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**Knowledge and HRM Practice Transfer in Emerging  
Economies: The Case of Japanese Joint Ventures in  
Indonesia**

**by**

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## Table of Contents

List of Figures .....	1
List of Tables.....	1
Acknowledgements .....	3
Abstract .....	5
Summary of the Research .....	7
Abbreviations .....	8
Chapter 1: Introduction .....	10
1.1 Motivation for this Research .....	10
1.2 Contributions and Research Questions .....	15
1.3 Structure of the Thesis.....	16
Chapter 2: Theoretical Discussion .....	18
2.1 Introduction .....	18
2.2 Gaps in the Literature: Japanese and Indonesian Institutions .....	19
2.2.1 <i>Institutions and Japanisation</i> .....	22
2.2.2 <i>Overview of Japanese work, employment and organisation institutions</i> ....	23
2.2.3 <i>Overview of Indonesian labour market institutions</i> .....	25
2.3 Implications of Intercultural Communication Processes and Strategies for Cross-Border Transfer.....	30
2.3.1 <i>Importance of cross-cultural communications</i> .....	30
2.3.2 <i>Understanding intercultural communications</i> .....	33
2.3.3 <i>Effect of culture and communication elements on interactions in intercultural communications</i> .....	34
2.3.4 <i>Overview of Japanese intercultural communication: Nemawashi</i> .....	35
2.3.5 <i>Overview of Indonesian intercultural communication: Musyawarah mufakat</i> .....	36
2.4 Conceptualising HRM practices in an EME setting.....	37
2.4.1 <i>Systematic social integration: inter-organisational MNC knowledge transfer networks</i> .....	39
2.4.2 <i>HRM practices to promote employees' abilities</i> .....	39
2.4.3 <i>HRM practices to promote employees' motivation</i> .....	40
2.5 Cross-Border Conflict and Tension at Inter- and Intra-Organisational Levels .	41
2.6 Actors' Power, Capacities and Dimensions .....	42
2.7 MNC HQ Actors' Sources of Power .....	47
2.7.1 <i>Macro level: home country-specific advantages</i> .....	47
2.7.2 <i>Micro level: firm-specific advantages</i> .....	50
2.7.3 <i>Meso level: interactions between country- and firm-level advantages</i> .....	53
2.7.4 <i>Importance of meso-level ideological power in legitimising HRM "best practice" transfer</i> .....	55
2.8 Low-Power Subsidiary Actors' Motivations and Strategies .....	56

2.9 Theoretical Setting: Power Interactions in a Weak Institutional Setting .....	59
2.10 Importance of Legitimacy for Local Actors.....	60
2.11 Local Actors' Engagement in Political Games: Coalition Building .....	61
2.12 Conclusion.....	63
Chapter 3: Methodology and Methods.....	67
3.1 Epistemological and Ontological Stance: Critical Realism .....	67
3.1.1 <i>Underpinning of ontology: Mechanism, process and context</i> .....	71
3.2 Research Methods .....	73
3.3 Research Design .....	78
3.3.1 <i>Data collection</i> .....	80
3.3.2 <i>Premise of the extended case method</i> .....	84
3.3.3 <i>Interviewing élite and non-élite</i> .....	86
3.4 Themes of Research Questions .....	88
3.4.1 <i>Operationalisation: Gaining access to the data</i> .....	88
3.4.2 <i>The "art" of negotiating access</i> .....	89
3.4.3 <i>Researcher's own data collection experiences, intuition and reflexivity</i> ....	90
3.4.4 <i>Process of selecting case studies</i> .....	91
3.4.5 <i>Resources and opportunities to conduct observation and interviews in the workplaces</i> .....	93
3.4.6 <i>Language transcription, analysis and organisation of data using NVivo software</i> .....	95
3.5 Conclusion.....	97
Chapter 4: Country and Institutional Analysis.....	99
4.1 Introduction .....	99
4.2. Overview of Japanese Work Systems and Cross-Border Business Outlook ...	99
4.3 Overview of Japan's Background .....	101
4.4 Overview of Indonesia's Business Environment .....	103
4.5 Overview of Indonesia's Background.....	104
4.6 Applicability of Institutional Theory.....	105
4.7 Constraints on Collective Action by Employers' Associations: The Case of APINDO in Indonesia .....	107
4.8 Japanese and Indonesian Business Associations' Interaction at Sub-National Institutional Level .....	112
4.9 Conclusion.....	115
Chapter 5: Presentation of the Case Study.....	118
5.1. Introduction .....	118
5.2 Business Group: Astra International .....	119
5.2.1 <i>Overview of Astra International</i> .....	119
5.2.2 <i>Brief history of Astra</i> .....	122
5.2.3 <i>The 1997 Asian financial recession, diversity of capital and investment in Astra</i> .....	125
5.3 Cars.....	127

5.3.1	<i>Development of Toyota Manufacturing Indonesia (TMMIN)</i>	127
5.3.2	<i>Effects of investment and automotive regulations on the automotive industry in Indonesia</i>	129
5.3.3	<i>TMC's capital investment and management involvement in Toyota Indonesia</i>	130
5.3.4	<i>Astra-Daihatsu Motor</i>	136
5.4	Motorcycles	137
5.4.1	<i>Astra Honda Motor</i>	137
5.4.2	<i>Yamaha Indonesia Motor Manufacturing</i>	138
5.5	Astra Auto Parts (AOP)	139
5.6	Business Associations: HIDA Japan and APINDO Indonesia	141
5.7	Conclusion	142
Chapter 6: Knowledge Transfer and the Co-Evolution of Japanese Working Practices in Indonesia		
6.1	Introduction	144
6.2	Conceptualising Absorptive Capacity in Emerging Market Economies	145
6.3	Methodology	151
6.4	Findings	154
6.4.1	<i>Inter- and intra-organisational interactions (RQ1)</i>	154
6.4.2	<i>The role of Japan-based training (RQ2)</i>	156
6.4.3	<i>Building relationships between management and unions to promote motivation (RQ3)</i>	162
6.5	Discussion and Conclusion	164
Chapter 7: Tracing Power and Influence in Institutional Diversity – Competing HR Models in Japanese and Indonesian Joint Ventures		
7.1	HRM “Best Practice” in an Emerging Market Economy	169
7.2	MNC and Business Association Actors’ Roles, Power and Resources	171
7.2.1	<i>IHRM</i>	171
7.2.2	<i>Power of meaning (management ideology)</i>	171
7.3	Methodology	175
7.4	Findings	176
7.5	Sources of Power for JMNCs	178
7.5.1	<i>Macro level</i>	178
7.5.2	<i>Meso level</i>	179
7.5.3	<i>Micro level</i>	181
7.6	Sources of Power for Indonesian Subsidiary Actors	181
7.6.1	<i>Macro level</i>	181
7.6.2	<i>Meso level</i>	182
7.6.3	<i>Micro level</i>	183
7.7	Which Model Prevails and Where?	185
7.8	Discussion and Conclusion	187

Chapter 8: How Do Low-Power Actors Gain Influence, Legitimacy and Power in a Global Corporation's Network? .....	191
8.1 Introduction .....	191
8.2 Gaps in Understanding of MNC-Subsidiary Relationships in EMEs .....	194
8.3 Theoretical Setting: Legitimation Process and Power Interactions in an EME .....	195
8.3.1 <i>Low-power actors' objectives in pursuing legitimacy tasks</i> .....	195
8.3.2 <i>Tracing the complexity of local actors' legitimation process</i> .....	196
8.4 The Business Group's Organisational Legitimation Processes: Bottom-Up and Top-Down Approaches .....	197
8.4.1 <i>Strategic objectives: Controlling access to critical resources</i> .....	200
8.4.2 <i>Low-power actors engaging in political games: Coalition building</i> .....	201
8.5 Data and Methodology .....	204
8.5.1 <i>Data collection</i> .....	205
8.5.2 <i>Data analysis</i> .....	207
8.6 Findings .....	207
8.6.1 <i>Business group's strategies to gain influence and legitimacy from business associates</i> .....	211
8.6.2 <i>Business group's strategies to gain influence and legitimacy from subsidiaries</i> .....	212
8.6.3 <i>Business group's strategy to reach out to the union</i> .....	214
8.7 Low-Power Actors' Ends and Means to Gain Influence in the MNC's Global Network.....	216
8.7.1 <i>Business groups' and subsidiaries' motivations (ends) to gain influence</i> 216	
8.7.2 <i>Business groups' and subsidiaries' means (strategies) to gain influence in the MNC's global network</i> .....	219
8.7.3 <i>Business groups' capacity to manage local issues as an assurance for the HQ</i> .....	220
8.7.4 <i>Business groups' tactics to attract competitors to join forces</i> .....	224
8.8 Discussion and Conclusion .....	226
Chapter 9: Lessons from the Empirical Analysis.....	230
9.1 Introduction .....	230
9.2 Theoretical Framing: Chapters 6, 7 and 8 .....	233
9.3 MNC Power in Diffusing HRM Dominant Practice .....	236
9.4 Actors' Power Resources, Interests and Motivations in Shaping Cross-Border Transfer .....	239
9.5 Subsidiary Actors' Motivations and Strategies to Gain Status in the Global MNC Network.....	240
9.6 Conclusion: Contributions of the Thesis to the Literature .....	242
9.7 The generalisability and limitations of the findings.....	244
9.8 Directions for Future Study.....	250
Bibliography.....	254
Appendix A: Interview Guides for the Semi-structured Interviews .....	282

Appendix B: Data Structure .....	294
Appendix C: Astra Group Company Structure .....	295
Appendix D: TMIIN Export Destinations.....	296
Appendix E: TMMIN Domestic and Export Production Volumes.....	297
Appendix F: TMMIN Export Production and Composition .....	298
Appendix G: Toyota Indonesia’s Production Timeline and Export Performance	299
Appendix H: Automobile Production and Sales in ASEAN, 2015.....	300

## List of Figures

Figure 2.1: Hofstede’s cultural paradigm comparisons for Japan and Indonesia .....	32
Figure 2.2: Indonesia Japan GDP comparison Growth.....	49
Figure 5.1: Astra Automotive Group Structure.....	120
Figure 5.2: Car production by brand, 2010-2016.....	128
Figure 5.3: Indonesian car sales 2010-2016.....	130
Figure 5.4: AOP business structure.....	140
Figure 5.5: Top 20 countries for global automotive sales and production, 2014.....	143
Figure 7.1: Managing power and institutional resistance in diffusing HRM-IR “best practice” in an MNC global network .....	189
Figure 8.1: Potential mechanism through which low-power actors gain status and influence in the MNC’s global network.....	209
Figure 9.1: Plot of Chapters 6, 7 and 8 .....	230

## List of Tables

Table 2.1: Power capacities.....	55
Table: 3.1 Outlined of Chapters 6, 7 and 8 research questions and data used .....	76
Table 3.2: Case studies of car, motorcycle and autoparts subsidiaries .....	92
Table 3.3: Summary of first-phase data collection .....	94
Table 3.4: Summary of phases 1 and 2 data collection.....	95
Table 5.1: History and development of Astra International.....	122
Table 5.2: Toyota Indonesia’s capital structure and status .....	127
Table 5.3: TMMIN’s businesses and capital investment .....	132
Table 5.4: Astra-Daihatsu’s business patterns .....	136
Table 5.5: Astra-Honda event highlights .....	137
Table 5.6: Yamaha Indonesia Motor Manufacturing event highlights .....	139
Table 6.1: Summary of literature on knowledge transfer .....	146
Table 6.2: Characteristics of AOP subsidiaries .....	152
Table 6.3: JMNC subsidiary characteristics, training practices and implications for absorptive capacity.....	167
Table 7.1: Toyota, Honda and AOP subsidiary case studies .....	176
Table 7.2: Japanese and Indonesian HRM-IR ideal types .....	185
Table 8.1: Case studies of car, motorcycle and autoparts subsidiaries .....	206
Table 9.1: Theoretical framing.....	234
Table 9.7.1: Summary of institutional similarities and differences .....	245



*To my mother who, at the age of 72, recently gained citizenship status from Indonesia, the country of her birth. It was there that she married a local man and gave birth to and raised nine children.*

*Mother, I have felt your struggle: your long years of invisibility in the eyes of a government and a society that failed to treat you equally under the law simply because of your gender, ethnicity, appearance, status and religious beliefs. You were denied higher education, medical treatment and support, yet you have persevered and reached your goal of citizenship. You have shown me how to be brave, how to believe in myself and fight for my rights and those of others.*

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## Abstract

This thesis investigates the mechanisms used to transfer the management practices of multinational corporations (MNCs) to an emerging market economy (EME) context. Examining an MNC's ownership and control of its subsidiaries in a setting of institutional resistance, this research focuses on the objectives and processes of the MNC's diffusion of human resource management and industrial relations (HRM-IR) "best practice" to standardise subsidiaries' practices, control their management and influence policy developments.

The case involves a dominant MNC headquarters (HQ) and low-power subsidiary actors, with implications for cross-border management practice transfer, coordinated actors and conflicts of interest. This study seeks to enhance our understanding of the HQ's systematic circumvention and manipulation of host-country regulatory barriers, particularly those barriers designed to protect local systems, policies and practices from foreign management's direct control of human resources in Indonesian subsidiaries. HQ actors find ways of influencing, standardising and changing subsidiaries' HRM norms, policies and practices.

This thesis explores the power resources, motivations and strategies of MNC actors at inter- and intra-organisational levels in 12 Indonesian automotive manufacturing firms that have Japanese (co-)ownership or are part of the Japanese producer's supply chain. Three levels of institutional analysis offer a deeper understanding of the mechanisms of cross-border transfer relating to power, politics and conflicts in MNCs: (1) HQ actors' strategies to control foreign subsidiaries' management practices, (2) subsidiary actors' strategies to maximise the benefits of cooperation with MNC's global networks, and (3) the business group's proactive influence of labour market institutions. The findings are relevant to an understanding of the emergence of high-quality production networks in EMEs characterised by "weak" and immature institutions, as well as to the transferability of dominant work, employment and organisation systems.

**Keywords:** Power, politics, conflicts, cross-border transfer, absorptive capacity, business group, employee and employer organisations, business associations, quasi-government agencies international human resources management, industrial relations, international business, emerging market economy, automotive industry.

## Summary of the Research

This thesis explores the mechanisms and outcomes of transferring dominant HRM “best practices” to foreign subsidiaries. In this context, HQ actors attempt to increase control and ownership while diffusing management practices to subsidiaries. At the same time, subsidiary actors seek knowledge, capital and voice to gain legitimate influence in MNC global networks. Moreover, local business groups try to maintain control and mobilise resources through internal networks to influence micropolitical processes and protect local systems.

Through an actor-centred understanding of the impact of dominant HRM-IR practices, this research investigates the implications of three dimensions of corporate actors’ power influencing HRM cross-national transfer processes and outcomes at macro-, meso- and micro-institutional levels. Furthermore, it reveals significant nuances in the HQ’s direct and indirect diffusion of Japanese work, employment and organisation systems, and the impact of the strategy and outcomes of Japanese production and management systems (Japanisation) on subsidiaries, associations and the wider economy of the host country. The existing literature on MNCs tends to overlook the role of quasi-governmental agencies and business associations in mediating the power of resources, processes and meaning (ideology) in cross-border HRM transfer. Agencies in global MNC networks serve the interests of wider MNC actors that co-evolve in diffusing dominant HRM-IR practices, further determining the mechanisms, processes and impact of transfer. Agencies’ direct involvement in contested cross-border transfer is important, as their strategies may circumvent conflict and power inequities between HQ and subsidiary actors in a context of host-country institutional resistance. Moreover, Japanese quasi-government agencies have fewer legal constraints than Japanese MNCs, allowing them to operate more autonomously. The MNC’s ownership structure and length of presence affect the extent of influence and organisational configurations.

Japanese work, employment and organisational practices promote local actors’ participation and commitment by upholding transparency and trust in work systems. Thus, these practices influence subsidiary actors’ interest in acquiring and adopting them. However, the application of dominant HRM “best practice” may conflict with subsidiaries’ existing management practices, norms and cognitive understanding. Adding to the complexity of cross-border transfer, business groups closely linked to national institutions proactively affect the transfer process to protect local business systems. This study provides theoretical support for and new evidence of the phenomenon of HQ–subsidiary power interactions and their implications for transfer in three automotive sectors—cars, motorcycles and autoparts—in an EME context.

This thesis makes three contributions to international HRM, industrial relations (IR) and international business (IB). First, it examines diverse MNC actors’ power, interests and strategies, and the roles of agencies directly involved in the diffusion and (re)definition of HRM-IR “best practices” transfer at meso-institutional levels. Second, it synthesises the mechanisms and implications of globally accepted Japanese work practices in the under-studied EME host-country context of Indonesia. Third, it focuses on low-power subsidiary actors, and quasi-governmental agencies/business associations in cross-border transfer processes. Theoretically, this research confirms the viability of Minbaeva et al.’s (2003), Ferner et al.’s (2012) and Bouquet and Birkinshaw’s (2008) theoretical frameworks and applies them to an EME setting.

## Abbreviations

AAG	Astra Automotive Group
ADM	Astra Daihatsu Motor
APINDO	Indonesian Employers' Association
ASEAN	Association of Southeast Asian Nations
Astra	Astra Automotive Group
AOP	Astra Auto Parts
ATC	Apindo Training Centre
BG	Business group
BKPM	Indonesian Investment Coordinating Board
BRICS	Brazil, Russia, India, China and South Africa
DMC	Daihatsu Motor Corporation
EME	Emerging market economy
FDI	Foreign direct investment
GAIKINDO	Association of Automotive Industries of Indonesia
HCD	Human capital development
HIDA	Human Resources and Industry Development Association
HMC	Honda Motor Corporation
HRM	Human resource management
IB	International business
IDE	Institute of Developing Economies
IDR	Indonesian rupiah
IJV	International joint venture
IKP	Indokarlo Plastik
ILO	International Labour Organization
IR	Industrial relations
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JIT	Just-in-time
JMNC	Japanese multinational corporation
JMNESG	Japanese Multinational Enterprise Study Group
KADIN	Indonesian Chamber of Commerce and Industry
KICC	Karawang International Industrial City
KSBI	Confederation of Indonesian Prosperity Labour Union
KSPMI	Confederation of Indonesian Metal Workers
KSPSI	All Indonesian Workers Union Confederation
KSPI	Indonesian Trade Union Confederation
LOF	Liability of foreignness
MNC	Multinational corporation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OICA	International Organization of Motor Vehicle Manufacturers
PUSPI	Employers' Council on Socio-Economic Affairs
RENGO	Japanese Trade Union Confederation
SSDC	Systems, society, dominance, corporate
TAM	Toyota Astra Motor
TMC	Toyota Motor Corporation Japan
TMMIN	Toyota Motor Manufacturing Indonesia
TPS	Toyota Production System

TQM	Total quality management
YIMM	Yamaha Indonesia Motor Manufacturing
YMC	Yamaha Motor Corporation
YPMI	Yamaha Motor Parts Manufacturing Indonesia



# Chapter 1: Introduction

## 1.1 Motivation for this Research

This thesis presents research on the work, employment and organisational practices adopted by Japanese-Indonesian joint ventures in Indonesia, and the extent to which they influence behaviour in other connected firms. Against a backdrop of fundamental institutional changes in Japan and institutional fluidity in Indonesia since the 1997 Asian financial crisis, the aim of this thesis is to contribute to a multi-layered understanding of the work and employment policies and practices of JMNCs operating in Indonesia.

Whilst Japan's economy has stagnated over the past two decades, Indonesia's economy has been flourishing. In fact, Japan has been downgraded to the world's third largest economy after the US and China, whereas Indonesia is recognised as a newly emerging market economy. In this thesis, to differentiate between emerging and developing economies, Cavusgil et al.'s (2005: 5) definition of emerging market economies (EMEs) is adopted:

*Emerging markets are countries which are in a transition phase from developing to developed markets due to rapid growth and industrialization. Hence, markets which have (a) started an economic reform process aimed at alleviating problems, for example poverty, poor infrastructure and over-population, (b) achieved a steady growth in gross national product (GNP) per capita, and (c) increased integration in the global economy, may truly be called EMs.*

Important institutional changes, greater power distance and dynamic political and economic relations between Japan and Indonesia raise questions about whether Japan remains a dominant player. Is Japan ascendant—or on the decline? Correspondingly, since Indonesia is emerging economically, is it still a peripheral nation? In particular, as it is recognised as Southeast Asia's largest economy, what new power resources can be leveraged by actors from this emerging economy that needs to attract foreign investment and catch up technologically?

To address these questions, empirical research is presented to help deepen understanding of the impact of institutional changes in home and host countries on the cross-border transfer of management practices from the perspectives of power, politics and conflicts of interest. This study investigates causal mechanisms in the transfer of HRM practices from Japan to Indonesia in the context of Japanese-

Indonesian joint ventures in three automotive manufacturing sectors: cars (Toyota and Daihatsu), motorcycles (Honda and Yamaha) and autoparts (Astra Auto Parts). Not only do these Indonesian subsidiaries differ in the level of Japanese capital investment and length of influence, but also in the types of products they manufacture. They demonstrate the extent to which stronger actors within firms compete and control low-power actors and investment in human capital. At the same time, they illustrate how local organisation systems promote employees' participation and commitment. Four types of Japanese work systems are investigated: direct management-union communications; training and skills formation systems; employees' participation and involvement in knowledge transfer, and general management-union relations. In applying existing theories of international HRM (IHRM) and cross-border knowledge transfer to the context of EMEs, this thesis investigates the conditions under which MNCs diffuse dominant HRM "best practices" to foreign subsidiaries. Accordingly, it explores how the employment and work management practices of MNCs originating from capitalist institutions operate in non-coordinated market economies, specifically between an industrial capitalist country (Japan) and a newly-emerging market economy (Indonesia).

Indonesia has been described as a "crony capitalist" state (e.g. Khatri et al., 2006; Robison & Hadiz, 2004). Dieleman and Sachs (2008: 1275) explain Indonesian crony capitalism as a "highly symbiotic relationship between its institutions and a small group of companies". The differing capitalist models of home and host countries are relevant to this research because, as Lange and Becker-Ritterspach (2016: 283) suggest, a key approach to studying EME institutions is to understand "the nature of socio-political actors and the diverse modes of government-business relations". Thus, it is worthwhile to investigate *why* and *how* actors' power and micropolitics operate in contested cross-border management transfer processes. From the viewpoint of institutional discourse, it is important to address the research issues in both home and host institutional contexts in order to distinguish systematic differences between Asian business systems in terms of varying levels of state direction and business coordination of economic activities (e.g. Zhang & Whitley, 2013; Whitley 1999).

The frameworks of Minbaeva et al. (2003) on IHRM, Ferner et al. (2012) on actors' power and interests in three institutional settings, and Bouquet and

Birkinshaw (2008) on low-power actors' motivations (*ends*) and strategies (*means*) facilitate conceptualisation, examination and exemplification of the HRM "best practice" phenomenon across market conditions in different institutional contexts. Additionally, this study empirically analyses the implications of the diffusion mechanisms of dominant work, employment and organisation "best practices" for local labour market institutions.

