.
One’s own “Kenkijin” spirit that unifies skilled and flexible individuality

Indonesia is known as a pro-Japanese country. But unlike Japan, there are approximately 240,000,000 people, with more than 1,000 ethnic groups, over 700 languages, and five official religions, all living on 17,504 islands and make up just one nation. Indonesia could be one country that the Japanese have difficulty understanding.

How far can the spirit and values of manufacturing that the Japanese have developed over the years be shared – This is a question that Hitachi Construction Machinery, which holds up “Made by Hitachi” as a banner and which spreads production worldwide, directly faces.

The answer and the solution to that are here in HCMI. Many Indonesians are originally skillful, and they are considered to be well-suited for manufacturing. The remaining tasks are how to hire and train talented personnel and how to build up the “Hitachi quality.”

However, Yuki Takaoka, General Manager of the Personnel & Administrative Dept, says, “actually, for a company to unite as one in Indonesia, it is important to grasp the backgrounds of each individual.”

“You can roughly determine the characteristics of people based on the island they are born on and the ethnic group they belong to. You may say ‘he does his work quietly because he is from the northern part of that island and belongs to that group’ or ‘she prefers harmony among the group rather than following the principles because she is from that island’, for example. Taking that into account when assigning and training personnel is the key to managing the organization,” Takaoka says.

It is also important to respect the local culture. Indonesia is a country where people value the time they spend with their families. Every year, HCMI invites employees and their families, 3,500 in total, to go on a picnic using more than 50 chartered buses. “It takes more than an hour just for the buses to arrive at the destination. Since it takes so much effort to prepare this, we suggested changing the picnic to another event or having it once every two years instead, but the answer is always ‘No’. People really value families here,” says Takaoka.

Mr. Syukri, the Head of the training center, says, “This company is like a family. My heart is deeply moved every time I read ‘Communicate with others, and while doing so, challenge without fear failure’ the stipulated standards of conduct.” Also, Ms. India, General Affairs, says that she was impressed by the words “Hitachi quality is what we ourselves are”, meaning that we embody the Hitachi brand.

As a result of the penetration of this “Kenkijin spirit”, HCMI is recognized as a company with low turnover and a highly stable labor-management relationship in Indonesia. Hitachi quality is continuing to be improved by the value as a Kenkijin and the enthusiasm of each member.

Hitachi Construction Machinery Indonesia

President Director
Tadashi Motoi

To make HCMI a company where every employee can proudly say that they are employees.

Interviewer: It seemed difficult to procure parts after the earthquake.

Motoi: In those days we had a hard time because we could not procure the parts that we needed, but we made it through with the stock on hand. In the latter half of the year we were able to ship more than was budgeted. The shipping is going very well right now. We have not had any delays since January of last year.

Interviewer: The domestic demand is leading the economy now. Do you think this trend will continue?

Motoi: In Indonesia, the “population bonus” period, when the productive population exceeds the non-productive population (such as children and the elderly), will continue longer than in China and India. Therefore, we should not be looking only at the present domestic demand. We expanded the present plant and built new ones. The renewal of the training center is also a result of foreseeing this “population bonus”.

Interviewer: Together with the increment of production facilities, personnel training will also be a key.

Motoi: This place was originally like a soul of boiler manufacturing. We cannot make it such without skills. One of the reasons we decided to build a plant in Indonesia was that the Indonesians are skilled by nature. From here, 30-40 people go to the Tochigi plant for training on a regular basis. We rotate groups of about 10 people each and replace them approximately every 3 years. This has already been continuing for 10 years. We built the training center to improve their skills further.

Interviewer: Do you think that improving the efficiency in procuring parts will be the key in increasing the productivity?

Motoi: Currently, we are procuring about 25% of the parts inside Indonesia, but we will increase this ratio. We are making contacts with 30-40 companies right now. Over these past three years, we have also asked six supplier companies in Japan to establish a base here. Since we had those companies start bases here, we must make it profitable for them. In order to do so, we need to increase the numbers of production. The idea is that we will boost our competitiveness and have them expand abroad from here.

Interviewer: I heard that your company is also manufacturing products in the areas unrelated to construction machinery.

Motoi: We produce transformers and overhead traveling cranes for domestic sales in Indonesia. In 1997, when the Asian currency crisis occurred, the demand for constructing machinery decreased dramatically. Therefore we opened a new market using our boiler manufacturing technology, and that was the beginning. Since there is a constant demand, this has become a strong point for our company. I would like to connect it to future product development. I believe that there is more we can do in the forestry and agricultural fields. As for the escalators, I would like to improve the 30-class that’s currently insufficient.

My dream is to have the number one plant of construction machinery in Southeast Asia. Needless to say, I want it to have high competitiveness in OCD (Quality, Cost, and Delivery), but I also want the employees to be able to believe that it is the best company in Southeast Asia and proudly tell their children “Your dad is working at HCMI!”