Human capital is a particularly significant aspect in comprehending interrelationships between features of a country's institutional and firm characteristics, and in identifying the impact of MNC actors' power capabilities, strategies and coordination. However, as Whitley (2005: 117-192) observes, "business management systems may change over time, and may be applied differently in different economic and geographical contexts". For example, key features of Japanese HRM "best practice" in different types of automotive firms (i.e. cars, motorcycles and autoparts) appear to vary in the level of the JMNC's ownership, length of presence and management-influenced operations in Indonesia. Whereas much of the existing MNC literature focuses on Toyota and other car manufacturers (see Khan et al., 2015; Aoki et al., 2014), this research presents a more dynamic and comprehensive picture of Japanese automotive HRM-IR "best practices" and its outcomes in the developing automotive industry of Indonesia. It tests and develops work, employment and organisational concepts in the EME context, illustrating specific sets of MNC actors and their interests and resources. In so doing, this study contributes to HRM, IR and IB scholarship, and its setting aligns with recent IHRM literature. Martínez Lucio (2014b: 295) postulates that:

*...environments are changing and evolving in nuanced ways: over time more coordinated actors and players are appearing in the international employment relations arenas that are beginning to learn to work more consistently, building alliances with each other, with the aims of conditioning and shaping global capitalism.*

Following Martínez Lucio's (2014a) discourse, it is appropriate to explore the poorly understood topic of contested HRM and practices of "capitalist employment relations under Japanese HRM" (Aoki et al., 2014: 2557) in the "crony capitalist" context of Indonesia (Dieleman & Sachs, 2008; Khatri et al., 2006). Furthermore, this new IHRM research direction is being taken up by other institutional scholars, (e.g. Carney et al., 2018; Fainshmidt et al., 2016; Becker-Ritterspach et al., 2016;

Kingston, 2013; Thelen, 2010; McGee, 2009). As Martínez Lucio (2014b: 294-259) points out:

*The current economic crisis in various parts of the globe may weaken regulators as they deal with...capitalist interests, but the question of what MNCs do and what they do it to is now an issue of debate and concern... MNCs are now increasingly contested spaces.*

In a similar vein, Kostova and Zaheer (1999) note that the 1997 Asian financial crisis reshaped the business institutions of Japan and Indonesia, resulting in bubble economy and the collapse of Soeharto's 33-year dictatorship and, importantly, the weakening of Indonesian institutions.

In order to advance scholarship on MNCs and to validate previous theoretical contributions, this study extends existing IHRM, IR and IB studies to the specific context of an EME. For example, Witt and Redding (2013) argue that the mainstream MNC literature "lacks a comprehensive and detailed overview of the institutional features of Asian economies". Aiming to close this gap, this study applies Asian business systems theory to emerging Southeast Asian forms of cross-border management practices and management control. Rosser (2014) and others (e.g. Witt & Redding, 2014) have conducted extensive investigations across Northeast and Southeast Asia to analyse and identify patterns and characteristics of Asian capitalism, extending and elaborating Whitley's (1992) Asian business framework to cover thirteen countries, including Indonesia and Japan. This thesis applies the concepts related to actors as well as institutional and organisational power to analyse the characteristics, strategies, capabilities and coordination of JMNCs that may be reflected in their cross-border management practices. It also examines spillovers and linkages shaping host-country labour market institutions. In so doing, this explorative study contributes to literature on MNCs by providing a deeper understanding of the adaptation of firm-specific core competencies and business systems to Asian capitalist systems.

As has been suggested, further research is necessary to provide refined, in-depth analyses of the complexity of EMEs and the diversity of Asian business systems (e.g. Lange & Becker-Ritterspach, 2016; Wailes et al., 2016; Wright et al., 2016), and particularly under-studied EMEs such as Indonesia (e.g. Carney et al., 2018; Dieleman & Widjaja, 2018; Fainshmidt et al., 2016; Meyer & Peng, 2016). Scholars also underscore the importance of examining the institutional characteristics of Asian

capitalism from a business systems viewpoint (e.g. Rosser, 2014; Whitley, 2014; Witt & Redding, 2014; Zhang & Whitley, 2013). This study endeavours to close this knowledge gap.

The selected frameworks for institutions and IHRM (i.e. Minbaeva et al., 2003; Ferner et al., 2012; Bouquet and Birkinshaw, 2008) are relevant because their concepts offer analytical frameworks for understanding Asia's advanced and newly-emerging forms of market economy capitalism, characteristics and structures of institutional features, HRM-IR "best practices", and the knowledge transfer strategies of JMNCs in Indonesia. Specifically, the IB setting in relation to production and automotive supply chains in the region may have an impact on both local firms and the host country, for example, in the context of human capital development and the ability of emerging economies to overcome challenges while maintaining competitiveness. In order to disseminate knowledge, capital and technology across the economy, Indonesia's automotive manufacturing industry requires access to foreign capital and technology, local knowledge and skills-intensive manpower. Consequently, Indonesian firms have had to re-formulate their institutional business systems, whether market-based, coordinated or cooperative. As Rosser (2014: 89) notes, unlike Japanese *keiretsu*, inter-firm relations in Indonesia are "predominantly short-term and non-cooperative in nature". These differences in institutional arrangements constitute distinct Asian business management systems that can be analysed through the lens of IHRM practices and actors' power resources and capabilities.

Some scholars (e.g. Cooke & Kim, 2017; MacKenzie & Martínez Lucio, 2014a; Rosser, 2014; Witt, 2014; Juliawan, 2011) observe that the intensification of "globalisation" and the 1997 Asian and 2007 global economic recessions appear to have had a significant effect on both Japan and Indonesia. This raises questions about whether distinctive Japanese work, employment and organisation systems are sustainable, to what extent Japanese capitalist approaches remain efficient, and whether employment relations under Japanese HRM "best practice" remain relevant. Furthermore, the host country's political and economic coordination may also change, progress and stabilise. These conditions may intensify pressure for systematic changes in the nature of Japanese and Asian capitalism in relation to "how distinctive business management systems become institutionalised in particular market economies" (Carney et al., 2009).

## 1.2 Contributions and Research Questions

This thesis applies the concepts of IHRM, IR and IB to an emerging and under-studied context. Its theoretical contributions lie in its analysis of links between the micropolitics of HQ and subsidiary actors. Also significant is its examination of the complexity of MNCs' cross-border work organisation policies, practices and processes at micro and meso levels. Moreover, this study focuses on actors' power resources and their implications for the transfer of dominant HRM-IR "best practices" in three areas: (1) the active role of HQ actors in transferring foreign knowledge and diffusing management practices; (2) the sources of power of industrialising countries and subsidiary actors, which increasingly use power to constrain the transfer and gain legitimate status from MNC global networks, and (3) the allocation of power and the structure of meso-level influence determining how transfer is shaped by MNC actors and business systems. As Almond (2011b: 531) points out, IHRM scholarship has failed to explain adequately the relationships between MNCs and the geographies in which they operate at sub-national (meso) levels. The analysis of this thesis underlines the power resources and progressively important role of "sub-national governance actors and institutions" in shaping the complexity of cross-border transfer (Almond, 2011b: 533). As Strang and Meyer (1993, cited in Almond, 2011b: 534) argue, firms and other actors have increasingly become a part of the host effects shaped at sub-national as well as national levels.

Among the main empirical contributions of this thesis is the revelation of new strategies by both HQ and subsidiary actor and an examination of the implications of power resources and capacities in shaping, converting and bypassing institutions and constraining managerial practices, particularly at micro and meso levels. While each of these research areas poses different challenges, these under-explored areas may stimulate critical discussions. To meet these objectives, the main research question of this thesis is:

*How does the transfer of Japanese work systems through FDI apply in the context of late-industrialising countries?*

To dissect and operationalise the above question, this study investigates how cross-border transfer works in an EME setting and under what conditions such transfer is accepted or refused.

Each of the three empirical chapters of this thesis (Chapters 6, 7 and 8) seeks to refine the research question. Chapter 6 focuses on how certain HRM practices increase absorptive capacity in a situation of institutional distance. Chapter 7 unpacks how a Japanese MNC (JMNC) exercises its power by bypassing local institutional and managerial constraints, and exerting (in)direct influence in order to understand how foreign MNC actors wield their power to influence transfer processes. Chapter 8 explores how local actors successfully leverage institutions to defend local practices and choose selectively from the dominant MNC actor's practices. The focus of the above questions is on how actors' power resources and capacities balance in shaping contested cross-border management transfer processes and outcomes.

### **1.3 Structure of the Thesis**

In the remainder of this thesis, Chapter 2 explains the theoretical background of the study. It outlines the theoretical frameworks of Minbaeva et al. (2003) on IHRM and knowledge transfer, Ferner et al. (2012) on actors' power and interests, and Bouquet and Birkinshaw (2008) on low-power actors, and their applicability to this study. The epistemology and ontology of critical realism—along with the research design and techniques—are discussed in Chapter 3. This chapter is followed by discussions of the home- and host-country institutions in Chapter 4. The analysis presented in Chapter 5 focuses on the selected cases.

The empirical findings are presented in Chapters 6, 7 and 8. Each of these three chapters also points out contributions to the specific literature. Chapter 6 deals with how the intended IHRM practices facilitate knowledge transfer. It examines the processes and implications of cross-border transfer at inter- and intra-organisational levels. To further understand the conditions of the transfer process, Chapter 7 investigates the interaction of actors' power and capacity by offering an analysis of MNC actors' and agencies' strategy to diffuse dominant HRM-IR practices. Home- and host-country effects are incorporated into the analysis, coupled with organisational effects to investigate actors' power, interests and capacities and to dissect the causal power affecting transfer mechanisms at macro, meso and micro institutional levels. As indicated in subsequent chapters, subsidiary actors may find ways to impede the diffusion of dominant work practices. Hence, Chapter 8 concentrates on low-power actors' motivations and strategies to gain legitimate

influence in global MNC networks. In particular, the analysis indicates how low-power actors mobilise power resources to respond to dominant MNC practices.

The thesis concludes with discussions of the findings, the novelty of the study, and its empirical contributions to the study of work, employment and organisation in the under-explored EME context. It presents the results of comparative multi-site analysis to explain the causal mechanisms of cross-border management transfer from the perspectives of power, politics and conflict. The final chapter discusses the limitations of the study, makes recommendations for future research and highlights the relevance of the findings to policy development and managerial practice.



## Chapter 2: Theoretical Discussion

### 2.1 Introduction

This thesis examines the transfer of Japanese work, employment and organisational practices by a JMNC to its subsidiaries in Indonesia and to local firms within the same supply chains. It explores how actors respond to the dominant position of the Japanese firm, its management practices, control and power. Moreover, it focuses on power relationships between the MNC's headquarters (HQ) and the subsidiaries in (de)legitimising the JMNC's dominant HRM-IR "best practices" in an Asian emerging market context. According to Martínez Lucio (2014a: 4) and Delbridge et al. (2011):

*The object of IHRM is—in reality— the management of work and employment: this means that the dynamics that constitute these in terms of representation, worker development, the working environment and regulation need to move into the center to provide a wider academic [debate].*

According to Mackenzie and Martínez Lucio (2014a: 251), "there are competing views on how firms should conduct their HR strategies, and in the case of MNCs this has now become a question at the center of a range of policy and social debates". Specifically, the central empirical investigation presented in this thesis aligns with that of Morgan and Kristensen (2006: 1469, cited in Geppert & Williams, 2016: 141) regarding "how far key actors within the subsidiaries are able to participate in negotiations with key actors within the headquarters when it comes to cross-national transfers of 'processes, people and resources'".

This empirical research applies Minbaeva et al.'s (2003) concepts of IHRM, Ferner et al.'s (2012) institutional theory of power resources and Bouquet and Birkinshaw's (2008) motivations (*ends*) and strategies (*means*) of low-power (subsidiary) actors in framing the cross-border transfer of work, employment and organisational practices initiated by a Japanese HQ in an effort to standardise its subsidiaries' management practices. In so doing, this study investigates how various actors' voices may influence responses to the diffusion of dominant work, employment and organisation systems. Martínez Lucio (2014b: 295) identifies that changing institutions and evolving IHRM nuances have increased MNCs' coordination and control of actors and players in the IHRM and IR arena that condition and shape global capitalism. In a similar vein, it is argued that labour

market institutional changes in home and host countries, along with differing international joint venture (IJV) conditions, explain the institutional specificities of MNC configurations, allocations and types of power resources that influence cross-border management transfer. Variations in the MNC's foreign stake, degree of involvement and length of presence shape the transfer mechanisms and affect subsidiaries' HRM-IR practices and policy development.

Recent IHRM literature (e.g. Minbaeva & Santangelo, 2018; Wood et al., 2016; Kane & Levina, 2017; Minbaeva et al., 2014) stresses that the HR practices of employee participation and engagement in knowledge processes are crucial in facilitating cross-border management transfer. However, as Ferner et al. (2012: 164) assert, there is little sense of what is "at stake" for actors in confronting the cognitive, normative and regulative frameworks that must be negotiated when cross-border practices are transferred, adopted and executed. Low-power actors are increasingly seeking to make their voices heard, gain influence and find ways of negotiating with dominant HQ actors (Bouquet & Birkinshaw, 2008). These debates frame this theoretical discussion chapter and demonstrate the applicability to this research of the three main theoretical frameworks of Minbaeva et al. (2003), Ferner et al. (2012) and Bouquet and Birkinshaw (2008).

In exploring interactions between MNC actors' power and interests at three different institutional levels, this chapter reviews three key areas of literature. It reviews discussions of institutions in general, and of Japanese and Indonesian institutions in particular. It also discusses the impact of country- and firm-level competitive advantages on the degree to which MNCs disseminate management practices across borders, and considers institutional factors addressed by various actors (management, employees and unions, government agencies, business associations and business groups). Then cross-cultural communication is mentioned in terms of various communication features, the three selected theoretical frameworks, as well as other relevant strands of institutional theory. The chapter concludes with a discussion of the position and validity of the frameworks and the study's theoretical contributions.

## **2.2 Gaps in the Literature: Japanese and Indonesian Institutions**

Meyer and Peng (2016) observe that research examining cross-border management transfers in EME contexts remains limited. Most studies focus on cross-cultural

differences and how they affect management practices (e.g. Hofstede, 1984 et al.). However, as Lange and Becker-Ritterspach (2016) point out, there is as yet little systematic knowledge of the impact of cultural differences in work-related values on different types of conflict in EME settings. Debates continue over institutional duality, relating to the dominant effect of country of origin (Edwards et al., 2007) or national business systems (Whitley, 1999). The study presented here follows Almond et al.'s (2005) argument that the effects of institutional duality on MNCs' cross-border practices such as work, employment and organisation must be analysed within a framework that takes greater account of multiple levels of strategies for embeddedness and processes of transfer at different organisational levels. It focuses on the capacity, strategy and interaction of actors' power in comparing two Asian business systems: the advanced Northeast Asian system of Japan and the emerging Southeast Asian system of Indonesia (Witt & Redding, 2013). Hall and Soskice's (2001) varieties of capitalism (VOC) concept provides a useful reference on the distinction between liberal and coordinated market economies, especially pertaining to Japan. Nevertheless, the VOC dichotomy is less applicable to this study because Asian business systems are distinct from Western capitalist models (Witt & Redding, 2013), and characteristics of Japan's coordinated market economy are different even from those of Germany. Therefore, this study draws on authors from the school of Asian institutional studies, namely Aoki (1988) on Japanese economy, Redding (1990) on capitalism in Southeast Asia, and Whitley (1992) on East Asian business systems, to examine institutional features and explore various phenomena. It investigates differences in education and skills formation, industrial and employment relations, inter-firm relations (business groups), internal structures (participatory versus top-down), and ownership and corporate governance (family entrepreneurship) between Japan and Indonesia that have significant implications for home- and host-country business systems theories.

Since Womack et al.'s (1990) seminal study, institutional and organisational researchers have focused on comparing Japanese work, employment and organisations with Western, advanced institutions, for example, in the US, UK and Germany, and with mainstream EME contexts such as China, India and Korea (e.g. Ferner et al., 2011; Bélanger et al., 1999; Kostova et al., 2008; Delbridge, 1995). However, Indonesia has been relatively ignored in 20 years of comparative research on the "global" production strategies of more than 400 Japanese automobile and

electronic manufacturers, specifically, the longitudinal research carried out by the Japanese Multinational Enterprise Study Group (JMNESG) and led by Professor Tetsuo Abo (2007). In IR scholarship, most organisation studies provide shallow conceptualisations of differences in the HRM-IR operations of JMNCs beyond Western and advanced countries, and in applications of Japanese management and production systems (also known as “Japanisation”, a term coined by Turnbull, 1986) that denotes the philosophies of the Toyota production system (TPS), Total Quality Management (TQM) and Just-in-Time (JIT) in non-US joint-venture contexts.

As Hyman (2001) argues, the concept of “institutions” frames not only the condition of actions but also the “object of contest”. One example of an object of contest in the institutional debate is collective action by work councils and unions, which may increase resistance to management transfers (e.g. Almond et al., 2005; Ferner et al., 2005). However, actors’ relationships may be quite different in an EME setting. Employee representatives (labour unions), government agencies, employers’ associations and business groups (BGs) may promote, participate and be involved in transfer processes because of the conditions of local labour market institutions and the HRM infrastructure. Local actors are interested in technology transfer to upscale their capital, knowledge and skills in order to remain competitive. In the IR context, gaining high skills may enhance actors’ bargaining power, especially if the structure of local labour institutions is perceived as “weak”. In the case of Indonesia, Ford (2014) and Kostova and Zaheer (1999) observe that Indonesia’s weak institutions may have resulted from the fall of the 33-year Soeharto dictatorship and the impact of the 1997 Asian economic turmoil on its economy. Thus, in addition to the global financial turmoil, Kostova and Zaheer (1999: 74) refer to an Indonesian sociopolitical and economy “cataclysm” that has contributed not only to changes to local institutions, business systems and firms’ practices, but also to how the world continues to perceive Indonesian institutions, subsidiaries and actors as “weak”. Until now, there has been no comprehensive understanding of how prominent global work organisations and employment relations practices can be implemented, nor how “weak” institutions react to such diffusion.

Despite the growing body of research on differences in Asian cross-border transfer mechanisms and IHRM strategies, insufficient attention has been paid to HRM-IR practices in Indonesia, specifically. Since the 1990s, Indonesia has been the largest Japanese FDI recipient. It is also the largest Japanese automotive

manufacturer and market in the Association of Southeast Asian Nations (ASEAN) region. These statistics are indicative of the level of knowledge inflows, as foreign capital customarily brings foreign knowledge and technology to the host country. Moreover, Indonesia is classified as one of the 13 most rapidly-growing developing countries and transition economies globally (e.g. Fainshmidt et al., 2016; Abo, 2015; Wright et al., 2005; Hoskisson et al., 2000). To fill a gap in the knowledge transfer literature in the EME context, this research investigates how JMNCs diffuse knowledge from their knowledge networks and how Indonesian subsidiaries assimilate and exploit new knowledge. Conceptually, the emphasis is on mechanisms that improve subsidiary employees' abilities and motivation to adopt new knowledge, and on subsidiaries' HR management practices that facilitate knowledge inflows from the JMNC, compared with the inter- and intra-organisational tools that have been studied in advanced institutional contexts (e.g. Parmigiani & Rivera-Santos, 2011; Van Wijk et al., 2008; Lenox & King, 2004).

### *2.2.1 Institutions and Japanisation*

Building on institutional concepts (Ferner et al., 2012; Kostova et al., 2008; Morgan & Kristensen, 2006), this research examines forms of actors' power resources and interests that emerge when MNCs operate in a context of institutional duality. It incorporates the intra-organisational environment as a component of institutional duality, since in addition to the external environment, subsidiaries are exposed to the intra-organisational institutional field, thus conforming to the description of "institutional duality" (Kostova & Zaheer, 1999). The logic of JMNC-wide value transfer seeks to standardise Indonesian subsidiaries' HRM-IR practices, which may have unintended consequences in creating greater variation, depending on whether they are implemented fully, partially or not at all.

As Nell et al. (2015) suggest, diffusing management practices rooted in an advanced economy institution to a less-developed economy is complex, and such diffusion is likely to conflict with local institutions, norms and practices. Furthermore, high institutional distance may create a degree of tension and a complex legitimation process for HQs seeking to convey their interests and diffuse their HRM "best practices" to their subsidiaries (Dörrenbächer & Gammelgaard, 2011). HQs may insist on strategy and practices that contradict subsidiaries' interests and practices, leading to HQ-subsidiary conflicts (Blazejewski et al., 2011).

Dörrenbächer and Gammelgaard (2011) depict the conditions under which subsidiaries may draw on a broad range of strategies, from “boy scout” to “subversive” behaviours.

Following Smith and Meiksins (1995), the current study recognises that MNCs are embedded in continuously evolving systems structured at three institutional levels: macro, meso and micro. Furthermore, each level has distinct institutional processes and varies in the extent to which MNCs’ levels of ownership, strategy and behaviour are framed (Birkinshaw et al., 1998). In this context, Kostova et al. (2008: 1001) contend that “MNCs’ relationships with their institutional environments are dynamic, discretionary, symbolic and pro-active”. Taking home-country institutional characteristics and MNCs’ institutional relationships together, Oliver (1991, cited in Kostova et al., 2008: 1001) postulates that MNCs may experience “varying degrees of compliance to institutional pressures”. Thus, this study argues that MNC actors’ incorporation of power and interests institutionally legitimises their participation in managing, negotiating and constructing the essence of cross-border transfer. Subsidiary actors may experience conflict in situations of institutional duality when they feel pressure from the HQ to adopt a particular set of practices, while having to comply with local institutions (Kostova et al., 2008).

### *2.2.2 Overview of Japanese work, employment and organisation institutions*

Historically, Japan has been involved in market-seeking investment. JMNCs have been open to making foreign investments and have explored the US, Canada and Mexico to serve North American markets—and Germany, the UK and Poland to serve European markets. By the 1990s, Southeast Asia had become the epicentre of Japanese FDI, while Japan was at the forefront of FDI throughout ASEAN, engaged in trading with its former colonies mainly in heavy machinery and household appliances. The growth of JMNCs operating in EMEs has led to growing discussion of JMNCs’ mechanisms of work, employment and organisational capabilities, and “interaction with host-country specificities” in different settings and conditions (Hotho & Pedersen, 2012: 251). Nonaka and Takeuchi (1995) and Lam (1997) also argue that in comparison to US MNCs, JMNCs’ work organisation systems are more tacit and less codified. Such features suggest that JMNCs have less organisational capacity to disseminate knowledge and coordinate cross-border transfer. Through either gradual, layering or transformational processes, Japanese institutions and HR

practices have changed fundamentally (e.g. Endo et al., 2015; Aoki, 2001; Thelen & Mahoney, 2009; Dore, 1990). As Sako and Kotosaka (2012) contend, the changes have taken place in a piecemeal fashion, layering the old system with new and gradual convergence. This not only makes changes difficult to identify, but also means that any adverse impact may have been neutralised in the new system. Institutional transformations in Japan illustrate a model of incremental change, layering the approaches of older institutions by facilitating new strategies while leaving old strategies intact (Streeck and Thelen, 2005). For example, the norm of “lifetime employment” has remained as it was, while dualism has been reinforced in the Japanese labour market, as core employment is layered with new forms of contingent employment (Jackson & Miyajima, 2007). These layering and piecemeal strategies may be a distinctively Japanese method of exercising power.

Turnbull’s (1986) concept of Japanese production and IR has been developed by various scholars to deepen understanding of the dimensions of lean production, and to frame this concept within the paradigm of management control and maintenance of workplace peace that is characteristic of Japanisation (e.g. Bratton & Gold, 2017; Stewart et al., 2009; Elger & Smith, 1994). However, in the context of institutional power held by MNC actors, it has proved difficult to theorise the diffusion of Japanisation (e.g. Abo, 2007; Aoki & Dore, 1994; Womack et al., 1990). Moreover, as Aoki et al., (2014) emphasise, existing Japanese management studies lack a clear theoretical framework to explain conditions or capture how institutional strength, power interactions and characteristics of Japanese HRM models have determined the dominant HRM “best practice” phenomenon over the last 30 years. Endo et al. (2015) even question whether Japanese HRM “best practice” still matters. Aoki et al. (2014: 2551) postulate that “Japanese HRM practice has waned” as a consequence of dramatic changes in the ownership structures of JMNCs arising from the 1997 Asian economic and 2007 global financial crises. The weakening of *keiretsu* (business affiliation) structures, in particular, has had an impact on specific HRM-IR “best practices”. Consequently, management-employee relationships have been redefined in JMNC organisations operating both at home and abroad (Delbridge et al., 2011). More specific to this study, Martínez Lucio (2014b) observes that new investors in the region (notably China and India) and the weakening of *keiretsu* may have resulted in increased JMNC control of subsidiaries. As Stewart (2014a) notes, the lean production ideology may be referred to as a lean

political economy, because lean working routines underscore resource control, burdening workers with the cost of production. Bamber et al., (2014) frame this as lean management thinking that improves HRM practices. This situation may intensify JMNC management's use of power to impose the dominant Japanese HRM "best practice", another paradigm of management control practices that increasingly clashes with host countries' institutions and subsidiaries' HRM practices.

The Japanese institution and business systems literature indicates that not only have Japanese institutions changed over the past 30 years, but the diffusion of Japanese cross-border practices has also varied according to the specific business objectives of particular host-country institutions (e.g. Amable & Palombarini, 2009; Jackson & Miyajima, 2007). Much of the existing literature (e.g. Aoki et al., 2014; Abo 2007; Suzuki et al., 2016) suggests that JMNCs do not strictly replicate their home-country practices when they go abroad, which raises a number of questions. For example, what constitutes cross-border transfer, and under what conditions does it differ in inter- and intra-organisational settings? Too little is currently known of the transfer mechanisms of Japanese HRM-IR practices in the context of institutional changes in home and host countries.

Elger and Smith (1994) argue that Japanese institutions of work, employment and organisations may be reflected in the country's patterns of business operations and spread of FDI. According to Lange and Becker-Ritterspach (2016), in 2013, 61% of worldwide FDI was targeted at developing countries and emerging markets (UNCTAD, 2014). Capital investment may lead to the inward transfer of management practice but transferring Japanese HRM-IR "best practices" is contested, institutionally embedded. Thus, it should not be assumed that subsidiaries will accept it with open arms.

### *2.2.3 Overview of Indonesian labour market institutions*

Lechevalier (2014) observes that shortly after the 1997 Asian financial crisis, JMNCs identified new growth regimes and intensified their economic involvement in ASEAN regional integration. According to Rahmaddi and Ichihashi (2013), Japan has been the major FDI player in Indonesia's market, and Indonesia has managed to attract more FDI than any other ASEAN country since the mid-1990s. This development suggests not only that the host country's institutions may have improved, but also that its human capital and business infrastructure may have



attracted Japan and JMNCs to invest. In fact, in recent years, several Japanese automotive plants have opened and are fully operating under Japanese management in Indonesia to serve Southeast Asia's emerging markets (Reuters, 2016). Furthermore, in 2013, the Japanese government, in cooperation with the Japan Bank for International Cooperation (JBIC), unveiled a programme to increase and accelerate investment in Indonesia. In fact, JBIC labelled Indonesia the new automotive manufacturing hub for Southeast Asia (JBIC, 2013). Indonesia has the world's fourth-largest population and is Southeast Asia's largest economy. Also, its promisingly sustainable government has made substantial socioeconomic and political structural changes. For these reasons, Indonesia is a key Japanese FDI destination for inflows of capital, resources and technology. Therefore, it is relevant to investigate the institutions of this host country.

Since the 1990s, JMNCs' business objectives have shifted and their business dynamism in EMEs has intensified (Kingston, 2013; McGee, 2009). Notably, the automotive industry in Indonesia has improved. Autoparts manufactured in Indonesia are now increasingly assembled together with other autoparts made, for example, in the US and Mexico and labelled "Made by Toyota" (Irawati & Charles, 2010). This provides a reasonable example of the inflow of knowledge transfer, the outcomes of and motivations for JMNC cross-border transfer, and the implications of Japanese FDI for the wider local economy (Ferner & Edwards, 1995).

Of equal importance is the fact that Indonesia has experienced considerable socioeconomic development, with substantial reforms to its political structure and IR (McGee, 2009; Ford, 2014, 2013). Dhanani et al. (2009) see the country as being susceptible to foreign MNCs' participation in improving local labour market institutions. Specifically, since the fall of Soeharto's regime in 1998, Indonesia's IR has experienced a change in climate as well as regulatory reforms (Booth, 2007, 1998; Ford, 2000). The collapse of the dictatorship resulted in a more sustainable international business environment with increasing organised labour, but power remains in the hands of corporations, particularly family oligarchs and business élites with previous close connections with the Soeharto regime and national institutions (Rosser, 2014; Dieleman & Sachs, 2008). Given the host country's transitional democracy, economy and labour market institutions, international business scholars (e.g. Meyer & Peng, 2016; Temuri et al., 2016; Deng & Yang, 2015) argue that we still do not fully understand this phenomenon in EME contexts beyond China and

India. The host country's labour market institutions have experienced reform and, as Martínez Lucio (2014b: 294) observes, MNCs are now increasingly contested spaces.

Within the ASEAN geopolitical economy, following the dictatorship's demise in 1998, Indonesia ratified 19 ILO Conventions, including Convention No. 87, protecting the right to organise and allowing freedom of association (Ford, 2004; Aspinall, 1999; ILO, 1996-2016). Labour market institutions in Indonesia experienced remarkable changes, from having no freedom to organise or associate to gaining status and constitutional protection to organise (Barry & Wilkinson, 2011; Manning, 1998; Rosser, 2014). This dramatic shift illustrates how a change in the host country's structure of HR development and IR policies may prompt new forms of institutions that diffuse power resources, in the form of employers' associations and collective action by local BGs. It is also noteworthy that Indonesia is the only country in ASEAN that has ratified 19 ILO conventions, yet its institutional systems to coordinate human capital with labour and knowledge remain weak, like Malaysia and Thailand (Fainshmidt et al., 2018). As a result, Indonesian IR remains characterised by exclusionary corporatism, meaning that local actors' power and interests in political participation may reduce the extent and impact of other industrial actors' involvement as employer and employee representatives (Rosser, 2014; Robison & Hadiz, 2004). Hence, the combination of local business associations and state officials has created a distinctive historical, institutional and political phenomenon in Indonesian HRM-IR (Ford & Pepinsky, 2013; Ford, 2014). Continued exclusionary corporatism in Indonesian IR means that coercion and repression of political participation by employers and government reduce the extent and impact of employers' rights (Rosser, 2014). Considering the business elite's close connections with national institutions, policy makers and politicians, Dieleman and Sachs (2008) depict Indonesian institutions in terms of "crony capitalism" or "cronyism" (Khatri et al., 2006). They argue that "ownership of private and market power in the hands of a few large and diversified business groups" explains corporate-institutional interactions in emerging economies, and that Indonesia is characterised by "a highly symbiotic relationship between its institutions and a small group of companies" (Dieleman & Sachs, 2008: 1275-6). In reality, Soeharto's fall did not necessarily take down the regime, nor change the spectrum of dominant actors and the business environment in Indonesia.

Studies on Indonesian (e.g. Dieleman & Sachs, 2008; Ford & Pepinsky, 2014; Robison & Hadiz, 2004) and Asian business systems (i.e. Fainshmidt et al. 2018; Witt & Redding, 2014) indicate that large, dominant local corporations owned by family business groups<sup>1</sup> had close connections with the authoritarian regimes, as well as with current policy makers and political actors. This means that, in Indonesia's "weak" host-country institutional setting, the roles and power resources of local BGs and social-political actors remain important dimensions of the labour market institution because they influence national employment, IR and organisational practices, policy development and international business. The power of local BGs derives mainly from their close links with national institutions, affording them access to the government and the power to influence the national rules of the game. In addition, the interests of the BGs examined in the current study *proactively* influence labour market institutions, protecting local systems and shaping the national IR system.

Another salient element of the host country's labour market institutional change is that an established association represents the voice of local employers: the employers' association of Indonesia, APINDO. APINDO's institutional power increased following a government mandate through Presidential Decree No. 6/2013 naming it as a government partner. This designation enabled it to work closely with local and international governments, NGOs and business associations. As a result of this decree, APINDO became part of a team of expert international trade organisations making recommendations to the government and international governing bodies (APINDO, 2015a, 2015b). More specifically, APINDO is not only able to access the government on behalf of local firms but has also been granted decrees from the president and cabinet ministers allowing its involvement in HRM practices, IR regulations and related business activities. Such privileges may add another dimension to host-country institutional networks and influence the labour market institutions, as APINDO maintains close alliances with the government. Similarly, Davis et al.'s (2003) examination of networks of local conglomerates reveals that many firms share the same directors, prompting the conclusion that APINDO members are well-connected owing to the structural concentration of

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<sup>1</sup> In this study, the term "business group" is used to describe the business conglomerate's corporate networks in Indonesia. Locally, Astra Automotive Group, a business entity of Astra International, is known as an Indonesian conglomerate. It is similar to Japanese *keiretsu*, South Korean *chaebol* and Indian business networks.

powerful organisations in the host country. In a similar vein, Indonesia is recognised as having “weak” IR institutions, allowing room for JMNCs to get involved and participate in the infrastructure. This perception appears to legitimise the employers’ association’s active engagement in the process of influencing the HRM-IR business climate (Barry & Wilkinson, 2011).

In a transitional economy such as Indonesia, established semi-independent business associations, namely APINDO and the Indonesian Chamber of Commerce (KADIN), play important roles in improving the infrastructure of local businesses and labour market institutions. Although their operations are distinct, their commitment to and interests in shaping Indonesian labour market institutions cannot be separated from those of local subsidiaries. In other words, the presence, involvement and establishment of local association actors at the meso-institutional level may leverage power resources situated at macro and micro levels, owing to their close ties with local government and industries.<sup>2</sup> This institutional arrangement may align with Ferner et al.’s (2012) contention that the macro- and micro-institutional levels exhibit particular cross-border transfer mechanism differences. Section 2.7 discusses this line of debate in greater detail. Overall, APINDO’s important role in the cross-border transfer mechanism lies in promoting local actors’ interests to interject in, accept and negotiate MNC practices that may or may not fit with local systems and practices. In particular, since well-resourced and well-connected local actors and firms have alliances with the local government-sponsored employer association, these connections have shaped post-dictatorship labour market institutions and has had a direct impact on HRM-IR “best practices” transfer, as well as the HRM-IR policies and practices of foreign subsidiaries.

The next section brings in discussions on intercultural communication, general institutional debate and home- and host-country issues and relates them to the more specific theoretical foundations of this thesis. The theory of IHRM (i.e. Minbaeva et al., 2003) is reviewed and applied, MNC actors’ power, interests and resources (i.e. Ferner et al., 2012) are discussed, and MNC actors’ motivations and strategies (i.e. Bouquet and Birkinshaw, 2008) are examined to frame cross-border management transfer processes conceptually.

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<sup>2</sup> Ferner et al. (2012) use the terms “macro-institutional” or “subnational”, whereas the term “meso-institutional” is used in this study.

## **2.3 Implications of Intercultural Communication Processes and Strategies for Cross-Border Transfer**

### *2.3.1 Importance of cross-cultural communications*

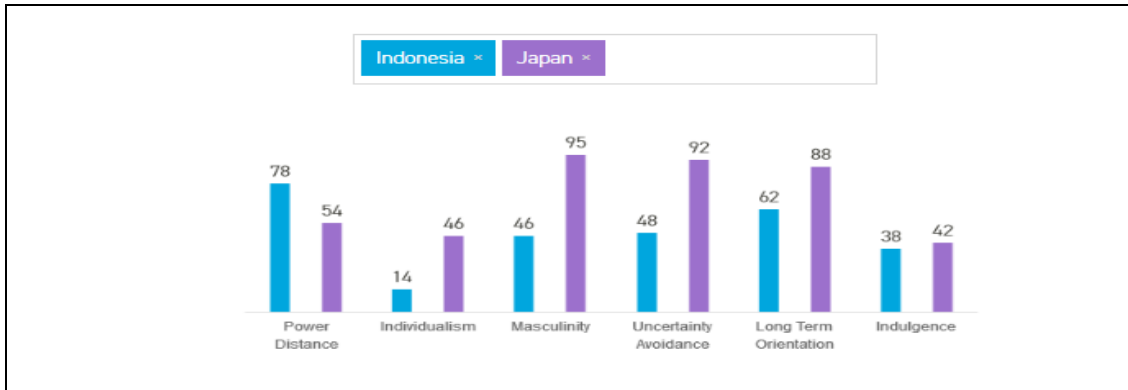
International joint ventures (IJVs) raise intercultural communication problems, as observed in the literature, but communication is also constrained by power. This section explores how previous organisational studies have addressed communication processes. Specific attention is given to the process of *nemawashi*, a philosophy of TPS (Nonaka, 1994), and its implications for the promotion of subsidiaries' management-employee communications. This is important in facilitating MNC–subsidiary interactions, social bonds and cross-cultural communications that lead to organisational learning, and particularly tacit knowledge. Subsequently, this section examines the application of a particular Japanese intra-cultural organisational communication strategy to organisations abroad. In so doing, it investigates the complexity of intercultural communication processes and actors' relationships that take place within a specific context of institutional distance. The analysis is at the organisational level across management, employees, unions and other agents who serve as “communicators” between MNCs and subsidiaries. Through the theoretical lenses of organisational learning and cross-cultural communication, this thesis explains the strategies used by MNCs to build cross-cultural understanding and achieve organisational goals. By focusing on *iterative*, *interactive* and *context-dependent* communication processes, this theoretical discussion aims to extend understanding of intercultural communication by shedding light on cross-border management practice transfer processes and mechanisms.

The focus of this section is on mechanisms of intercultural communication that promote inflows of knowledge and *nemawashi*. While the existing literature recognises the cultural diversity of Asian cultures and countries, most studies use a single Asian country such as China, Korea or Japan to illustrate Asian culture as a whole (see Snell & Hong, 2011; Friedman & Antal, 2005). Similarly, some studies approach cross-cultural communications by comparing Asia as a whole with German, British or American culture (e.g. Nardon et al., 2011). Such over-generalisations may lead to stereotyping and exaggeration of the attributes of group membership that may seriously affect the sender's ability to communicate (e.g. Taylor & Osland, 2011; Ting-Toomey, 2012). Conceptually, classifying individuals

and groups into a single culture, with causal, closely-linked cultural values and behaviour, is simplistic and deterministic (Friedman & Antal, 2005). According to Tung and Verbeke (2010), the problems associated with assumptions of “spatial homogeneity” within a region, which describe broadly associated cultural closeness and similarity, may systematically undermine differences within it. Furthermore, Fang et al. (2017) maintain that doing business with a country in close proximity (e.g. Japan with Indonesia) and with a similar cultural orientation may be just as difficult as with a more distant country with a significantly different culture. This is referred to as the psychic distance paradox (O’Grady & Lane, 1996; Fang et al., 2004). O’Grady and Lane (1996) argue that underestimating real cultural distinctions may mislead individuals and organisations, particularly when conducting international business (e.g. Fenwick et al., 2003). In fact, Hofstede’s (1984) national cultural paradigm of Japanese and Indonesian culture in the IHRM context indicates that Japanese and Indonesian cultures are very different, particularly with regard to cross-cultural communication orientations of power distance, types of shared knowledge, and the perceptions and experiences of the two parties (e.g. Nardon et al., 2011). This illustrates the complexity of intercultural communication processes in cross-border business communications. Also, Nardon et al. (2011: 86) emphasise that “culture guides attention and meaning creation is a key component in creating understanding across cultures”. This may promote a more effective exchange of knowledge to help avoid or minimise cross-cultural misunderstandings.

Japanese society is meritocratic. Human capital development and training to become better workers is valued, and investment in organisational learning leads to innovation (Li et al., 2017; Snell & Hong, 2011). In Japan, there is a strong belief that all people are born equal and can become anything they like if they work hard (Hofstede, 1984). The Japanese work ethic is also associated with the Confucian values of education, thrift and hard work for personal growth (e.g. Baumann & Winzar, 2017; Kariya, 2009; Rosenbaum & Kariya, 1989). Conversely, Indonesian society is characterised by high power distance: its culture is non-meritocratic, and wide disparities between the rich and the poor are visible and socially accepted. In the organisational context, Indonesian workers expect to be clearly directed by their boss or manager. Hofstede (1984) describes Indonesian business communications as a classic type of dynamic relationship between *guru* [teacher, *sensei*] and student. Importantly, communication is indirect, and negative feedback is hidden. This

fundamental intercultural communication difference between Japan and Indonesia may be best described as conformity versus authority (Li et al., 2017). Figure 2.1 illustrates Hofstede’s cultural paradigm comparisons for Japan and Indonesia. Japanese and Indonesian intercultural communications are an exemplary case of this cross-cultural phenomenon.



**Figure 2.1: Hofstede’s cultural paradigm comparisons for Japan and Indonesia**  
 Source: <https://www.hofstede-insights.com/country-comparison/indonesia,japan/> (accessed 27 October 2017).

This section reviews communications theory from the perspective of holistic, context-specific communication processes. It focuses on capturing iterative and interactive processes, and the implications of adopting the Japanese way of communication across inter- and intra-organisational affiliate firms operating in Indonesia. The remainder of this section focuses on three key areas. First, the extant literature is reviewed through the lenses of intercultural communication and organisational learning (Heavens & Child, 1999; Taylor & Osland, 2011), highlighting important mechanisms through which intercultural communication can transform employees’ workplace participation. Second, in advancing the intercultural communication concept, a holistic analysis examines cross-cultural modes of communication. In addition to management, employees and unions, this analysis explores relationships with business associations involved in diffusing Japanese dominant HRM “best practice”. Third, in examining organisational learning in MNCs, this section investigates the impact of culture on communications in relation to the transfer of specific work systems (i.e. TPS, TQM and lean production) across organisations with diverse cultural environments, and with different management practices resulting from differences in Japanese ownership structure, length of presence and management influence.

### 2.3.2 *Understanding intercultural communications*

Lusting and Koester (1999: 52) define intercultural communication as “a symbolic process in which people from different cultures create shared meanings”. According to Alexander et al. (2014), it comprises cultural logics, power dynamics and discourse, and is thus embedded in context, history and power.

According to Ting-Toomey (2012: 18), the interactive objective of intercultural communication may be a “symbolic exchange process whereby individuals from different cultural communities *negotiate* shared meanings in an interactive situation”. Both senders and recipients interact with their own environment and organisation, as well as with their own mental stage (Taylor & Osland, 2011) or, as Nardon et al. (2011) put it, cognitive evaluation. Although these interaction processes are never simple, interaction is fundamental to ensuring that the flow of tacit knowledge does not get lost or disappear. It maintains a connection between sender and recipient and entrenches knowledge in the organisational system and its sub-units (Taylor & Osland, 2011). Thus, interactive communication processes may be a key factor in maintaining the circulation of knowledge and internal development for both individuals’ and MNC subsidiaries’ organisational learning. Furthermore, interactive intercultural communication is context-dependent, involving tangible and intangible elements in encoding and decoding meanings, and conveying a deeper understanding of the context of culturally complex settings (Nardon et al., 2011).

Mutual understanding is key in culturally complex communications, particularly when tacit knowledge is involved. However, some intercultural elements tend to create misunderstanding, such as language barriers, and differences in communication style and value orientation (Ting-Toomey, 2012). In addition, there may be a high level of uncertainty between sender and recipient about the context, the message, timing and location for introducing new concepts. In other words, conveying meaning in a cross-cultural context involves interpretations of language, culture and context, which is an iterative, incremental, and sometimes slow process for both sender and recipient. Communication is an interactive process of exchanging thoughts and ideas that, unsurprisingly, involves emotions “in an effort to find common ground” (Nardon et al., 2011: 90). In organisational learning, interaction is at the heart of the communication process of motivating and leading employees and working with teams (Nardon et al., 2011; Marks & Chillias, 2011).



### 2.3.3 *Effect of culture and communication elements on interactions in intercultural communications*

The theoretical discussion of this sub-section is based on Nardon et al.'s (2011) work on the sequencing of conversational topics, the format of messages and conversational formalities. Ordering or sequencing of conversational topics is important in intercultural communication. Some cultures prefer to start conversations with "small talk" on general or even unrelated topics before getting to the real business. Indeed, "small talk" serves a valid function, as it allows understanding to be established and may lead to the development of some degree of trust. Nardon et al. (2011) describe this as "warming up".

Formal processes and channels apply to both verbal and written communication. While some cultures emphasise rigid formal communication mechanisms, others are used to more flexibility. Some cultures also prefer messages to come through "proper" channels of communication, such as written commands and instructions, whereas others like to use informal channels, such as associates, friends and family. Formal processes and channels help identify trusted sources. How a message is constructed may also have a profound impact on how it is received (Nardon et al., 2011: 91). Business operations tend to use formal communication channels, although formal processes and channels may be perceived as a systematic, top-down, less interactive communication setting that may discourage employees from participating or voicing their views to management.

Conversational formalities encompass acceptable or preferred formal conversational etiquette. Nardon et al. (2011) argue that culture exerts a significant influence on communications etiquette, such as using a person's title as a sign of respect or power in a non-egalitarian culture, and how, when and where to speak to others. In addition, formal apologies are heavily practised throughout East and Southeast Asia, and they are expected in some business situations. Formal apologies demonstrate harmony, empathy and acceptance of responsibility, and should not be perceived as a sign of weakness, lack of confidence or acceptance of legal responsibility (Nardon et al., 2011). This culturally regulated etiquette is also observed when making business proposals or requests.

The gradual introduction and group discussion of ideas in formal settings is best illustrated in the Japanese notion of *nemawashi* (Nardon et al. 2011: 91). In an

organisational setting, *nemawashi* is a process of exploring a formative proposal to obtain input from individuals involved in a project, which may include organisational stakeholders, with the aim of gaining pre-approval for the proposal from as many members as possible. Although *nemawashi* is a formal communication method, it also comprises informal communication processes. The key to the *nemawashi* process is the opportunity for as many members as possible to participate. In the event of failure, *nemawashi* mechanisms prevent people from “losing face”.

#### 2.3.4 Overview of Japanese intercultural communication: *Nemawashi*

Nardon et al. (2011: 91) identify *nemawashi* as a cultural communication protocol that encompasses formal, informal and implicit communication (delivering tacit knowledge) regulated by culture. In any type of knowledge or mode of transfer, “the communication process will be affected by culture” (Taylor and Osland, 2011: 583). From a Japanese cultural communication perspective, *nemawashi* literally means “going around the roots”, in the sense of digging around the roots of a tree to prepare it for transplantation. In an organisational context, *nemawashi* is described as the first step in the decision-making process in TPS. This process involves sharing information with all employees to include their opinions in the decision making, as well as allowing changes to be made with the consent of all parties (Toyota GB, 2013). It also embodies the concept of continuous efficiency improvements seen in manufacturing processes. However, Heavens and Child (1999) suggest that the Japanese are reticent and formal in communications with strangers, and particularly with non-Japanese strangers.

Taking the contexts of Japanese culture and TPS together, *nemawashi* is an informal process of laying the foundation and building a consensus of opinion before making formal changes to a proposal or project. This cultural communication element is fundamental to Japanese organisational learning because it enables knowledge creation and innovation (Nonaka & Takeuchi, 1995). Nardon et al. (2011) further argue that although *nemawashi* suits Japan’s highly formal culture, informal communications remain essential for intra-organisational communication and global competitive success. Hence, it is important to know when and where to use formal or informal communication.

*Nemawashi* is a meticulously slow-moving decision-making process. As Japanese organisational culture does not recognise a single decision maker, all decisions must be confirmed by every hierarchical department head before reaching top management for approval. Furthermore, the Japanese meritocratic system leads to less likelihood of engagement in disruptive economic activity, such as political movements and labour union strikes (Li et al., 2017), which is very different from the political culture of Indonesia.

### 2.3.5 Overview of Indonesian intercultural communication: *Musyawarah mufakat*

*Musyawarah mufakat* (deliberation and consensus) is an Indonesian cultural decision-making process safeguarded by the institution, widely practised nationally and embedded in both formal and informal business communication settings (Kawamura, 2011; Koentjaraningrat, 2009). In fact, *musyawarah* is one of the five pillars of the Indonesian institution<sup>3</sup> and *mufakat* was adopted into the Indonesian constitution in 1945, guiding democracy. Therefore, *musyawarah mufakat* (MM) forms the backbone of communication processes and strategy, providing an institutional basis for the democratic stability of Indonesia's cultural diversity consisting of more than 750 spoken languages and 300 ethnic groups (Geertz, 1963, 1973). This intercultural communication may have a significant impact on HQ–subsidiary communications (e.g. Taylor & Osland, 2011). Some scholars describe MM as a form of political culture (e.g. Anderson, 1990; Crouch, 2010; Mizuno, 2006).<sup>4</sup> The *musyawarah* concept constitutes a process that develops general agreement and consensus collectively, resulting in a unanimous decision or *mufakat* (Kawamura, 2011). Theoretically, MM protects minorities' views from the majority (Koentjaraningrat, 1967: 397). However, in practice, “intensive lobbying is conducted behind the scenes to find an agreeable point between those who proposed and opposed” (Kawamura, 2011: 4). These lobbying processes may determine the result. Although the official consensus voting represents a ceremonial type of communications protocol (e.g. Nardon et al., 2011), the very fundamental concept of MM provides all parties with veto power. While MM has a place in Indonesian

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<sup>3</sup> This pillar of the State Principles (*Pancasila*) states that democracy is “guided by the inner wisdom of deliberations [*permusyawaratan*] among representatives”.

<sup>4</sup> For instance, the law states that every decision must be taken unanimously. Koentjaraningrat (2009) argues that the manifestation of Indonesian communities is the institution of *musyawarah*.

business communications, questions remain about whether it contradicts or can be integrated into the Japanese *nemawashi* communication orientation.

## **2.4 Conceptualising HRM practices in an EME setting**

Wright et al. (2005) observe that since the early 1990s, broader and deeper theories of knowledge transfer in EMEs have been developed, while new problems and questions have been raised. However, coverage of specific countries and regions has been uneven, and understanding of knowledge transfer mechanisms and cross-border HRM practices remains subject to considerable debate (e.g. Minbaeva & Santangelo, 2018; Wood et al., 2016; Foss & Pedersen, 2004). Building on this literature, Minbaeva et al.'s (2014) retrospective underscores the significance of the structure of HRM practices as drivers of absorptive capacity. They see these practices as promoting both the ability and motivation of employees to facilitate cross-border knowledge transfer. However, they also note that this knowledge transfer remains an empirical challenge, since absorptive capacity must be considered theoretically as a dynamic rather than static construct. Following Minbaeva et al. (2014), the theoretical framework of the current research seeks to understand the dynamic process of knowledge transfer by incorporating the capabilities of the knowledge sender (i.e. JMNC) and receivers (i.e. Indonesian subsidiaries) in an EME setting.

Inspired by the seminal work of Cohen and Levinthal (1990), this research distinguishes between inter- and intra-organisational knowledge flows. This distinction facilitates a more detailed examination of the nature of the dynamics of knowledge transfer from the perspective of both sender and receiver. Moreover, existing studies identify various compelling means of organisational control, employee motivation and management capability-coordinating knowledge processes across EMEs such as China and India (e.g. Deng & Yang, 2015; Mäkelä & Brewster, 2009). Specifically, Fey and Björkman (2001) argue that continued development of EMEs' HR infrastructure may have an impact on firms' absorptive capacity.

Minbaeva et al.'s (2003) concept is applicable to this study because, while inter-organisational knowledge networks and the structure of subsidiaries' HR practices vary, inter-human relationships must remain at a certain level to maintain knowledge inflows. Knowledge transfer mechanisms rely on individual and interpersonal interactions (Reiche et al., 2009; Felin and Hesterly, 2007), and when these are absent, knowledge transfer is limited (Minbaeva et al., 2014). Minbaeva et al. (2014)

speculate that weak interpersonal interactions, in turn, diminish ability, motivation and the opportunity for knowledge processes. Previous studies (e.g. Gupta & Govindarajan, 2000; Lane & Lubatkin, 1998) have found that the absorptive capacity of receiving units plays the most significant role in knowledge transfer. In order to stimulate the adoption and diffusion of knowledge by their subsidiaries, MNCs must facilitate communication between organisational units. This mechanism may serve as an inter-human interface through which to share expertise and recognise the capabilities of Indonesian subsidiaries. Interpersonal interactions form a micro-foundation for absorptive capacity, enhancing employees' motivation and their ability to interact to adopt and utilise knowledge (Minbaeva et al., 2014).

The key theoretical application of this study is to provide an understanding of the role of subsidiaries in both acquiring and applying new knowledge. Cohen and Levinthal (1990) suggest that these are critical elements of knowledge transfer for organisational learning, as they may lead to the development of new ideas, and hence, new organisational behaviour. The essence of organisational learning is to bring about changes in organisational outcomes. Furthermore, Minbaeva et al. (2003) argue that *intended* HRM practices enhance organisations' creation and development of absorptive capacity, i.e. employee participation. This involves managerial cognition both in facilitating knowledge transfer, and in enhancing individuals' abilities and motivation (e.g. Ahammad et al., 2016; Volberda et al., 2010). Minbaeva et al. (2003: 586) state that "subsidiaries differ in their absorptive capacity and this affects the level of internal knowledge transfer from other MNC units", a view shared by Cohen and Levinthal (1990) and Gupta and Govindarajan (2000).

According to Cohen and Levinthal (1990: 128), absorptive capacity is "the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends". Extending this concept, Lane et al. (2001) suggest that absorptive capacity is the ability to *apply* new knowledge, as distinct from merely understanding and assimilating it. The current study finds that knowledge inflows from Japan occur both within local firms and between the JMNC and its subsidiaries. It also explores knowledge transfer within firms that are Japanese/Indonesian joint ventures, but which have subsidiaries with no foreign investment. In this case, autoparts subsidiaries belong to the same JMNCs' suppliers (i.e. Toyota and Honda) but are fully owned by local management, Astra International. These local autoparts

subsidiaries provide an interesting opportunity for comparison, as they have the same control issues as other Japanese joint-venture firms and serve the same JMNC clients but without Japanese ownership. Details of the empirical data are discussed in Chapter 4, and empirical findings on knowledge transfer are presented in Chapter 6 of this thesis.

#### *2.4.1 Systematic social integration: inter-organisational MNC knowledge transfer networks*

International business scholars have also observed that actors' interactions in formal and informal settings may facilitate knowledge transfer, especially where the knowledge sender and recipient are from different cultures and mutual trust is a part of the learning environment (e.g. Song, 2014; Volberda et al., 2010). Zahra and George (2002) state that a firm's dynamic capability for a high level of absorptive capacity is the result of high organisational knowledge coordination across the organisation and its sub-units. Knowledge transformation and exploitation capabilities may also be enhanced by systematic social integration (Volberda et al., 2010), as a consequence of established inter-organisational and inter-human relationships that promote the subsidiary's absorptive capacity. This is because systematic social integration may relate to a capacity for knowledge assimilation and exploitation, which is important in the EME context. Van Wijk et al. (2008) discuss inter-organisational networks in supply chain settings, examining how (intra-organisational) supply chains gain access to knowledge to facilitate learning processes and increase competitiveness. Subsidiaries of the same local BG may also compete for both internal resources and external markets. Thus, the current research considers that systemic social integration may supplement a local firm's fewer dynamic capabilities within MNC supply chains.

#### *2.4.2 HRM practices to promote employees' abilities*

Specific to the discussion of knowledge transfer, the current research examines the interactive effect of certain HRM practices that lead to employees' ability to adopt new knowledge. Building on Aguilera (2007) and Minbaeva et al. (2014), this study posits that a series of causal relationships exists between the intended HRM practices of employee participation and knowledge-sharing in organisational units, which in turn influences knowledge-based performance. In so doing, this study explores the

implications of the adoption of various facets of Japanese HRM “best practice”. The literature in this area has hitherto focused on the broad concept of “Japanisation”. However, in order to appreciate the complexities of HRM and knowledge transfer together, a more nuanced approach is required. For example, the Japanese work organisation philosophy of TPS promotes employees’ participation, motivation and commitment by empowering them in their day-to-day working practices. This study aims to extend the existing analysis by focusing on particular facets of these organisational learning processes, while underlining the important role of inter-human relationships in interactions between the JMNC and its Indonesian subsidiaries.

Through a comprehensive agenda for investment in training, trainer–trainee interactions may shape inter-human relationships (Foss et al., 2013; Lichtenthaler, 2009; Jansen et al., 2005). Given the nature of shared-ownership relationships, IHRM practices entail cross-organisational training programmes, involving management and non-management employees and union/employee representatives. The training agenda covers technical and non-technical training conducted in various settings, from Japanese manufacturing sites to management offices both within and outside Japan. However, it is important to delineate the context of this study. The Indonesian subsidiaries also have in-house HRM policies and practices, and Indonesian HR managers engage with trainees to use their newly-acquired Japanese skills and knowledge in a practical context. This is yet another layer of inter-human relations affecting interactions between employees’ ability and motivation. It suggests that the adoption of Japanisation by Indonesian subsidiaries results from inter-human relationships across organisations, influencing employees’ ability and motivation. This raises the question of whether the mechanisms through which Indonesian subsidiaries’ levels of absorptive capacity to acquire and adopt Japanese HRM “best practice” are developed through inter-human and inter-organisational relationships.

#### *2.4.3 HRM practices to promote employees’ motivation*

Another fundamental aspect shaping organisational learning is the structure of knowledge utilisation. According to Pfeffer (1998), mechanisms for the influx of knowledge are important in motivating employees to use their acquired knowledge in the best interests of the organisation. In the context of Japanisation, trust is

perceived as a fundamental element of employees' motivation. Strong motivation is based on feelings of trust in inter-human relationships. Thus, HRM "best practices", including internal promotion, performance appraisal and performance-based reward systems, are simply mechanisms to motivate employees to contribute their skills and knowledge to the organisation. In other words, the essence of such HRM practices is the expectation of a positive relationship between organisational systems and employee effort, thereby providing strong motivation for employees to use their knowledge and skills to their full potential. Indeed, as Van Wijk et al. (2008) emphasise, interaction and trust in relationships between management and employees are invaluable in shaping employee motivation. This is a second element in the concept of absorptive capacity. Minbaeva et al. (2003: 591) maintain that "extensive intra-organisational communication is more likely to contribute to employees' motivation". In this thesis, it is argued that while Japanisation skills and knowledge may have a positive impact on employees' careers and promotion with respect to organisational learning, behaviour and change, it is trust and opportunity to participate that are more likely to serve as motivators for the adoption of Japanese HRM "best practices".

Overall, the theoretical frame of cross-border knowledge transfer adopted in this study aims to move the debate beyond simply attempting to capture the extent of this phenomenon. Rather, it strives to elucidate the nature of knowledge assimilation and potential competition, not only between foreign and domestic companies but also between the MNC and non-organisational actors, thereby shaping knowledge transfer processes in firms with different levels of foreign holdings. The next section contextualises the types and allocations of MNC actors' power and influence in cross-border transfer processes.

## **2.5 Cross-Border Conflict and Tension at Inter- and Intra-Organisational Levels**

In an EME context, subsidiaries are exposed to institutional pressures stemming from the external environment (Nell et al., 2015). Pressure may also arise from their parent organisations' institutional requirements, as well as institutional changes within the organisation (Almond, 2011b; Ferner & Edwards, 1995). This may increase conflict over cross-border transfers at inter- and intra-organisational levels. Moreover, subsidiary actors such as management and unions at the firm level retain



some scope for practices and interests of their own. The MNC's HQ issues guidelines, and its demands are sometimes negotiated, especially when actors possess some degree of influence in relationships with the HQ, particularly at the intra-organisational level where subsidiaries have varying levels of relationships and sources of power (Edwards et al., 2007). Subsidiaries have a range of possible strategic responses to these inter- and intra-institutional pressures. Oliver (1991) frames these responses as full cooperation, avoidance (e.g. non-conformity, ritual compliance and compromise) and full resistance. He maintains that compromise emerges in situations of conflicting institutional demands and expectations, whereas a non-cooperation strategy is likely to occur when actors have divergent interests and understandings. These differences may occur between inter- and intra-organisational values. Subsidiaries may have different understandings of MNC practices and processes, and assumptions and definitions motivated by their own interests (Ferner et al., 2005). Edwards (1986) argues that relationships between actors and workforces are characterised by "structural antagonism", providing a basis for the ongoing exercise of power and resistance. Edwards and Bélanger (2009) describe this as a "contested terrain". Thus, the research presented in this thesis considers the variety of actors' interests, and the sources of power of both the JMNC and Indonesian subsidiaries to explore Ferner et al.'s (2012: 167) contention that cross-border "transfer leads to potential conflicts of institutional rationality that are resolved through the deployment of power capabilities". The next section examines actors' application of power to promote their own interests.

## **2.6 Actors' Power, Capacities and Dimensions**

Ferner et al. (2012) focus on the analysis of how actors' incorporation of power and interests shapes transfer through processes that draw on institutional resources at the macro, meso and micro levels of JMNCs and subsidiaries, which is the main concept and theoretical point of departure for the present research. In turn, these MNC-subsidiary power interactions influence transformations and adaptations of practices subject to cross-border transfer. On the one hand, HRM "best practices" are deployed by dominant JMNC actors to shape, sustain and activate institutions, which Lawrence and Suddaby (2006) describe as "institutional work". On the other hand, established networks, associations and institutions may promote resources that enable low-power subsidiary actors to facilitate, block or modify cross-border HRM

“best practice” transfer (Becker-Ritterspach & Blazejewski, 2016). This research defines the objective of cross-border transfers as the main element of MNCs’ internationalisation strategy, and their behaviour as “enacted and socially constructed shared understandings and as outcomes of a social process in which the organisation and its subunits and actors are actively involved” (Kostova et al., 2008: 1001). In addition, this research does not treat cross-border transfers as exogenous constraints; rather, it is interested in examining how actors’ power interactions and interests shape the process and influence the outcomes of cross-border transfer in the context of EME institutions. This study adopts the concept of power defined by Lukes (2005: 12) as “a capacity not the exercise of capacity; an [actor] can be powerful by satisfying and advancing others’ interests”. Power must be understood in its institutional context as “institutional work” (Lawrence and Suddaby, 2006). Following Giddens (1984, cited in Becker-Ritterspach & Blazejewski, 2016: 30), “‘Power to’ is related to the enabling, facilitative side of power that holds the capacity for action. ‘Power to’ thus captures the productive face of power; it ‘empowers’ actors to pursue their [legitimate] interests”.

Moreover, HQs may implement internationalisation strategies to varying degrees, and HRM “best practice” transfer and adoption may be modified in the course of implementation in the host country. These conditions demonstrate how actors utilise power capabilities as resources to legitimise their cognitive understanding and interests (Ferner et al., 2012; Bouquet & Birkinshaw, 2008). Power also works as a constraint on action (Giddens, 1984), and it may prevent actors from pursuing and attaining their interests, for example, through restricting actors’ scope of action, coercion or manipulation (Becker-Ritterspach & Blazejewski, 2016).

Ferner et al. (2012) view Lukes’s three power dimensions (resources, processes and meaning, i.e. ideological power) as actors’ power capabilities that emerge from country- and firm-level competitive advantages. Each type of power shapes cross-border transfer. Specifically, actors’ cognitive, normative and regulative abilities frame the transfer environment. Smith and Meiksins (1995) emphasise that capitalism and its local forms, in interaction with foreign institutions such as Japanese capitalism with Indonesian “crony” capitalism, may create tensions in HQ-subsidary relationships, affecting the dynamics of MNCs’ strategy and behaviour. The competitiveness of the home country may provide the firm with a source of

power (Campbell, 2010), which may be a unique feature of the organisation (Ramamurti & Singh, 2009). Power capabilities, incorporated with actors' interests, may potentially allow the dissemination of MNC practices, management involvement and ownership structuring. However, the strength of each power capability varies across macro, meso and micro levels. MNCs' international practices are contingent on the power and cognitive interests of the actors involved in cross-border transfer.

The basis of Ferner et al.'s (2012) concept which frames this research is that dialectical relationships between different actors may either promote, manage or disregard efforts by HQ actors to disseminate their management practices to subsidiaries. In other words, the validity of Ferner et al.'s (2012) concept for this study relates to the integration of actors' sources of power and interests, and how these bundled factors play out in cross-national transfer processes. All actors have certain power capabilities. Although one side may be stronger than the other, as Ferner et al. (2012) point out, HQ actors' power may not necessarily surpass that of subsidiaries. Other important aspects of this concept are allocations of actors' sources of power and how actors utilise them to serve their interests at different organisational levels. Consequently, to fundamentally understand the effects of actors' power capabilities and interests on transfer processes, it is argued in this study that one needs to assess both capacities and interests together, examine allocations of sources of power, and test them at national, subnational and organisational levels of practice. This study aims to analyse comprehensively and accurately the power and interests of HQ, subsidiary actors and business associations directly involved in the transfer of cross-border HRM "best practice" mechanisms and their implications. It takes Kostova et al.'s (2008: 995) discussions of MNC actors' power emerging from home- and host-country influences and institutional distance as a point of departure to examine "diverse, non-monolithic, fragmented, and possibly conflicting" conditions of cross-border practice transfer in an MNC context. Acknowledging this stance, the current study follows Ferner et al.'s (2012) suggestion that power does not necessarily remain in the hands of the MNC, and that actors' interests are an integral part of power capability ("power to"), with dialectical interactions between different actors and levels of institutional analysis.

At the macro-, meso- and micro-institutional levels, MNC actors have the power to shape, sustain and negotiate (Almond, 2011b). In addition, MNC actors' abilities

shape their interests, while cognitive, normative and regulatory norms frame the institution of transfer. This is because transfer processes and outcomes are also contingent on the cognitive understanding and normative knowledge of the knowledge recipients: subsidiary managers, employees and unions. This research operationalises Ferner et al.'s (2012) application of Lukes's (1975) three power dimensions as actors' power capabilities in an EME context as follows:

- The power of *resources* includes tertiary education and organisational resources such as reputation, capital, investment, knowledge and expertise. It may have a dominant effect in leveraging control, i.e. controlling scarce resources (Geppert & Williams, 2016).
- The power of *processes* involves regulations, policies, laws, internal networks, organisational systems, "best practices", customs and norms. It can be used to manage, challenge and/or bargain, i.e. control organisational processes (Geppert & Williams, 2016).
- The power of *meaning* (i.e. ideological power) encompasses cognitive abilities, normative mindsets, codes of practice and international standard operating procedures, such as the work organisation and philosophy of the TPS, TQM and JIT. This is an important dimension of power in this research, as ideological power enables the framing of organisational culture and shared understanding and legitimises interests.

Lukes's (1975) ideological power dimension has three key implications for this study. First, ideological power influences or aims to change actors' observable behaviour in a less contentious way. Second, where circumstances are institutionally constrained, dominant actors may be motivated to use a power approach based on shared understanding to achieve their objectives. Third, ideological power centres on an approach to exchanging understanding that invites actors to participate and promotes employee commitment to understanding new knowledge. This is one of Minbaeva et al.'s (2003) HRM dimensions that facilitates international knowledge transfer. Ferner et al.'s (2012) concept highlights that dialectical relationships between different MNC actors may, individually or collectively, promote, manage or ignore the inward transfer as a result of evolving affiliate actors' interests, local institutions, and the power to assert legitimate influence to reject or accept them. Bouquet and Birkinshaw's (2008) framework for understanding why and how MNC

actors achieve legitimacy can be viewed in connection with Lukes's (1975) ideological power and Ferner et al.'s (2012) three institutional levels of power. As Ferner et al. (2012) observe, MNC actors' power may not necessarily be greater than that of affiliate actors. Thus, understanding the power capabilities and processes involved in incorporating the power of meaning and how actors' interests emerge may facilitate analysis of how power can be used to diffuse HRM processes and outcomes. Actors' abilities also shape their interests, while cognitive, normative and regulatory norms frame mechanisms of resistance or protection.

Ideological power emphasises shared values and understandings, enabling the diffusion of processes by overlaying existing frameworks with foreign/new normative ones (Crouch et al., 2009). This approach enables the framing of organisational norms and shared understanding, and may delegitimise practice (Suddaby & Greenwood 2005; Campbell, 2004). This diffusion mechanism perpetuates conditions under which dominant actors establish grounds for delegitimising other (low-power) actors' norms and organisational practices, resulting in modification of existing behaviour and acceptance of foreign interventions (Hyman, 2001). Such conditions may create conflict, since managing meaning by challenging, redefining or discarding others' management practices entails the exercise of power and management of resources, such as capital for training and employee commitment to the acquisition of new knowledge. Adding to the complexity, an element of control or diffusion may also be exercised by external organisations, such as quasi-government agencies and business association alliances directly involved in the diffusion process with interests in promoting dominant practices.

Agencies may have different capabilities from MNC actors, enabling them to access and engage in diffusion processes inclusively with MNC actors (Mackenzie & Martínez Lucio, 2014). Using ideological power, they may circumvent contested norms, practices and understandings of dominant HRM-IR "best practices". The power of ideology may create conditions under which a certain norm is admitted and valued by other actors (Ferner et al., 2005). This endorses the superior efficacy of dominant actors' management practices, which are thus accorded legitimacy by a wide range of Japanese actors and regarded as global "best practice" (Thite et al., 2012). This suggests that the processes and outcomes of diffusion are contingent on who is using the power and how, as well as their objectives for convincing others of

the legitimacy of the “best practice” or challenging (*de*)legitimation of subsidiary actors’ existing practices. Although JMNC affiliate actors retain some scope for normative practices and interests of their own, these conditions are likely to increase tensions over (*re*)defining the meaning of HRM “best practice”.

In addition to Oliver’s (1991) strategic defiance strategies of full cooperation, avoidance or full resistance, Ferner et al. (2012) reiterate that ideological power is a particularly important dimension that may accommodate subsidiary actors’ institutional defiance, constituting the level of understanding and cognitive abilities of both senders and recipients of procedures, settings and practices in a given context. Even though this process may not be observable, its outcomes may be operationalised in the form of permanent changes in behaviour, particularly where the JMNC is seeking to redefine and delegitimise subsidiary HRM practices that are standard in the host country. As a consequence, the impact of the power of ideology in IHRM is sophisticated, multidimensional and difficult to measure (e.g. Clegg, 2013; Pfeffer, 1992).

## **2.7 MNC HQ Actors’ Sources of Power**

Sections 2.7.1 and 2.7.2 discuss the allocation of power, and how it interacts at the macro and micro levels respectively. Key sets of actors and power are also identified at the meso level (Section 2.7.3) and discussed in greater depth to analyse causal links in the diffusion of ideological power in the form of Japanese HRM-IR “best practices” transfer processes at the meso level.

### *2.7.1 Macro level: home country-specific advantages*

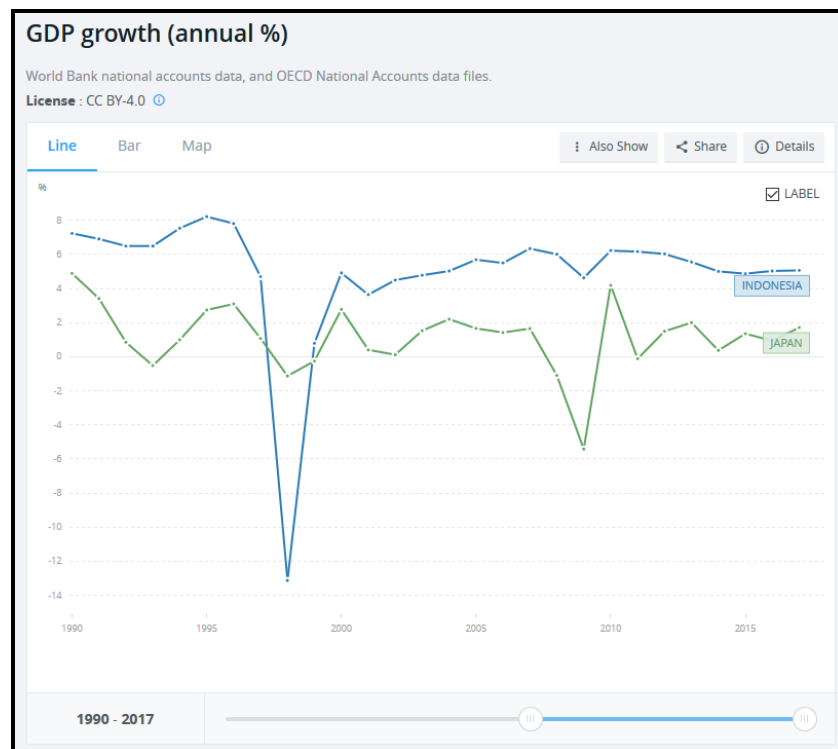
This study contributes to knowledge of how globally recognised management practices and coordinated dominant actors’ strategies promote dominant practices in EMEs. It should be noted that Japan has a country-specific advantage in that the state plays an active role in business alliances as an important contributor to JMNC actors’ power. Established international diplomatic relationships also create opportunities for JMNCs to engage in business activities in other countries (Smith & Meiksins, 1995) and to facilitate agencies’ collaboration. This home country-specific advantage allows Japanese HRM “best practice” to spread and gain international recognition, which also serves the Japanese government’s interests. These activities provide an element of Japanese global competitive advantage because of the

coordinated nature of Japanese market institutions (Hall & Soskice, 2001), including both financial institutions and quasi-government agencies. In Whitley's (1992) terms, the national business system is specific to the home country. The motivation for Japanese coordination, specifically governing and maintaining the existence of *keiretsu*, is that the Japanese spider-web business model is both an asset and a source of the Japanese competitive edge (Dyer, 1996). Hence, diffusion of management practices may be partly inspired by country-specific advantages exploited by JMNC actors (Buckley et al., 2012) and by government alliances with agencies to propagate Japanese HRM "best practice" abroad, consistent with JMNC and Japanese lean management ideology.

Japanese industrial development is characterised by imports of raw materials and exports of finished goods (Ramamurti, 2012; Wilkins, 1986). Owing to the limitations of its natural resources and home market, Japan has been highly dependent on overseas trade, and since 1914, Japanese industrial development has surpassed that of other Asian countries, including Indonesia. In an era of internationalisation of capital, the Japanese government is following similar economic strategies to Western countries in opening up its economy and re-aligning economic power. As in Germany and the USA, the Japanese model is competitive. Japan is a dominant country in terms of socioeconomic, political and industrial development. As the world's third-largest economy after the USA and China (Smith, 2018, reported in World Economic Forum), Japan remains a capital importer, supported by political stability at home. Given its economic power and industrial development, Japan dominates countries with weak institutions. Hoskisson et al. (2000) describe the Japanese developed economy as having less institutional risk and uncertainty in comparison with EMEs, whereas greater institutional volatility may be perceived as a competitive disadvantage of host countries (Meyer & Peng, 2016; Meyer et al., 2009). Political tension, social unrest, as manifested by demonstrations and strikes, may also disrupt the labour force and supply chains, contributing to a country's institutional instability (Chung & Beamish, 2005).

The 1997 Asian financial crisis is relevant to this study for the following reasons. First, it led to the collapse of Soeharto's dictatorship, which had an impact on local socioeconomic and political affairs. Second, it led to political and economic reforms that have had a positive effect on the local economy and the international business environment. Third, workers gained rights to organise, and freedom of

expression is now protected by national institutions. As a result of the reforms, Indonesia has been recognised as an EME since 2013. As shown in Figure 2.2, following the Asian and global financial recessions, Indonesia's GDP growth was 7.2% in 1990, and 5.1% in 2017, in comparison to Japan's 4.9% and 1.7% in the same years. Indonesia experienced a greater economic recession than Japan during the 1997 Asian financial crisis. However, since then, its GDP has steadily grown and is outperforming Japan, as Japan experienced the 2008 global financial recession more acutely. This suggests that economic changes have occurred, and that JMNCs may need to change how they conduct business in the host country. Of equal importance, these changes may have become vehicles for Indonesian actors to negotiate with the dominant Japanese.



**Figure 2.2: Indonesia Japan GDP comparison Growth**

(Source: the World Bank Group, national accounts data and OECD National Accounts data files 1990-2017)

The 1997 crisis tested the competitiveness of both Japanese and Indonesian economies, as they faced tough choices in steering their economies, not just to avoid the crisis but also to remain internationally competitive. One option to overcome such crises is to restructure investment policy in order to stabilise the national economy and attract investors. While foreign investors see deregulation as an opportunity, relaxing policies may jeopardise national competitive advantage.



Therefore, institutional changes resulting from deregulation may have adverse impacts on a country's political economic environment.

Another source of national competitive advantage derives from systematic business alliances between banks, the state and other economic actors. These alliances are socially constructed, systematically reproduced and specific to the national environment. In the context of Japan, Hall and Soskice (2001) note that the state plays an active role in business alliances as important contributors to Japanese power sources and coordination in establishing institutional support abroad. Elements of this Japanese competitive advantage transfer to the Japanese model which, inspired partially by country-specific advantages and exploited by Japanese enterprises, serves as a source of competitive strength for JMNCs (Aguilera & Jackson, 2003; Aoki & Dore, 1994). Gao (2005) maintains that the state develops its interests by promoting diplomatic relationships with other countries and spreading investment abroad. Buckley et al. (2012) suggest that national competitive advantages from advanced macro-economic institutions may provide MNCs with a competitive advantage, but only if they use and internalise them.

#### *2.7.2 Micro level: firm-specific advantages*

This study contributes at the micro level of analysis by illustrating how HQ actors manage to maintain their dominant management status and establish institutional support outside the home country. Stewart (2014) argues that the Japanese method of production was regarded as a “new” concept because it introduced employees’ commitment to and participation in Japanese work organisation, the *kaizen* philosophy of lean management and production. *Kaizen* created tensions with existing standards of production, namely the German and American models of Fordism and Taylorism (Smith & Elger, 1994). Furthermore, Martínez Lucio (2014a) identifies lean management and production systems as a dominant ideology and a set of practices that have been accepted by, and often transformed, work practices globally. Drawing on 30 years of research on the global transfer of Japanisation to the Americas, Europe and Asia, Abo (2007) reveals that the cognitive rationale for “best practice” is the biggest challenge to transferring both the philosophy and the concept of lean management and production. MacKenzie and Martínez Lucio (2014: 251) postulate that, in response to external (host-country) regulation, “MNCs create their own idiosyncratic management systems internalizing

their strategies to create systems that respond to internal business and operational requirements”. In other words, through agencies, the MNC engages in contested micro-political processes to control subsidiaries. According to Morgan and Kristensen (2006, cited in Geppert & Williams, 2016: 141), “by referring to MNCs’ contested spaces, they thus put powerful key actors within headquarters and subsidiaries in the driving seat”. This thesis identifies not only who these actors are, but also how and what types of power they use to engage in micropolitical games with both HQ and subsidiary actors. Furthermore, coordinated state-corporation investment infrastructures institutionally monitor and provide resources to maintain the fundamental Japanese management ideology, thereby engaging in the management of meaning, i.e. the ideology of lean production (e.g. MacKenzie & Martínez Lucio, 2014; Clegg, 2013).

The Japanese lean and TPS production models are examples of the globally recognised Japanisation ideology conveyed by the state, Japanese firms and actors, translating country-specific advantage into firm-level competitive advantage. Diffusion processes abroad, particularly in the host-country context, are perceived as weak. Delbridge et al. (2011) and Stewart (2014) suggest that these processes constitute organisational power resources that contribute to the dominant effect of JMNCs. Moreover, the JMNC’s strategies remain connected with its home political and economic institutions. This suggests that JMNC-specific advantages inevitably contribute to HQ actors’ power resources and interests in (de)legitimising HRM “best practice”, supported by institutions at home and in the JMNC’s global network.

As Japan is a trade-orientated nation, JMNCs are familiar with the complexities of doing business overseas (Wilkins, 1986). Indeed, Japanese firms are intensifying their business investments in EMEs, with no sign of reducing their efforts to diffuse Japanisation (Ramamurti & Singh, 2009). Product market, firm size and the structure of production technology are some of the firm-level competitive advantages that influence work, employment and organisational practices. A classic example of a firm-specific advantage is the lean production model, although some scholars (e.g. Stewart, 2014; Duran, 2007) question how the lean capitalist model of HRM “best practice” can fit into local business systems. Lean and innovation-mediated Japanese production concepts gained a global reputation and were identified as new standard practices transferable to the West (e.g. Kenney & Florida, 1993; Vogel, 1981; Womack et al., 1990). This model originated from the Japanese experience,

developed at Toyota and spread to other Japanese enterprises at home and abroad. Japanese industrialisation processes were internalised in Japanese firms and have become a source of competitive advantage, even for firms operating abroad.

However, previous research has identified potential difficulties in transferring the concept of lean production, such as technical support and the cognitive rationale for the system (Abo, 2015, 2007). Therefore, the international business infrastructure plays a significant role in propagating the Japanese model outside Japan, for example, through stationing personnel abroad and establishing internal networks such as business organisations, alliances and agencies, both to facilitate the dissemination of Japanisation and to enhance JMNCs' power capabilities. This infrastructure not only helps to overcome the limited experience of Japanese management in understanding different regulations, customs and norms, but also provides systematic support for practice transfer and maintains the competitiveness of the Japanese model. As Berggren (1992) argues, adopting a lean production system requires the strict adoption of Japanese work organisation; it has its own "prescriptions" for making the model work. Nevertheless, with its combination of innovation, human-centred production and working conditions, the Japanese model has appeal as an HRM "best practice" and has been widely adopted (e.g. Bratton & Gold, 2017; Blyton & Turnbull, 2004; Berggren, 1992; Smith & Meiksins, 1995). Thus, the work organisation of lean, TQM and JIT, and capitalist ER under the Japanese HRM system are organisational resources that contribute to the dominant effect of JMNCs. Moreover, Japanese practices transferred overseas remain connected with the Japanese socioeconomic context, with coordination between government, quasi-government agencies and JMNCs. In other words, home-country coordinated market economy institutions inevitably contribute to Japanese actors' source of power.

Organisational theorists such as Geppert et al. (2016) and Dörrenbächer et al. (2011) assert that HQ actors may use their power resources and capabilities to impose their own organisational interests on subsidiaries. It is argued in this thesis that an additional institutional-level assessment, or in Ferner et al.'s (2012) words, a "subnational" level of analysis, is necessary to stimulate subsidiaries' understanding of the adoption of HQ practices. Becker-Ritterspach and Blazejewski (2016: 29) make the case that a micropolitical strategy, as "the strategic employment of power", is necessary to understand the substance of power capabilities. Micropolitics is rather

different from the institutional approach, but it may be a key concept for examining organisational politics. Becker-Ritterspach and Blazejewski's (2016) argument is applicable to this study for three reasons. First, channels or platforms that mediate the interaction of actors' power capabilities and interests will minimise and potentially avoid tensions that have adverse impacts on the transfer. Second, actors' power at the meso level allows home and firm competitive advantages to be reproduced across borders and provides support for both HQ and subsidiary actors. Third, micropolitics raises a need to analyse the meso-institutional level, as discussed in the next sub-section.

### *2.7.3 Meso level: interactions between country- and firm-level advantages*

The contributions of the meso-level analysis of this study are twofold: the analysis contextualises power interactions between macro and micro levels and investigates the important role of business associations and the strategy to diffuse dominant management practices to subsidiaries. To examine how country- and firm-specific advantages may have dominant effects in legitimising MNCs' interests, enabling them to diffuse their practices across borders, this section examines interactions between HQ and subsidiary interests. According to Ferner et al. (2012), the constellation of country and firm competitive advantages will determine the "stance" of organisational capabilities; however, actors' interests may shape transfer outcomes, particularly when the HQ's interests are transferred to a host country with significantly different institutions. Therefore, Ferner et al. (2012) ask "who are the relevant MNC actors in the situation of institutional duality and transfer?" Similarly, Martínez Lucio (2014b) questions how actors coordinate and who the players are who engage in more systematic MNC control.

Within macro- and micro-institutional settings, Ferner et al.'s (2012) brief explanation of subnational institutional settings gives an overview of the role of local governance networks that generate organisational skills. This study investigates the causes and effects of Japanese employment systems by looking at quasi-government agencies (and their coordination with semi-independent local business associations, see sections 4.7 and 4.8) at the meso level; it also looks at how their roles contribute to cross-border management transfer. Japanese organisations have experienced increasing meso-level institutional pressure that has affected corporate strategy

(Morris et al., 2018), but we still do not fully understand whether and how a JMNC's strategic choices (corporate effects) at the meso level affect its operations overseas.

Delbridge et al. (2011) argue that non-organisational actors such as employers' associations involved in regulatory and normative frameworks deserve some attention. It is argued in this thesis that MNCs' internal networks, through business associations, employees' and employers' associations and governing bodies, are also involved, and in some cases play an important role in cross-border HRM transfer. In particular, the business associations are able to feed in their power capacities and frame the mechanisms for transfer. They also form cross-border alliances with state, industry and non-state agencies to enhance their own organisational capabilities. Thus, in meso-institutional settings, interactions between country- and firm-level competitive advantages may offer new avenues for institutions to accommodate tensions between the power capacities and interests of the HQ and its subsidiaries. Actors' deployment of power may create resistance or contestation, a "clash of rationalities" that affects the transfer process (Ferner et al., 2012; Kostova et al., 2008; Lukes, 2005). Actors may either individually or collectively engage in coalition or opposition to accept, negotiate or reject the transfer. Although Ferner et al. (2012) postulate that the outcomes of cross-border transfers of practice in contexts of institutional duality are contingent on constellations of institutional distance and macro- and micro-level power capacities, they have not comprehensively addressed the power of business associations and employer organisations in the subnational institutional setting. In this thesis it is argued that meso-institutional power capacities influence institutions of work, constructing institutional variants and mitigating dominance effects and institutional distance.

Establishing business associations that partner with home and host countries to promote HQ–subsidiary relationships may be crucial to ensuring a smooth transfer. Interactions between macro- and micro-institutional advantages are dynamic; hence, meso-institutions may mediate country- and firm-level competitive advantages. Streeck and Thelen (2005) postulate that institutional "layering" and "conversion" subtly modify the strength of power capacities into a shared-understanding type of approach. Thus, business associations' power capacities support the transfer by removing or circumventing obstacles. Home and firm competitiveness are engaged in dialectic relationships to internalise practices. Business associations' power capacities potentially modify and neutralise resistance to and tension with

subsidiaries' interests by focusing on shared cognitive business strategy frameworks. Figure 2.3 illustrates power capacities in macro-, meso- and micro-institutional settings. At the meso level, the business association's power capacities are deployed to mediate, circumvent or even avoid tensions in the transfer processes, whereas at the micro level, both HQ and subsidiary may leverage their power capacities. This is contingent on the environment of the transfer and the type of power deployed.

#### *2.7.4 Importance of meso-level ideological power in legitimising HRM “best practice” transfer*

It is argued in this thesis that the significance of the meso-level structures of ideological power, i.e. the application of Lukes's (1975) power of meaning, has been overlooked. Specifically, there is as yet no adequate understanding of how the meso-political influences of MNC actors—whose mission is to diffuse HRM “best practice” outside the MNC's home institution, and who have been granted access to involvement in transfer processes—are legitimised. In addition, Ferner et al.'s (2012) subnational power resource settings have not been fully examined. Associations and state agencies develop systematic strategies, which become more important where macro- and micro-level channels of influence are institutionally limited.

In light of the TPS implementation of mechanisms of dominance, this research extends Stewart's (2014) “lean management” practices argument to the first, second and third tiers of Japanese automotive subsidiaries and supply chains and examines their power capacities to circumvent institutional resistance at macro, meso and micro levels. Ferner et al. (2012: 170) argue that “a macro-institutional level of analysis may be inappropriate”, whereas a subnational analysis offers an overarching perspective on national institutional factors and the subnational niches and variants in which they are located (Almond, 2011b). Geppert and Dörrenbächer (2014) and Kostova et al. (2008) point out that this contested power rationale at the meso level has not yet been fully investigated. Taking these existing gaps together, the current research aims to understand the dominant Japanese “lean management” practices being transferred, carried out by business associations and mandated by Japanese institutions and JMNCs (i.e. quasi-government agencies), and transfer processes at the meso level. Figure 2.3 shows the operation of three power dimensions at three institutional levels, and the importance of meso-institutional settings in the EME context.

**Table 2.1: Power capacities**

<b>Headquarters (HQ) and Subsidiary (SUB) Power Capacities</b>			
<b>Institutional Settings</b>	<b>Resources</b>	<b>Processes</b>	<b>Meaning (Ideology)</b>
<b>Macro</b>	HQ ↓ SUB	HQ ↓ SUB	HQ ↓ SUB
<b>Meso</b>	Mediating/Circumventing/Removing Tension		
<b>Micro</b>	HQ ↓ SUB	HQ ↓ SUB	HQ ↓ SUB

(Source: Author's own model)

Application of Ferner et al.'s (2012) propositions and the empirical findings of this study of an EME setting are discussed in Chapter 7. The next section reviews the concept of the ends and means of subsidiary actors and business associates in responding to the diffusion of dominant HRM "best practice" transfer.

### **2.8 Low-Power Subsidiary Actors' Motivations and Strategies**

To further assess low-power subsidiary actors' use of sources of power as balancing or defensive mechanisms, this research explores Bouquet and Birkinshaw's (2008) concept of actors' motivations (*ends*) and strategies (*means*) in seeking to influence their corporate networks to protect their own institutions. Established management-employee relationships between dominant and low-power actors are relevant because local actors' motivation and strategies are constrained by certain conditions but are also a dynamic, evolving force.<sup>5</sup> Local actors may have sources of power, mainly at the micro and meso levels, because EMEs are experiencing greater variation and frequency in the evolution of institutional change, resulting from international and national political-economic transitions (e.g. Dörrenbächer & Gammelgaard, 2016; Meyer & Peng, 2016). Consequently, these local actors' sources of power are emerging in various sectors. Equally, subsidiary actors are interested in improving their organisations and overall local labour market institutions to enhance their sources of power and capabilities. Thus, actors seeking to gain a legitimate voice in

<sup>5</sup> This study does not assume that dominant power resides with HQ actors.

their corporate networks to protect their own practices must make a deliberate choice to ignore, accept or modify the JMNC's HRM "best practice". In the presence of diverse affiliate-MNC relationships, ownership structures and interests, low-power subsidiary actors often engage in political alliances with associations, institutions and business associations to gain power and legitimise their voice over JMNCs (Kristensen & Zeitlin, 2005). Morgan and Kristensen's (2006) concept of the MNC describes actor alliances using tactics to either establish, co-ally or re-construct their means. Micropolitical coalition strategies at the firm level are crucial, not only as indicators of lower-power actors' participation but also in building political alliances from the bottom up to pursue their objective of gaining legitimate influence. In other words, local BGs, management, and employees' and employers' associations use mechanisms of micro-coalition building to strengthen their positions in the corporate system. However, coalition-building tactics are complex, and reinforce interrelationships with other actors.<sup>6</sup>

The current research applies Bouquet and Birskinshaw's (2008) theory to an EME context in which low-power subsidiary actors struggle to improve weak labour market institutions. Centred on the interaction of local BGs' power, resources and capabilities between JMNCs' HQ and Indonesian subsidiaries, this study aims to advance understanding of the concept of low-power actors' management of power to gain influence, legitimacy and centrality in the MNC network from two perspectives: motivation (*ends*) and strategy (*means*). This research sees subsidiaries' objectives and methods as a dynamic force operating within the institutional constraints of the business setting, where low-power (subsidiary) actors are characterised as disadvantaged or in a low-status position *vis-à-vis* other actors (Bouquet and Birkinshaw, 2008). The significance of this study is that the local BG's proactive role in coalition-building efforts with local subsidiary actors (management, unions, employers' associations and government) requires an understanding of the art of political processes, involving prominent local stakeholders in managing critical resources and gaining centrality. Through micropolitical analysis, the research presented in this thesis untangles the complexity of power interactions by examining both the objectives of local actors, and the strategies they pursue to achieve these objectives at the organisational level. In so doing, this study not only contextualises

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<sup>6</sup> This organisational tool is especially important for lower-tier subsidiaries with constraints on sources of power and a lack of means.



low-power actors' voices, but also reveals new evidence on local BGs' interests and proactive involvement in influencing the host-country HRM-IR rules of the game in the EME setting.

The MNC literature falls short of providing theoretical explanations and empirical evidence of the involvement of local BGs as architects of the power and control of corporate management practices, and causal links between power and the outcomes of practice transfer in EME settings (e.g. MacKenzie & Martínez Lucio, 2014). Furthermore, MNC actors' (management and labour unions') complex strategisation of their objectives to achieve legitimacy has not yet been fully addressed. While some literature focuses on the autonomy of a particular actor (management) in centralising and legitimising its commitment (e.g. Kawai & Strange, 2014), other studies focus on antagonism between management and unions in terms of power (e.g. Gammelgaard et al., 2012). In general, the MNC literature characterises dynamic management–union interactions as a product of resistance, and their relationships as a form of reconciliation to gain influence. Furthermore, much of the MNC literature concentrates on the motivation and roles of MNCs' management, HR managers' roles and cross-border networks in gaining influence (e.g. Farndale et al., 2010; Ferner et al., 2011; Hong et al., 2009). However, further understandings have emerged of the importance of local subsidiaries' autonomy in managing local HRM-IR matters (e.g. Lazarova et al., 2017).

In applying Bouquet and Birkinshaw's (2008) concept, this study empirically constructs the critical determinants of three core low-power subsidiary actors' motivations and capacity to gain legitimacy and influence in MNC global networks, facilitated by a local BG closely linked with local institutions which controls the local lead corporation's management. The multi-faceted conditions in which low-power actors interact with the BG result in what many perceive to be a positive, supportive environment enabling low-power actors to raise their voices against dominant MNC HQ actors. However, since the actors' relationships are usually "tight constellations of mutually supportive elements", Birkinshaw (1997) points out that there is no linear causality. This study does not assume that coalition efforts (especially a union joining with business group management) reduce power inequality. The importance here is that the BG's facilitation of conditions that support local actors constitutes a power resource, as established institutional networks evolve into micropolitical alliances. Importantly, the presence of a BG

controlling the subsidiary's management may facilitate each subordinate actor's use of legitimate resources. In return, the BG must gain legitimacy from local actors in order to have any prospect of gaining legitimacy from the HQ. Thus, due to an inefficient local market, the BG's commitment, participation and presence have a broader impact, not only on local actors' strategies for raising their voices and how they pursue their means and objectives, but also on how local actors negotiate efficiently with JMNC corporate actors. As Lawrence and Suddaby (2006) note, this means that the BG's influence may shape, sustain and activate low-power actors and their distinct characteristics. Through the lens of institutional, organisational and MNC scholarship, this research theoretically frames MNC–subsidiary actors' power interactions in relation to advancing and protecting the host country's labour market institutions.

## **2.9 Theoretical Setting: Power Interactions in a Weak Institutional Setting**

Organisational and international business scholars (e.g. Meyer et al., 2011; Kristensen & Zeitlin, 2005) theorise that local actors engage in political games of micropolitical alliances as an organisational tool to influence MNC decisions and optimise their tactics, moving beyond discourses of local actors gaining attention from the MNC. Institutional theorists (e.g. Dieleman & Sachs, 2008; Khatri et al., 2006; Robison & Hadiz, 2004) depict the most powerful actor as an important feature in understanding institutions in an EME setting, as exemplified by the role of a BG's good connections with national institutions. Micropolitical tactics enable low-power actors to feed their organisational agendas into "existing circuits of power" (Bouquet & Birkinshaw, 2008: 479). Equally important, local BGs have *interests* as well as *means* to influence (i.e. maintain, protect and advance) local HRM-IR systems. This suggests that local institutions need an infrastructure of local networks, as rapid local institutional changes and less-developed infrastructures present challenges to the international business environment (Meyer & Peng, 2016). So far, local actors may have preferred to use the tactic of micropolitical alliances (among local actors) as a means. However, Bouquet and Birkinshaw (2008) observe that to make a critical set of strategies work successfully, trade-offs are inevitable in managing desirable objectives and the means of negotiating. Conceptualising actors' power interactions in this particular context provides an understanding of how flows of influence between actors may easily change their power resources and have an

impact on management practices. In short, this research investigates efficient approaches used by low-power actors to gain influence in the MNC's global networks. Sections 2.9 and 2.10 explain how local actors gain legitimacy and what coordinated strategy options they may have.

### **2.10 Importance of Legitimacy for Local Actors**

Weber (2009, cited in Bouquet & Birkinshaw, 2008: 480) defines legitimacy as “a form of social approval that facilitates the acquisition of power because it determines how social actors are understood and evaluated”. Meyer and Rowan (2015: 50) observe that the “lack of acceptable legitimated accounts of their activities” make them “more vulnerable to claims that they [low-power actors] are negligent, irrational or unnecessary”. Therefore, from the local actors' perspective, taking action to achieve legitimacy with people in positions of authority is extremely important for their organisation, identity and interests. Legitimacy permits local actors to raise their voices and exert influence over the dominant authoritative power actors. A critical factor explaining local actors' legitimacy objective is their recognition that their own home business environment has become less competitive or that they have failed to develop their capacity to keep up with the MNC's performance expectations. Local actors may see the lack of home-country institutions, with complex and fragmented regulations, policies and infrastructural systems, as raising risks, and the MNC may perceive such host-country conditions as detrimental (e.g. Peng et al., 2008; Maskell & Malmberg, 1999).

These legitimacy factors have two significant implications for this study. First, although local actors see their home institutions as being on the periphery of the MNC's institutions (Harzing & Noorderhaven, 2006), it should *not* be assumed that their activities are perceived to be insignificant. In particular, when the subsidiaries' business environment improves, and labour market institutional changes gain credibility in the eyes of the MNC's authoritative decision makers, local BGs will be motivated to become involved and mobilise their local subsidiaries' *means* and *ends* by forming alliances in response to HQ actors' dominant practices. Second, when local actors recognise the beginnings of change in the foreign MNC's investment outlook, their competitiveness may be less credible than when the MNC established the partnership, or there may be disproportionate FDI compared with the initial endowment. As El-Erian (2016) observes, more developed economies remain in a

“low-level growth equilibrium”. For example, as a result of Japan’s declining economic performance in the global financial world, and with intense competition from other countries such as China, the JMNC may be compelled to re-establish shareholdings that redefine its relationships with local subsidiaries and BGs (Sako & Kotosaka, 2012). Furthermore, in light of the effects of the 1997 Asian financial recession and the bursting of the economic bubble, Endo et al. (2015) investigate the relevance of Japanese work, employment and organisation in management scholarship. As the world’s thirdlargest economy, does learning from Japan and Japan as the “Number One” still matter? (e.g. Aoki et al., 2014; Oliver & Wilkinson 1992; Vogel, 1979). This current study investigates how the JMNC uses its (remaining) power to diffuse its dominant HRM “best practice” to subsidiaries. Hence, the changing business environment of both subordinate actors and the MNC HQ leads to opportunities for negotiation and potential trade-offs.

### **2.11 Local Actors’ Engagement in Political Games: Coalition Building**

Morgan and Kristensen (2006) view MNCs in terms of highly complex formal and informal relationships with inside and outside actors, associations and representatives that constitute “micropolitical power” at different levels, shaping power processes. Martínez Lucio (2014b: 295) suggests that MNCs are “increasingly contested spaces” relative to the coordination and control of local subsidiaries, conditioning and shaping local institutions. Similarly, the institutional and MNC literature (e.g. Carney et al., 2018; Fainshmidt et al., 2016; Whitley & Zhang, 2016) indicates how local actors participate in political games to pursue their objectives. In particular, the practices of the local lead corporation’s management (comprised of BGs) support the positions of subsidiaries in the corporate system. Drawing on the local institutional context, the coalition-building efforts of management, employees, unions and local institutions and associations strengthen their bargaining power with the HQ. The BG lobbies actors who are seeking to gain legitimacy. Whereas one actor may lack resources, another may have inadequate capabilities. In such situations, low-power actors require enabling sponsorship, and this is where trade-off opportunities also occur within the home country. In this micropolitical context, the BG manages the local lead corporation’s subsidiaries (based on the ownership structure), recognises the objectives and identifies the necessary resources to pave the way for local actors to raise their voices.

The benefit to the BG is that it protects its established position with both the foreign owner and local subsidiaries. Collective modes of action are orchestrated by the local BG. Mobilising local actors, industry alliances, governments and associations is key to maintaining and developing coalitions (Barnett et al. , 2000; Westley et al., 2009). In so doing, BGs can maintain their existing power, demonstrate their important role in overseeing local institutions, and validate their ownership structure in certain sectors (e.g. Driffield et al., 2007). However, this process is complex, and coalition-building tactics may be impeded by intra-organisational inertia. For example, local subsidiaries' HRM practices and IR policies may be at stake and contested in terms of relationships between management and employees. In such situations, the local lead-corporation's management must usually make certain adjustments.

To further examine low-power subsidiary actors' strategy, the current study considers Money's (1998) two types of coalition-building efforts, with *broader* and *narrower* objectives, pursued by conglomerates to form relationships. The broad type involves "the formation of a relationship which in a broad sense of purpose exists" (Money, 1998, cited in Bouquet and Birkinshaw, 2008: 497). Coalition building brings together all actors' objectives to counteract dominant actors, for example, by advancing management practices to improve working conditions and employee skills. The second type of coalition strategy involves the formation of relationships with narrower objectives for a particular local or other non-organisational actor, such as an association or government agency, with a specific objective linked to the lead corporation's management. These broader and narrower coalition-building tactics require a particular coalition of workers, associations and government groups to manage the MNC's authoritative decisions. A common feature of these two micropolitical coalition-building strategies is that local actors increase their visibility and strengthen their interpersonal relationships. The validity of Bouquet and Birkinshaw's (2008) proposition and the empirical findings of this study are discussed in detail in Chapter 8.

As the object of contest, actors from home and host countries have different interests constructed and shaped by their particular institutional contexts (Morgan & Kristensen, 2006), and scholars have identified various actors' interests and power capabilities to challenge the transfer process. For instance, whereas Edwards et al. (2007) postulate differences on the basis of organisational politics, Ferner et al.

(2005) look at micropolitical approaches from an IR perspective. These two institutional theory debates suggest that examining the inward transfer of dominant HQ management practices to low-power subsidiaries in an EME context is important. Clearly there is a need for further exploration beyond the context of Western and advanced institutions. The current study adopts an IR lens through which to examine not only micropolitical approaches to management-labour relations, but also the proactive role of agencies and employer associations in shaping local labour market institutions.

Ferner et al. (2005) argue that subsidiaries in less advanced countries expect to have less power as a result of their weak institutions and may be interested in adopting practices from firms based in countries with stronger institutions or more dominant economies. However, scholars have produced little explanation for dynamic interactions in HQ–subsidiary power relations. Furthermore, knowledge of the structure of HRM practices, employees’ abilities and motivations, and actors’ power capacities in relation to cross-border transfer remains rudimentary, and using different methods, notably in-depth case studies, may deepen our understanding (Minbaeva et al., 2014; Ferner et al., 2011). This study explores the importance of HRM in power interactions mediating transfer and explains the source and role of actors’ powers capacities and how they play out in institutions in the automotive sector, across subsidiary manufacturers of cars, motorcycles and autoparts.

## **2.12 Conclusion**

Changes in the political economy of home and host countries reflect the complexity and uncertainty of the international business environment in which MNCs operate. In EME countries, such as Indonesia, Mexico and Brazil, FDI and foreign MNCs are playing an increasingly important role in developing local firms, as well as the wider industrial economy. As a result, the expectation is that MNC power will rest mainly in the hands of foreign investors, because EMEs are seeking to adopt MNCs’ practices quickly and are interested in following the authority of foreign firms and investors. Nevertheless, cross-border transfers of foreign knowledge are not limited to the capabilities of the HQ, and they may be contested (e.g. Geppert & Williams, 2016; Clark & Geppert, 2011; Becker-Ritterspach & Dörrenbächer, 2011; Morgan & Kristensen, 2006). The complexity may be attributable to relationships between actors, varying interests and balances of power between the MNC and subsidiaries,

and the involvement of quasi-government agencies, as well as the role of BGs in influencing the transfer process (as discussed in greater detail in Chapter 8).

It is recognised in this thesis that an advanced economy such as Japan has institutional advantages over less-developed countries such as Indonesia, and that therefore, as the existing literature suggests (e.g. Whitley & Zhang, 2016; Rosser, 2014; Aoki et al., 2014; Delbridge et al., 2011), much of the power lies in the hands of JMNCs. Nevertheless, the case will be made that the labour market institutions of the host country may be redefined, incentivizing local actors to gain status and expertise in MNCs' global networks. This study not only examines changes in the home country, but also investigates changes in the host country's labour market institutions, the development of the host country's political economy, and improvements to its HRM-IR infrastructure since the 2007 global financial recession.

The theoretical roots of this thesis lie in research on institutions, work (industrial relations) and organisations. To understand the complexity of inconsistent forces among the various actors, it draws on nuances suggested by Minbaeva et al. (2003) on intended HRM practices for the development of knowledge transfer; Ferner et al.'s (2012) constructs of power resources and actors' interests at macro, subnational and micro levels, which are strongly subject to host-country influence; and Bouquet and Birkinshaw's (2008) motivations (*ends*) and strategies (*means*) through which low-power (subsidiary) actors gain legitimacy within the dominant HRM and cross-border transfer paradigm. Overall, these three chosen concepts focus on subsidiaries. Moreover, since both Ferner et al. (2012) and Bouquet and Birkinshaw (2008) underscore the importance of different actors' power capacities, interests and strategies in shaping cross-border management transfer processes, their concepts can be combined, as illustrated in this chapter and more explicitly in Chapter 7. It is important to show that Ferner et al.'s (2012) and Bouquet and Birkinshaw's (2008) concepts are complementary, offering opportunities for a more comprehensive analysis. For example, while Ferner et al. (2012) focus on actors' interests at three institutional levels of analysis, Bouquet and Birkinshaw (2008) look at actors' motivations and strategies. However, the latter do not show how these two dimensions play out at different levels of institutional analysis, while the former might add *the means* of actors (strategy) into the framework to investigate the operationalisation of actors' power capabilities and interests, i.e. how actors' power

capacities, interests and motivations influence mechanisms of cross-border management transfer. The theoretical basis for combining the two is the manifestation of power associated with causality, control, power *sources* and power *means* (e.g. Blazejewski & Becket-Ritterspach, 2016; Dörrenbächer & Gammelgaard, 2011). However, the Kostovian, neo-intuitionist approach to transfer processes in MNCs is less valid for this study, since Kostova (1999) focuses on the failure of home- and host-country institutional distance effects to assess transfer processes accurately. The concept also fails to investigate MNCs' use of power capacities, interests and strategies across a range of dimensions (e.g. cross-border, nationally, subnationally and within their own organisations), which influences transfer processes and outcomes at different institutional levels, rather than just the macro or general country profile level (Geppert & Williams, 2016). Thus, the IHRM and institutional approaches of Minbaeva et al. (2003), Ferner et al. (2012) and Bouquet and Birkinshaw (2008) are more useful for this study.

By exploring these nuances and consolidating theoretical threads from each of these frameworks, this research contributes theoretically to institutionalist and micropolitical schools by drawing on power-based theory to investigate actors' power capacities, and contextualising business associations' power capacities where MNCs operate in an institutionally constrained context. In so doing, this study identifies the "*other actor groups* [who] may also be involved in influencing the transfer process in practice" (Ferner et al., 2012; Geppert & Williams, 2016: 157). While the empirical contributions of this research lie in examining actors' motivations, interests and strategies as dimensions of subsidiaries' influence of the process and outcomes of HRM-IR cross-border transfer, one could also argue that they extend Blazejewski's (2009) findings relating not only to why local actors respond to HQs in different ways, but also to *how* they gain legitimate status in global MNC networks.

In general, this study responds to the contention of Bamber et al. (2016), Sparrow et al. (2016) and Bjorkman and Lervick (2007) that the HR literature has struggled to operationalise cross-border HRM-IR practices in the cross-national context. It does so in a setting suggested by Pinkham and Peng (2017), Meyer and Peng (2016), Xu and Meyer (2012) and Wright et al. (2005), who underscore the importance of institutional voids in EMEs, and by Becker-Ritterspach et al. (2016) in relation to understanding actors' power, interests and strategy from a micropolitical



perspective. Also, in investigating “the divergence of interests, power inequalities and structured antagonism of capitalist employment relations under Japanese HRM” (Aoki et al., 2014: 2557), this study follows Martínez Lucio’s (2014b) IHRM approach to political economy and MNCs’ control over subsidiaries.

In summary, to minimise the theoretical gap in the literature on MNCs, this study applies the theoretical frameworks of Minbaeva et al. (2003), Ferner et al. (2012) and Bouquet and Birkinshaw (2008) to examine cross-national transfers initiated by Japanese actors across the Japanese automotive industry at three levels of analysis in subsidiaries operating in the EME setting of Indonesia. These institutions and IHRM frameworks facilitate investigation of how the corporate power, interests and strategies of MNC actors shape cross-border transfer and the adoption of internationalisation embedded in practice, through processes that draw on the institutional resources of the MNC in the home country and of subsidiaries in the host country. In particular, the study examines how actors’ power relations in MNCs’ HRM-IR influence the transfer of JMNCs’ practices to Indonesian subsidiaries.

Applying the three theoretical frameworks to the diffusion of Japanisation in the EME setting of Indonesia is appropriate for current institutional debates, as it provides a more nuanced understanding of the mechanisms and impact of contested cross-border management transfers controlled by HQs, and how subsidiaries respond to them. Almond et al. (2005) observe that micro-level qualitative research on institutional frameworks allows for an examination of the established reasoning logics of actors’ interests and approaches to persuading subsidiaries. Therefore, multi-level empirical analysis is conducted to examine the importance of actors’ power interactions and capabilities relative to inward knowledge transfer processes in inter-firm and intra-firm HRM practices at macro-, meso- and micro-institutional levels.

## **Chapter 3: Methodology and Methods**

This thesis applies the critical realist (CR) theory-building approach of existing MNC theory to an EME in Southeast Asia. In the CR approach, what can be claimed as knowledge distinguishes between what is happening and what is taken for granted—similar to natural scientific phenomena. This study draws on an empirical exploration of the phenomena of work, employment and organisation through the lenses of IHRM, IR and IB, by applying the conceptual and analytical research tools of CR.

The research methodology of this study proceeds from epistemology (what we know) and ontology (what is real), with an emphasis on causal explanations (mechanisms in their context) and discourse analysis to conceptualise the diffusion processes of cross-border management practices. This chapter explains the research methodology and design. It provides details of the research setting, the processes involved in analysing the data, gaining access, and conducting semi-structured interviews. In addition, it briefly addresses funding issues. This chapter aims to demonstrate the applicability of CR as well as the importance of the researcher's reflections on new perspectives that contribute to the development of CR. It explains the concept of CR and delineates its applicability to the ideas and real examples derived from subsequent discussions. Chapter 3 concludes with highlights of features of CR that are pragmatically important to this thesis and to theory building in organisational research more generally.

### **3.1 Epistemological and Ontological Stance: Critical Realism**

CR is appropriate for this thesis because it enables the generation of causal mechanisms, coupled with abduction and reintroduction to develop explanations of these mechanisms and implications of changes in “nature” (Edwards et al., 2014; Vincent & O’Mahoney, 2018). This study aims to understand changes to work, employment and organisation. Bhaskar’s (1978) CR approach suggests that the fundamental task of conducting social science research is to address “a stratified and open system of emergent entities”. Vincent and O’Mahoney (2018: 2) indicate that CR is applied to a specific entity of a causal mechanism in the context of organisation studies: “The social world is full of powers, the actualization of which is often retarded by other powers within the open systems in which they are located.”

Vincent and O'Mahoney (2018) offer the example of the impact of wages on labour markets to illustrate the potential for one entity to act upon another, making clear that the power of the CR stance does not lie in sociological concepts of power; rather, the metatheoretical power of this thesis can be found in addressing the concept of corporate power. This chapter assesses interactions of power, namely, the *power to* (empowerment) develop better explanations of causal mechanisms, by exploring three types of corporate power. The *power to* in the epistemological and ontological stance of CR relates to the fact that although power may exist, "this power may be *exercised* by the power being triggered; yet this power may or may not be *actualized* because there may be countervailing powers" (Vincent & O'Mahoney, 2018: 4). As such, this thesis is theoretically informed by organisation studies in considering *why* and *how* MNC actors use their power capabilities to diffuse, influence and respond to an MNC's cross-border transfer of HRM "best practices" and their outcomes in EME labour market institutions.

The setting for this research is compatible with a CR stance. In terms of the causal power of entities, the interaction of one entity with another causes change or, borrowing Vincent and O'Mahoney's (2018: 4) phrase, "transforms entities". Furthermore, applying Danermark et al.'s (2002: 5) intuition that "the world is structured, differentiated, stratified and changing" to the research setting of this thesis reveals that both MNC and subsidiary actors experience pressures that enable them to respond to (institutionally embedded) changes.

Ontology departs from the question of how reality is constructed, while epistemology relates to how knowledge can be acquired—i.e. "how we can know that we know" (Danermark et al., 2002). As Bhaskar (1978: 13) puts it, "what properties do societies and people possess that might make them possible objects for knowledge?" It is also necessary to establish a theoretical foundation to guide the direction of the research. However, theory and method should not be deemed separate entities, as empirical analyses can depart from theory building and analysis of the theoretical definition (Danermark et al., 2002). Quantitative and qualitative research methods employ a broad array of methodological tools which can often be combined to produce rigorous research projects. As Danermark et al. (2002: 2) argue, ontological and epistemological dimensions are like "critical methodological pluralism". Since this research examines the impact of power, politics and conflicts

of interest in work—as well as employment and organisational management—society as an open system must be understood to be different from a natural science.

CR combines ontology and epistemology with implicit assumptions. In this vein, the current research adopts a historical perspective on Japanese and Indonesian labour market institutions in relation to key events that have contributed to changes in institutions: specifically, the 1997 Asian and 2007 global financial crises. This approach uses institutional analysis to examine causal sequences in how mechanisms and contexts interact. It sets out from a specific time to understand the conditions of change, and where and what prompted the change. Social science scholars, (e.g. Morris et al., 2018; Endo et al., 2015; Aoki et al., 2014; Smith & Elger, 2014; Sako & Kotosaka, 2012) observe that Japan experienced a prolonged lost decade, perhaps as a result of declining Japanese power and reduced interest in studying Japan alongside the rise of China as an economic power which may also have boosted interest in studying China (e.g. Jürgens & Krzywdzinski, 2016). Therefore, this thesis does not take for granted the significance of Japan’s fundamental strength in innovation and its critical contributions to Southeast Asian’s sociopolitical, economic and IB environmental development, factors which have enabled it to compete with the American and German models. It makes that case that studying the “divergence of interests, power inequalities, and ‘structured antagonism’ of capitalist employment relations under Japanese HRM” (Aoki et al., 2014: 2557) remains relevant, timely and appropriate. According to Smith and Elger (2012: 3):

*Capitalism has systematic force; but in actual capitalist societies, social relations have different empirical expressions (French, Chinese or Japanese forms for example); in actual events in time, agents are responding to pressures and forces in – context-dependent – ways which unite them (or make their actions intelligible) as agents (workers, managers) with other agents (workers and managers in other countries).*

This suggests the applicability of the distinctive philosophical ontological approach of CR in understanding various aspects of the multi-layered social world that affect a “thing” in a certain context. This includes the research design, the process of conducting interviews and the data analysis in an empirical and actual and real context. Smith and Elger (2012: 4) further clarify that “A key feature of critical realism is it stresses a layered ontology to social reality,” with empirical (sensory experiences), actual (action in events) and real (causal power separate but not always evident in empirical and actual) manifestations. The empirical element here is

observable events: “actual” constitutes existing materials, substances and events that have occurred. Without “structures and mechanisms” (Elder-Vass, 2010: 44), these events may (partially) occur and therefore be unobservable. From the ontological standpoint of CR, they will not be considered as real.

This thesis examines the Japanese capitalist system, socioeconomic and political actors and social relations in the context of institutional changes in home and host countries, and how MNC actors interact, negotiate and strategise in response to these changes. What the notion of “taken-for-granted” Japanisation means to non-Western and advanced contexts is not yet fully understood. Thus, this study attempts to broaden IHRM, IR and IB research understandings of Japan and JMNCs (e.g. Bamber et al., 2016; Martínez Lucio, 2014a; Witt & Redding, 2014). The objective is to investigate a previously unexplored area to deepen our appreciation of the global Japanese management systems discourse beyond advanced industrial economic contexts. Aligned with CR, appropriate questions include the different impacts of Japanese FDI on the lives of other societies, i.e. on Indonesian workers in Japanese subsidiaries compared to their counterparts in other local and foreign firms operating in Indonesia, and how Indonesian workers critically perceive the JMNC’s work environment and lean ideology.

The CR approach, while epistemologically cautious, validates knowledge of reality; it is interested in producing knowledge about the real world, including causal mechanisms in institutional processes. Danermark et al. (2002) suggest that causal mechanisms are an analytical tool to expand our understanding of the nature of society in different settings. This study questions how “real” institutional changes can be explained and how knowledge can be obtained from them. Although it is also argued that “reality is always fallible” (Danermark et al., 2002: 10), the theoretical framework and methodological research instruments can be used to examine which theories have implications for understanding reality.

In studies of IHRM and MNCs, it is increasingly accepted that organisational behaviour is of relevance to IB (e.g. Crouch, 2005; Morgan et al., 2010; Thelen, 2010). Critical realists view the research process as “the relations between the real world and the concepts we form” or “the relations between knowledge and the object of knowledge” (e.g. Danermark et al., 2002: 10). In other words, reality has an “objective existence”, yet the precondition of knowledge is conceptually mediated. Simply put, facts are “theory-dependent” but are not “theory-determined” (e.g.

Danermark et al., 2002: 10). For instance, within “truth” there is a link with reality. Importantly, as Thelen (2010) suggests, information gathered from a large dataset should not be perceived as a comprehensive picture of “reality”. Thus, it is necessary to use a wide spectrum of methods, conceptualise the phenomenon of reality gleaned from the data, conduct rigorous research and re-test the findings.

### *3.1.1 Underpinning of ontology: Mechanism, process and context*

Philosophically, the conceptual approach of CR requires a cyclical process to observe a phenomenon through different lenses. It should not stop at what is initially seen as “real”. The breadth of the existing literature on the Japanese business system demonstrates that scholars have devoted considerable time to studying it. This raises questions about how JMNCs became a “global” phenomenon, and how Japanese management and production systems became globally recognised by both scholars and business practitioners. More critical questions include whether widespread Japanisation is diverging from “classical” Japanese employment “best practices”, whether Japanese institutions are upholding such practices in certain host countries such as Indonesia, whether and why JMNCs offer a good model for Indonesian firms, and to what extent Japanese capitalist systems can be applied to other contexts.

In investigating these nuances, CR is distinct from positivism. Social scientists may claim to know “something” and may acknowledge that “something” does exist; but one should not rely entirely on something one claims to know as knowledge. Thus, dominant JMNC practices are appropriate as a case study to explore how mechanisms and contexts interact in different institutional settings. The research design of this thesis aims to probe mechanisms and processes to explain why changes happen, and why actors behave as they do, drawing explanations (theories) from insights, and identifying transfactual elements that may be hidden in the mechanisms and processes of cross-border transfer. According to Burawoy (1998: 14), reflexive research is an intervention to reveal “the hidden sector of the participant’s world”. The theory building of CR generalises from an empirical to a theoretical stance (Danermark et al., 2002; Vincent & O’Mahoney, 2018).

Following Colquitt and Zapata-Phelan (2007), the theory-building discourse of this thesis centres around learning about existing theory, scrutinising relevant literature and framing research questions pertaining to institutional theory within a

larger stream of IHRM, IR and IB. This thesis is informed mainly by organisation studies (e.g. Ferner et al., 2012; Lukes, 2005, 1975), institutional theory (e.g. Ferner et al., 2005; Edwards et al., 2007; Whitley, 1999), the literature on MNC–subsidiary politics and power (e.g. Bouquet & Birkinshaw, 2008; Minbaeva & Santangelo, 2018; Meyer & Peng, 2016; Khan et al., 2015; Almond, 2011a) and IHRM (e.g. Delbridge et al., 2011; Bamber et al., 2016; Martinez Lucio, 2014a) to comprehend the importance of actors’ power capabilities in diffusing management practices. Following scholars such as Bamber et al. (2016), Fainshmidt et al. (2016) and Meyer and Peng (2014), this thesis strives to move beyond both advanced industrial contexts and mainstream EMEs such as China and India (e.g. Jürgens & Krzywdzinski, 2016).

To understand how existing theory can be extended to a new setting and to demonstrate why the research has positive implications, Whetten (1989) suggests that a qualitative approach may be considered as an appropriate method to investigate the application of theory and to validate the link between theory-building and empirical studies (see also Cassell et al., 2018; Edwards et al., 2014; Balogun et al., 2011; Eisenhardt & Graebner, 2007). Furthermore, in developing existing concepts, this research adopts a qualitative rather than quantitative approach (Morgan et al., 2010) for three reasons. First, statistical data are extremely difficult to obtain in certain contexts such as Indonesia (Witt and Reading, 2013). Second, Fainshmidt et al.’s (2016) recent work on institutions in Indonesia suggests that a deeper approach to studying actors’ interactions can be achieved by analysing their views and interpersonal interactions. Third, a qualitative approach has been used for similar foundational works on varieties of capitalism and Asian business systems (e.g. Whitley, 1992; Witt & Redding, 2014; Hall & Soskice, 2001). Along with the three main IR actors, the data cover other interest groups, namely business groups (conglomerates), employers’ associations, quasi-government agencies and NGOs. Oligarchical BGs remain influential in the ownership and corporate governance structure of Indonesia’s institutions, especially where local government remains weak (e.g. Fainshmidt et al., 2016; Temouri et al., 2016; Ford, 2014; Witt & Redding, 2013; Dieleman & Sachs, 2008). Overall, Vincent and O’Mahoney (2018) assert that case studies are the most common and arguably most useful method for CR research, using methods such as interviews, observations, focus groups and literature reviews (e.g. Vincent & Wapshott, 2014). Existing explorations using case-

study methods offer guidance on how to apply CR, while leaving room for new insights into existing research.

### **3.2 Research Methods**

In applying an exploratory, inductive and deductive research methodology, this study follows five core tenets of grounded theory, based on Glaser and Strauss's (2009) work and extending Gligor et al.'s (2015) theory. An inductive approach is suited to generating new theory, exploring new phenomena emerging from the data, and conducting analysis to explore important aspects of transfer processes in a given context (see Chapter 6). In contrast, a deductive qualitative approach is more applicable to the analysis discussed in Chapters 7 and 8 because it applies existing theory to a context (sensitising concepts) and extends the theory by adding new empirical dimensions. The deductive approach facilitates the connection of data with theory, analysed from different perspectives. The presentation of the findings begins with an inductive approach in Chapter 6. This allows direct observations and analysis to reveal interactions between actors in their natural working environment. This is followed by a deductive orientation to theory to explore general causality in Chapters 7 and 8. The deductive approach requires clear research objectives, using the method(s) best suited for exploring an emerging area of study and answering the research questions. Hence, this approach strengthens the generalisability of the findings to existing theory.

To address the research questions, this thesis focuses on the largest automotive firm in Indonesia. This is an explorative study of a single multi-site case of cars, motorcycles and autoparts under the management of a single local BG, Astra International. This focus allows not only a comprehensive analysis of dynamic, multi-faceted processes and interactions but also an in-depth investigation of the conditions that prompt diverse corporate strategies (e.g. Jürgens & Krzywdzinski, 2016; Vincent & Wapshott, 2014; Dieleman & Sachs, 2008). As Siggelkow (2007) argues, a single case permits the researcher to observe directly and in detail how interactions occur between actors at inter- and intra-organisational levels, and between firms and institutions at macro, meso and micro levels. Sociopolitical actors in the chosen cases actively shape the host country's labour market institutions. The automotive industry in an EME setting was chosen due to the degree to which



inward capital, knowledge transfer and interactions between dominant and low-power actors are “transparently observable”(Eisenhardt, 1989).

According to Eisenhardt (1989), a case study approach is fitting for new topic areas and is tightly linked to data and theory. This thesis draws on in-depth, qualitative research on three automotive joint-venture multi-site case studies of car, motorcycle and autoparts manufacturers, produced through two phases of data collection in Indonesia and Japan. The fieldwork in each phase and country was informed by two clear research objectives: (1) to explore how mechanisms of transfer and contexts interact and develop over time and (2) to examine conditions that support or reject the transfer. Adopting a qualitative approach enabled an understanding of inter- and intra-organisational institutions, practices and behaviour in new competitive environments in relation to JMNCs in Indonesia (e.g. Almond & Connolly, forthcoming).

The current research investigates the impact of dynamic inter-human relationships on the development of HRM practices that facilitate international knowledge transfer (see Chapter 6). The qualitative research design enables subtleties to be captured in the inter-human relationships that prompt inter- and intra-organisational capabilities and motivation. Evidently, some nuances can only be gleaned by engaging in discussions and talking to people. Smith and Elger (2018: 5) argue that “interviews are an interactive method—a dialog where the meanings, explanations and emotions articulated by interviewees are taken seriously by researchers”. The interview process provided the researcher with direct access to participants’ opinions, attitudes and accounts of their experiences of events and activities (Smith & Elger, 2018). The social act of communication among human actors, the mutual construction of meanings and narratives (Burawoy, 1998), and the possibility for the joint construction of knowledge are essential elements of social research methods. From a constructionist view, Holstein and Gubrium (1997: 122) suggest that active interviews construct meanings and narrative analysis by “activating, stimulating and cultivating” the subject’s interpretive capabilities.

The car, motorcycle and autoparts case studies examined in this thesis provide an ideal setting to explore three puzzling IHRM discourses: dominant versus existing systems, different actors’ power, interests and strategies, and HQ–subsidiary relations. It was also important to examine the variety of actors’ power resources and allocations, because this allowed causal processes to be traced in order to

operationalise the implications for management meaning and to compare MNC actors' power in eleven case-study organisations.

Furthermore, in investigating conflicts over the ideology of HRM-IR “best practices” at the micro level, it was not enough simply to visit the plants to determine whether a Japanese or Indonesian model prevailed. To examine more extensively why actors “appeared” to agree to accept Japanisation but implemented profoundly different HRM-IR practices, it was necessary to study allocations of power, the types of actors involved and how conflicts were negotiated (see Chapter 7). Hence, data were gathered from management as well as from Japanese and Indonesian agency actors directly involved in cross-border management transfer processes. Adopting a qualitative approach also facilitated the examination of interactions between actors at micro-organisational levels, including interactions within organisational units and within associations. Furthermore, this approach helps reveal how low-power actors engage in political processes to gain legitimate status in the MNC's global network (see Chapter 8). Presented in Table 3.1 is an outline of the research design and components of specific data used to answer the research questions in Chapters 6, 7 and 8.

**Table: 3.1 Outlined of Chapters 6, 7 and 8 research questions and data used**

Chapter	Chapter 6	Chapter 7	Chapter 8
RQ	How do HQ-subsiary inter-organisational interactions, and forms of direct control, affects subsidiaries' ability and motivation for knowledge absorption? <sup>7</sup>	How do MNC and subsidiary actors mobilise macro, meso and micro sources of power to promote their preferred HRM practices?	How do local business groups engage with local actors in order to establish their legitimacy with foreign multinationals?
Primary data	<ul style="list-style-type: none"> <li>• Toyota, Honda and <i>seven</i> autoparts companies,<sup>8</sup> HIDA and APINDO</li> <li>• <i>102</i> interviews: 10 Astra management; 12 cars (5 management+7 employees); 25 motorcycles (10 management+15 employees); 30 autoparts (8 management+22 employees); 15 business associations and 10 Japanese expatriates</li> <li>• Group interviews with Honda, Aisin and Denso Indonesia</li> <li>• Observations in all workplaces, ATC, organisations and three union offices in Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>• Toyota, Honda and <i>eight</i> autoparts,<sup>9</sup> HIDA, APINDO and KADIN</li> <li>• <i>110</i> interviews: 10 Astra management; 12 cars (5 management+7 employees); 25 motorcycles (10 management+ 15 employees); 35 autoparts (15 management+20 employees); 15 business associations and 13 Japanese expatriates</li> <li>• Group interviews with Astra, Honda, Aisin and Denso Indonesia</li> <li>• Observations in all workplaces, ATC, organisations and three union offices in Indonesia</li> </ul> <p>Observation in HIDA Japan</p>	<ul style="list-style-type: none"> <li>• Business groups (Astra and Lippo), cars (Toyota and Daihatsu), motorcycles (Honda and Yamaha) and <i>eight</i> autoparts, HIDA, APINDO, KADIN and NGOs</li> <li>• <i>127</i> interviews: 12 management (7 Astra+5 Lippo); 17 cars (7 management+10 employees); 33 motorcycles (15 management+18 employees); 35 autoparts (15 management+20 employees); 15 business associations and 15 Japanese expatriates</li> <li>• Group interviews with Astra, Honda, Aisin and Denso Indonesia</li> <li>• Observations in all workplaces and organisations in Indonesia</li> <li>• Observation in HIDA Japan</li> </ul>

<sup>7</sup> For the presentation of this table, RQ 2 and 3 are *not* listed in this table

<sup>8</sup> Musashi, Denso, Aisin, Federal Nittan, Kayaba, Adiwira Plastik and Indokarlo Perkasa

<sup>9</sup> Musashi, Denso, Aisin, Federal Nittan, Showa, Kayaba, Indokarlo Perkasa and Adiwira Plastik

The interweaving of MNC actors and agency alliances sheds light on MNC strategy and expands IHRM scholarship. Thus, these qualitative methods provided a foundation for applying Minbaeva et al.'s (2003), Ferner et al.'s (2012) and Bouquet and Birkinshaw's (2008) concepts in an EME context.

This multi-pronged empirical case study centres on the sources of power of multiple actors (management, employees and unions), in addition to three Japanese and three Indonesian business associations directly involved in the process of diffusing practices to the Indonesian automotive industry. In so doing, the researcher maximised variation within the cases, and compared and sought out unique cases that might offer novel dimensions to the study (Almond & Connolly, forthcoming). In Burawoy's (1998) terms, this technique is described as theoretical sampling. The study examined different structures of ownership, the level of influence and the length of partnership of each car, motorcycle and autoparts subsidiary to understand the use of power in balancing dominant actors and legitimising HRM-IR "best practices". The 12 case study organisations represented a reasonably diverse sample in terms of their capacity to execute both the Japanese lean production and lean management ideology. These different organisational settings illustrate the paradigmatic case of dominant versus low-power MNC actors represented in qualitative studies (Merriam & Tisdell, 2015). Understanding organisational phenomena throughout the supply chain through automotive case studies offered a valid approach to building theory from cases (e.g. Khan et al., 2015; Aoki et al., 2014; Voss et al., 2002; Meredith, 1998). It was important to analyse both the complex array of context(s) that influence patterns of behaviour in organisational entities ("upwards") and the complex sets of behaviours in interacting sub-units ("downwards") (Vincent & Wapshott, 2014). Accordingly, the eight selected AOP sub-units had different tier classifications, allowing ample empirical evidence to be collected on the quality of Japanese lean ideology from direct and indirect JMNC subsidiaries in the autoparts supply chain. Consequently, the implicit comparison of multi-site cases, drawing upon IHRM, IR and IB frameworks, reveals the complexity of work and employment contexts. Such a comparison enables the researcher "to explore the macrofoundations of microprocesses" (Burawoy, 2009: 12). The automotive plants, with large labour forces and high levels of capital, were crucial to this thesis, as investment structures pertaining to managing resources and capital demonstrated not only the power of Japanese management in various aspects but also

a clear pattern of actors' strategies to sustain or accept Japanese influence in practice (Endo et al., 2015). Examining different understandings of HRM-IR "best practices" and their appropriateness to different actors enabled the author to carry out in-depth research and analyse the power of management ideology capabilities at three analytical levels.

A qualitative design was appropriate for this exploratory study, as it elicited descriptive evidence of research participants' personal understandings and views based on real-world experiences. The firm-level data offer deeper theoretical insights into the major impact on employment structures of "transitional" (e.g. from dictatorship to liberalised IR institution) market economy factors across different types of working practices. Such institutional changes have been identified in previous studies of the post-Asian and global financial crises (e.g. Casez & Verick, 2013; Morgan et al., 2010) in both home- and host-country labour market institutions. In addition to primary sources, data were gathered from secondary sources.

### **3.3 Research Design**

The research design of this thesis centres on examining *why* things happen, and takes a theory-based approach to elucidate the process of change (Vincent & O'Mahoney, 2018; Danermark et al., 2002). A CR approach moves from empirical data to theoretical generalisations applied to the context, using triangulation to make many different data comparisons (Saka-Helmhout, 2014). However, Vincent and O'Mahoney (2018) emphasise that empirical evidence prompts actualisation (conceptualisation) of the mechanism. Following Ackroyd (2009) and Miles et al. (2014), the triangulation and reliability of this thesis rest on comprehensive data covering stakeholders, societies and non-MNC actors and collected from various participants, including management, employees, and union and agency representatives. Thus, the empirical evidence prompts the researcher to seek reasons (rather than empirical instances), asking why something happens and under what conditions (Vincent & O'Mahoney, 2018). As Yin (1994, 2013) suggests, case studies validate theory in cross-sectoral settings to provide empirical insights. A case-study approach is an appropriate research design for this thesis, as it not only facilitates an in-depth exploration of a JMNC case but also suggests causal mechanisms from the empirical data.

Importantly, the validity of researcher–participant communication was established before, during and after data collection. In-depth interviews and descriptive techniques were used to investigate and analyse the data. Following Smith and Elger (2018), an active interviewing method was fundamental. Investigative and analytically-informed to generate new insights, this technique concentrates on specific events and examples, encourages interviewees to compare their experiences of different settings, times and situations (Burawoy, 1998), and probes for details and implications. During the interview process, it was imperative that the researcher remain cognizant of whether the interviewee had previous experience of participating or being interviewed in similar settings because it might influence multiple meanings; in other words, the participant’s interpretation might standardise the question, undermining the reliability of the research (Burawoy, 1998). As an active interviewer, the researcher was well-prepared and rehearsed, with a clear objective prior to interviewing.

A rigorous process was used to design open-ended interview questions. The questions were administered in English, and a set of secondary interview questions was prepared and presented in the native language. In designing interview questions, the researcher studied the organisations, relied on secondary data (e.g. organisation profiles and structure, historical and archival, financial reports and statements, and current news reports from reliable sources). To maintain ethical research standards, interview questions were discussed with thesis supervisors prior to the interviews. In the second phase data collection and follow-up interviews with research participants in Japan and Indonesia, the direct observation serves as background knowledge for the formulation of the questions. It has been a common practice that organisations granting access seek to review the interview questions. In compliance with this request, the researcher sent the outline of interview questions in advance, along with the objectives of the interviews. See Appendix A for the interview guides of the semi-structured interviews. The focus of these interviews was on exploring the participants’ answers in greater depth and eliciting their views on aspects of Japanisation, transfer mechanisms and challenges in diffusing and accepting HRM-IR “best practices”.

This thesis presents the data in two formats: narrative results of data analysis and short narratives within the text, including direct quotations from interviewees. The data analysis is presented with empirical evidence to integrate the research

content into the theoretical base (Welch et al., 2011). This method, which establishes links between qualitative research and empirical research, is particularly valid in organisational studies, as it captures cross-cultural nuances in the participants' comments (Birkinshaw et al., 2011; Corley & Gioia, 2011).

### *3.3.1 Data collection*

Data were collected between November 2014 and September 2016 through one-to-one interviews, group interviews, site visits, and observations of manufacturing plants and organisations in Japan and Indonesia. The overall purpose was to understand the meaning of “Japanisation” according to the research participants’ understandings, views and firsthand experiences. Direct observations enabled the researcher to extract empirical data from observable events and to witness the conditions that led to different results. The value of site visits and observations lies in the opportunity to understand specific nuances in a specific context, thus aiding in the formulation of further interview questions and the general development of the thesis. The robust data gathered through this process of discovery serves as an integral component of the current research, as it lends itself to a multi-layered analysis. O’Mahoney and Vincent (2014) describe this method as finding similar processes in related situations, such as re-describing what the researcher has observed. This method facilitated a comprehensive micro-analysis of dominant HRM-IR “best practices” diffusion processes and outcomes at the inter- and intra-organisational levels because it included MNC actors in first-, second- and third-tier car, motorcycle and autoparts sectors, and agencies representing management, employees and unions, as well as business representatives and expatriates. Actors’ power capabilities at macro-, meso- and micro-institutional levels were analysed to understand the impact of real institutional changes, real situations and real contexts.

This research involved several Japanese (quasi-government) agencies, including the Overseas Human Resources and Industry Development Association (HIDA)<sup>10</sup> and the Japan External Trade Organisation (JETRO), the Institute of Developing Economies (IDE), IDE-JETRO. It also involved semi-independent Indonesian business associations, including the Employer’s Association of Indonesia (APINDO), the APINDO Training Center (ATC) and the Chamber of Commerce

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<sup>10</sup> From 1 July 2017, HIDA changed its name to the Association for Overseas Technical Cooperation and Sustainable Partnerships (AOTS) (<http://www.aots.jp/hida/en/>, accessed 12 October 2007), but this thesis refers to it by the name used when the data collection was conducted.

(KADIN). In this study, these six Japanese and Indonesian organisations are referred to as semi-independent business associations. Access to these cross-organisational actors provided opportunities to collect pertinent data related to political alliance strategies (Gioia et al., 2013). The main HR participants were selected based on their knowledge and experience of managing HR in their organisations and HR training in Japan, as well as local trainings administered by ATC. The employee participants were chosen primarily for their experience of Japanisation activities in Japan and with their own workforces and organisations. The Japanese business association participants' selection was based on their direct participation in undertaking projects or assignments, and their experience in facilitating training for both Japanese expatriates sent to serve Southeast Asian subsidiaries and Indonesian trainees sent to Japan. Finally, the selection of Indonesian business association participants was determined by their role and experience of HRM-IR practices and employment relations (ER) policies in the automotive sector. All of APINDO and the Association of Indonesia automotive Industries (GAIKINDO) of Indonesia gained management and production training administered by HIDA and coordinated with APINDO and local management. Additionally, all of the Japanese participants gained and/or involved training for Indonesians coordinated with HIDA and their own organisations in Japan.

*One-to-one interviews:* Access was granted to conduct interviews with Japanese and Indonesian actors who had close relationships with the state and corporations in home and host countries. Each interview was scheduled to last 60 to 90 minutes. Of the 127 participants (12 in Astra, 12 in Toyota, five in Daihatsu, 25 in Honda, eight in Yamaha, 30 in AOP and 35 in business associations), 90 had participated in formal training facilitated by HIDA and APINDO in Japan, Thailand and Indonesia. To triangulate the findings, interviews were also conducted with other stakeholders, including unions, namely the All Indonesian Workers Union Confederation (KSPSI), Confederation of Indonesian Prosperity Labour Union (KSBI), Indonesian Trade Union Confederation (KSPI) and the Confederation of Indonesian Metal Workers (KSPMI), as along with non-affiliated union and International Labour Organization (ILO) representatives. To mitigate potential bias, copious interviews were conducted with individuals from a wide range of hierarchical levels and functional business areas.



*Group interviews:* Group interviews were conducted with two groups from Honda (7-30 participants), three groups from AOP consisting of various AOP employees and unions (5-25 participants) and two Astra management groups (5-8 participants). Initially, the group interviews were scheduled for 90 minutes but lasted 180 minutes. The time was extended to accommodate the engagement of research participants in free-flowing discussions on specific issues in specific contexts. While the group interviews comprised participants from the same organisation, interviewees were also able to express their views and compare experiences and events outside their own working environment. The data gathered from these focus groups were then analysed using configurational analysis techniques to cull particular changes and contextualise the conditions that had affected local organisations' activities (e.g. Vincent & Wapshott, 2014).

*Direct observation:* In addition to allowing the researcher access to individual research participants, site visits and observations are useful for gaining insights into the organisations themselves (e.g. degree of social engagement, the historical innovation and establishment of workplace practices). Access was granted to observe directly the implementation of Japanisation in Karawang International Industrial City (KIIC) and Sunter, Indonesia, specifically, Toyota (one full day in Plant 1 and one full day in subsidiary management office), Honda (three full days in three separate days) and AOP (five full days in different locations, i.e. Denso Aisin, Kayaba, Indo Karlo and Adiwira Plastik) manufacturing plants and in HR and union offices and facilities. In Japan, the researcher observed the Toyota factory (one full day) and other sites, such as three full days in HIDA's Tokyo training centre and one full day in JETRO. These visits constituted valuable aspects of the author's process of thesis discovery. The main Indonesian HR participants were selected based on their knowledge, views and experiences of managing HR-IR in their firms and of HR-IR training in Japan. Selection of employees was determined by their management and production system experiences and knowledge: technical and non-technical training experiences and implementation of Japanisation. The main criterion for choosing Japanese agency participants was their involvement and experience in facilitating training for Indonesian subsidiaries. Out of 85 Indonesian participants, 65 had gained technical and non-technical training on Japanisation in Japan, Thailand and Indonesia, including HR, IR, management, leadership, organisation and designing management-employee communications.

Additional data were gathered from the subsidiaries' union and employee representatives. All three major Indonesian trade union confederations—the All Indonesian Workers Union Confederation (KSPSI), the Confederation of Indonesian Metal Workers (KSPMI) and the Indonesian Trade Union Confederation (KSPI)—granted access and interviews. Furthermore, the researcher secured rare access to observe training for all workers from the designated International Industrial City Manufacturer at the union's historical “*Omah Buruh*” site, the birthplace of the labour movement, and part of Astra Automotive Group's union assembly. It should be noted that this national site has increasingly limited researchers' access. Foreigners are particularly distrusted, as union members have felt that research findings generally serve the interests of the funding organisations. Besides this perception of bias, it is felt that most researchers have failed to produce compelling studies to further understanding of union activities as a whole.

In an effort to maintain a high level of research ethics and trust, the researcher has been transparent, clearly declaring details regarding the financial support, the research institute and the objective of the research to the key union participants. Interestingly, an increasing number of international NGOs (e.g. ILO) and quasi-government agencies are keen on observing labour union activities in “*Omah Buruh*”, and they wish to conduct training workshops to educate local labour unions about organisation, leadership and employee participation. In addition, local labour unions mobilise their voices, strategies and picketing agenda at that site. Indeed, these site visits and observations are important aspects in the discovery process of the thesis.

By upholding stringent research ethics, and maintaining research participant trust and professional communication, the researcher was also able to conduct face-to-face interviews with formerly imprisoned labour activists who had been jailed during the 33-year Soeharto dictatorship when local labourers were struggling to gain freedom to organise. In addition to HR professionals, business managers, employees and unions, the researcher interviewed representatives of Japanese and non-Japanese agencies such as the ILO, HIDA and IDE-JETRO. These agency participants had experience in facilitating and/or had been involved in Japanese HR model training for Japanese and Indonesian participants. The researcher also had opportunities to observe Japanisation training in HIDA and the operationalisation of Toyota work systems in Toyota, Japan.

### *3.3.2 Premise of the extended case method*

According to Burawoy (1998: 5), the extended case method, a reflexive social science research approach, moves from the micro to the macro to build on pre-existing theory. Presentation of the analytical findings of this thesis goes from understanding the transfer processes at inter- and intra-organisational levels (Chapter 6), to examining transfer mechanisms at macro-, meso- and micro-institutional levels (Chapter 7), and then further investigating low-power actors strategies that aim to influence the global MNC network (Chapter 8). Accordingly, in setting out the problems in the three chapters, multi-site cases are used based on the research focus and the appropriateness of the cases. This method brings “reflective understanding” of the explanatory and interpretive research method to raise to the level of explicit analysis (Burawoy, 1998: 6). Data were collected from the single multi-site case of Astra International and its subsidiary businesses. Amongst the car, motorcycle and autoparts cases, specific cases were included, for example, for control purposes, or removed because they elicited no observations related to the specific research questions. Details of the research settings of the cases are discussed in Chapters 6, 7 and 8 (see Table 3.1 for the outlined of specific cases and data used for each chapter). The analysis is structured in this way in order to demonstrate the applicability of the combination of theory and data to explain what was observed (e.g. Vincent & Wapshott, 2014). Different voices in different settings and situations, crossed organisation members (research participants), and various languages and cultures (e.g. Almond & Connolly, forthcoming) offer a multiplicity of data sources and thus a robust, multi-layered picture of the actual world.

The qualitative data capture in-depth observations of cross-organisational HRM-IR practices, influences and nuances in multiple actors’ views of home and host countries (Corley & Gioia, 2011; Delbridge et al., 2011). This discourse-based approach deepens understanding of the processes and outcomes of acceptance of and resistance to transfer occurring in the subsidiaries (Balogun et al., 2011) and autoparts suppliers (Khan et al., 2015; Pulignano, 2002). Both inductive (Chapter 6) and deductive (Chapters 7 and 8) reasoning approaches generate causal explanations of change phenomena in management transfers in the specific context of power, politics and conflict (Klag & Langley, 2013). Consequently, both approaches are appropriate for this thesis.

A three-stage analysis was carried out, entailing the construction of episodic MNC interventions, general analysis of the adoption of JMNC norms, practices and regulations, and use of secondary case data. Through a three-cycle coding process, first-order concepts, second-order themes, and aggregated dimensions (Saldaña, 2015; Miles & Huberman, 1994), the data were analysed and key themes were constructed. Then the data were systematically broken down and the analyses were refined to develop a conceptual picture, formulate strict standards and articulate insights. Initial coding was important to search for necessary and sufficient conditions to articulate the context of causal conditions and outcomes (e.g. Saka-Helmhout, 2014). This iterative three-cycle coding process was an ongoing cyclical data analysis process. It proved to be very useful in illustrating, uncluttering and understanding different organisational practices in the twelve firms. The coding framework is presented in Appendix B: Data Structure.

Whetten (1989) suggests that in order to understand how existing theory can be extended to a new setting and to demonstrate why the research conducted has positive implications, a qualitative approach may be considered as an appropriate method to investigate the application of the theoretical contexts and to validate the link between theory-building and empirical studies. The result of the third-cycle coding led to more in-depth thinking about strategy. A table consisting of a list of quotes in Bahasa Indonesian with English translations allowed the researcher to operationalise and conduct in-depth analysis. This table served as a blueprint for the data, moving from raw to useful data and differentiating between “noise” and evidence of a phenomenon important to this study. Through the technical data analysis process, the researcher was able to refine the data’s usefulness and conceptualise it in ways that would support the argument of the topic under discussion. Throughout the writing process, the NVivo 11 feature of concept mapping was used to aid in conceptualising and re-conceptualising the data. The usefulness of computer software is discussed in Section 3.4.6.

Coding and re-coding the data and field notes into emergent categories aided the researcher in further analysing the observations as a research background (e.g. Saldaña, 2015). The interviews were conducted in Bahasa Indonesian, Javanese, Japanese and English. Having lived for a time and experienced higher education in Indonesia and Japan, the researcher is proficient in these languages and exposed to the local cultures. To maintain the rich authenticity of the content, the data were

initially analysed in the native language and subsequently coded in English using NVivo. The results of this study are presented through short narratives in the text, including direct quotations from interviewees. Following Welch et al. (2011), the data analysis is presented with empirical evidence to integrate the research content into the theoretical base. This method, which establishes a link between explorative qualitative and empirical research, is especially valid in IHRM studies, as it captures cross-cultural nuances in the participants' comments (e.g. Almond & Connolly, forthcoming; Birkinshaw et al., 2011; Corley & Gioia, 2011). It was effective for analysing and developing a contextual understanding of the effects of institutional resistance on the various MNC actors, and on HRM-IR diffusion processes and outcomes. To maintain anonymity, the precise job titles of research participants are omitted from the excerpts.

Multidimensional analysis (inter- and intra-organisational, and macro-, meso- and micro-level) enabled the influence of internal structure on organisational strategy and actors' power interactions to be operationalised. All three main case studies (Toyota, Honda and AOP) have different organisational mechanisms associated with dynamic capabilities for knowledge transfer and coordination. Also, inter-organisational relationships between the MNC and subsidiaries vary, for example, in the level of Japanese capital investment, length of presence and management involvement, i.e. control and influence. However, there is less variation in intra-organisational relationships between Astra and the three firms. Thus, these organisational characteristics provided appropriate case studies through which to construct research questions and investigate different mechanisms of knowledge inflow across the automotive sector.

### *3.3.3 Interviewing elite and non-élite*

This study includes an examination of dynamic relationships between élite (i.e. APINDO's board of directors and management, and corporate executives) and non-élite actors (employees, unions and agencies). A study of élites provided a conceptual understanding of the empirical research relating to the influence of élite board members' coordination activities on organisational structures and functions. APINDO has a formal mandate to develop, protect and control local labour market institutions. This study adopted Odendahl and Shaw's (2002) and Hertz and Imber's (1995) method of élite interviewing, a qualitative research method involving in-

depth interviews with influential executives and senior and middle management with considerable industry experience and broad networks of professional relationships. The purpose was to understand their experiences and perspectives to deepen the research findings. As Barry and Wilkinson (2011) note, interviewing elite board members of employers' associations is challenging, and differs from non-elite interviewing, particularly with respect to the depth of interviews, access, power, openness and feedback (see also Welch et al., 2002; Bengtsson et al., 1997; Useem, 1984). It should be noted that the inherent nature of elites makes them difficult to study, since they establish barriers that set their members apart from the rest of society (e.g. Morse, 2018; Stephens, 2007; Kezar, 2003). As other scholars have observed, this is one reason why such studies are still relatively uncommon in social science research (e.g. Welch et al., 2002; Hertz & Imber, 1995; Traxler, 1995; Ostrander, 1993). This problem also applies to the study of employers' associations and corporate elites (Taylor et al., 2015). Nevertheless, it was important to interview elites in this study because of their established systematic networks with enterprises, government, associations and unions (adversarial), and their roles, involvement and interwoven actor relationships in a setting with changing and unstable labour market institutions.

One focus of this thesis is a case study of the APINDO organisation's elite (APINDO's board of directors, HR and IR executives and directors), and its impact on possible non-elite actions and the structure of Indonesian IR. Following Welch et al. (2002) and Kumar et al. (1993), in order to understand elites' knowledge, experiences and perspectives on organisational issues, as well as their relationships with the non-elite, data were collected from in-depth, semi-structured telephone interviews, "face-to-face verbal interchanges" (e.g. Harvey, 2011; Stephens, 2007) and corporate visits and interviews conducted between July 2014 and October 2016 in Indonesia and Japan. The interviewer visited APINDO's central office, ATC and the current main post of the elite (outside Astra and APINDO offices) in Jakarta, Indonesia and the APINDO network in Japan. The primary data comprised interviews with 25 elite members (HR managers, IR directors, APINDO board members and ATC). The elite interviewees were all male, had occupied an executive or senior management position for no fewer than five years, had a functional responsibility in their own area of expertise with high organisational status, and had substantial experience and depth of knowledge. Furthermore, they all possessed a

broad network of professional and business personal relationships and had had considerable international exposure, for example, through conferences and training with the ILO, other employer organisations and chambers of commerce. Both the gathered data and the interview experience itself were important in providing the researcher with a better understanding of the power, politics and conflicts from élite and non-élite perspectives in their own natural environments (e.g. Mikecz, 2012; Morse, 2018).

### **3.4 Themes of Research Questions**

The work and employment (industrial relations), and organisational strategies of MNCs were the two broad themes of this study, similar to those discussed by Whitley (2000) and explored by Whitley et al. (2003), in order to understand the application, adaptation and impact of Japanese MNCs' capitalist practices in the automotive manufacturing industry of the host country. These areas of inquiry enabled investigations of both cross-border transfer processes and IHRM structures. In so doing, the analysis aimed to gain insights into the key characteristics of globally recognised HRM-IR "best practices" in the context of institutional analysis of the home country, as well as analysis of the host country's IR systems and subsidiary actors' responses to the diffusion. In particular, the research questions were designed to distinguish between firm-level practices and societal features in the areas of skills development (e.g. education and training, on-the-job training and knowledge transfer), organisation (e.g. functional and task flexibility, management control and "lean" management), and industrial relations (e.g. communication, negotiation and bargaining, employee participation and representation).

#### *3.4.1 Operationalisation: Gaining access to the data*

Japanese management systems of work, employment and labour-capital relations may be reflected in the pattern of business investments, operations and spread of Japanese FDI (see, e.g. Aoki et al., 2014; Almond & González Menéndez, 2014a; Stewart, 2014; Aoki, 2010; Whitley, 1992). According to Sayer (2000: 19), "data collection and methodological choices should depend on the nature of the object of study and what one wants to learn about it". This section discusses the practical problems of obtaining access, gathering firm-level data and selecting appropriate case studies relative to the research design.

### *3.4.2 The “art” of negotiating access*

Extensive literature discusses how to gain access. However, conceptualising one’s own experience, intuition and reflexivity enabled the researcher to understand the “art” of negotiating access, the objectives and the information being sought about the subject. Vincent and O’Mahoney (2014) make the case that CR does not prescribe which methods are suitable for investigating problems because it equips the researcher with philosophically informed methodologies to generate new insights. The key to operationalising CR in this type of research is to have a clear analytical target, and to understand causal mechanisms and conditions or processes.

Early in the data collection process, in November and December 2014, Japanese organisations were contacted via email and online request forms. The Japanese associations and organisations were the Economic Research Institute for ASEAN and East Asia (ERIA), IDE-JETRO, ASEAN, Indonesia, HIDA, the Japan Automobile Manufacturers Association (JAMA), the Japan Bank for International Cooperation (JBIC), the Japan Finance Corporation (JFC), the Japan International Cooperation Agency (JICA), the Ministry of International Trade and Industry (MITI), Nippon Export and Investment Insurance (NEXI), and Official Development Assistance (ODA) policy. All responded to the request by expressing their willingness to participate or pointing the researcher in another direction. A few agreed to complete initial questionnaires in English by email, and some were willing to complete a follow-up questionnaire, while two organisations agreed to give telephone interviews. Unfortunately, none of the Japanese automotive and electronics firms contacted (Nissan, Toyota, Mitsubishi, Honda, Yamaha, Kawasaki, Suzuki, Sonny and Toshiba) were willing to participate, despite internal referrals. This confirms the experiences of many Japanese and non-Japanese scholars who have found it very difficult to gain access to Japanese firms and engage them in external research. In October 2015, the researcher attended a Mitsubishi Corporation presentation at an Alumni Association Event run by the Japan Exchange and Teaching Programme at its London headquarters management office. There, the researcher approached a Mitsubishi branch HR director to convey the importance of participating. The Mitsubishi representative contacted Mitsubishi internally in both Japan and Indonesia. However, after a number of follow-up emails and phone calls, the results were disappointing.



The researcher then contacted participants in Indonesia. Since a key strand of the research was an understanding of the impact of MNCs operating in Indonesia, the researcher contacted the Indonesia Investment Coordinating Board (BKPM) to gain access through business and official referrals and direct contacts. Based on discussions with BKPM, it appeared that the Indonesian Chamber of Commerce and Industry (KADIN) would be ideal contacts to approach, owing to its direct involvement and business relationships with JMNCs, IDE-JETRO and HIDA. Unfortunately, the researcher did not have an internal referral for KADIN. Consequently, this lead reached a dead end. However, analysis of KADIN's website and archives revealed that APINDO (the employers' association) lists international and national MNCs on its website. The researcher emailed the office of the secretary and director of APINDO, which yielded some results, and by October 2014, the first four APINDO interviews had been completed. The participants' roles, capacities and experiences as HR-IR directors shed light on the research design. These four participants were members of APINDO and had had opportunities to attend HRM-IR training in Japan and other countries administered by APINDO Indonesia and HIDA Japan. APINDO referred to them as "champions". They had been selected, received training in Japan and returned to Indonesia in order to distribute their knowledge of Japanisation to their Indonesian colleagues. In addition, the results of secondary data analysis and six hours of interviews suggested that APINDO focuses on advancing Indonesia's IR and HRM systems. APINDO is the only officially recognised employers' organisation in Indonesia, mandated by KADIN to deal specifically with HRM-IR matters.

#### *3.4.3 Researcher's own data collection experiences, intuition and reflexivity*

The art of negotiating access crystallised as the researcher spoke informally with a fellow Warwick student about the difficulty of gaining access. She reported that she had started by contacting her networks through social media, i.e. BlackBerry Messenger, WhatsApp and LINE. This was a first lesson in communication. The researcher subsequently learned that in the "real" world (bringing the CR perspective into practice) Indonesian participants are not keen on email and formal types of communication prior to engaging in face-to-face discussions. Rather, they prefer the conciseness and informality of social media. Furthermore, this fellow Warwick student had acted as a "gatekeeper", enabling participants to open up and connect

throughout initial interviews, building trusting relationships and understanding the “real” world of business. Such spontaneous conversations may make a huge difference to successful access negotiation. In particular, the researcher had already exhausted formal types of communication and had reached out to professional networks, whereas informal and unstructured discussions might have been a more fruitful way of gaining research access. Indeed, the classic snowballing approach to data access is important in practice. The CR philosophical discourse enabled the researcher to observe real-world “reality” and determine which taken-for-granted, (*in*)formal types of communication worked best with different research participants.

After three months of interviews, the researcher was able to contact the union secretary of the Confederation of Indonesian Metal Workers (KSPMI) by emailing a one-page letterheaded invitation highlighting the importance of KSPMI’s participation in the research and underlining the code of research ethics. After a second follow-up, access was gained and contact information was obtained for the branch secretary of KSPMI and an SPMI local chapter president, who worked for two AOP subsidiaries, Indokarlo Perkasa and Denso respectively. They found the interview questions very interesting and understood the importance of their participation. As a result, they became gatekeepers to gaining access to union members, fellow workers and their management. Owing to time differences and access to appropriate and adequate offices, the interviews were conducted as early as 08:00 GMT (00:00 Indonesian local time), including some weekends and holidays.

#### *3.4.4 Process of selecting case studies*

The selected case study subsidiaries had a JMNC HQ in Japan and local parent firms (Astra and Lippo) in Indonesia (as well as two non-Japanese-owned autoparts supply chains, Indokarlo Perkasa and Adiwira Plastik) with varying levels of involvement of the Japanese MNC and agencies across the subsidiaries. They were selected for the study because they represented a reasonably diverse sample in terms of the types of manufactured products, organisational strategy, Japanese HRM “best practices” and management control.

**Table 3.2: Case studies of car, motorcycle and autoparts subsidiaries**

<b>Firm</b>	<b>Japanese ownership</b>	<b>Japanese presence</b>	<b>Manufacturing</b>
Toyota	95%	1971	Cars
Daihatsu	62%	1992	Cars
Honda Motor	50%	1971	Motorcycles
Yamaha Motor	90%	1974	Motorcycles
Musashi	78%	1996	2nd tier autoparts
Denso	75%	1978	1st tier autoparts
Aisin	66%	1995	1st tier autoparts
Federal Nittan	60%	1995	1st tier autoparts
Showa	55%	1980	2nd tier autoparts
Kayaba	50%	1976	2nd tier autoparts
Indokarlo Perkasa	0%	-	3rd tier autoparts
Adiwira Plastik	0%	-	3rd tier autoparts

These firms also varied in their management-union relations and in their capacity for and processes to absorb Japanisation and the JMNC's HR practices. Toyota, Daihatsu, Honda and AOP are subsidiaries of Astra International Automotive Group. Details of the selected case studies are given in Table 3.1.

The interviews with APINDO shed light on what was occurring within the organisation and its HRM-IR climate. On the basis of interviews with members of APINDO, the researcher reflected on his own experiences and intuition (e.g. Burawoy, 1998) in using the same snowballing data collection approach for management audiences as had successfully been used to gain access to the labour unions and Japanese participants. One APINDO participant was director of Astra International's IR and HRM team and became a "gatekeeper" to Astra, granting access to three major automotive manufacturing subsidiaries: Toyota, Honda and AOP. In particular, actors' interactions made them appropriate case studies to examine the strategies adopted by the Japanese HQ and business associations to control, manage and influence subsidiaries' HRM-IR, and subsidiary actors' responses in terms of seeking to acquire certain foreign practices whilst protecting local systems.

### *3.4.5 Resources and opportunities to conduct observation and interviews in the workplaces*

At the initial data collection stage, key informants in the selected case study organisations were contacted by email. The first ten informants liaised with their colleagues, and personal recommendations resulted in gaining access to conduct 85 interviews. Data were collected through video-call interviews, followed by face-to-face interviews, study groups and on-site visits to the firms and plants in Japan and Indonesia. The individual and group interview sessions were conducted in Bahasa Indonesia, Javanese, Japanese and English. To maintain the robustness and authenticity of the context, the data were initially analysed in the native language, while the final results are presented in English. The objective of each data collection phase was to understand the structure, applicability and implications of inward knowledge transfer and to contextualise the research.

The first phase of data collection targeted Indonesian research participants, while the objective of the second phase was mainly to gather more balanced data and target Japanese research participants. The results of the first phase of data analysis were crucial to the development of the research and the direction of the second phase of data collection in Japan. As Wright et al. (2005) observe, empirical research in EME settings presents greater challenges regarding access to reliable archival data compared with developed economies. The two phases of data collection offered dynamic academic experiences.

Conducting first-phase data collection in West Java, Indonesia required appropriate funding. Given the limitations of funding, the fieldwork was combined with participation in a conference. The 4th Annual Southeast Asian Studies Symposium in Kuala Lumpur, Malaysia provided an opportunity to travel to the area, which helped with travel costs. In addition, the researcher received external funding from Research and Development Management (RADMA), which supports student projects. As with other research projects, securing funding is a crucial enabling factor, especially if the research involves interviews, observations and site visits in different countries, as in this study. For example, lack of funding was one reason for Abo's (2007) team failing to continue their comparative research on the application of Japanisation to countries including Indonesia. Professor Hiroshi Itagaki, one of the authors and key researchers, acknowledged:

*In the early 1990s, when they [Abo’s team] planned a fieldwork in Southeast Asia and applied for a fund, Indonesia was included. But the fund, which they originally applied for three years, was cut to two years’ budget, and due to the limit of the budget, they needed to choose priorities among the countries that they originally planned to visit, i.e. Thailand and Malaysia (personal communication, 27 August 2018).*

The results of the first phase of data collection were crucial to the success of this research project and to the direction of the second phase of data collection in Japan. Observations and interviews were conducted with Astra and Lippo, Japanese subsidiaries under local business group management. These met the objective of understanding the implementation, constraints and impact of the JMNC’s HRM practices in Indonesian subsidiaries. Astra Automotive Group granted access for this first phase of data collection, resulting in in-depth, semi-structured interviews with management (n=8), HR personnel (n=10), employees (n=30), union representatives (n=25) and employer representatives (n=5). In the UK, data collection was successfully completed between October and December 2014, comprising telephone interviews with Japanese business expatriates, business association representatives, governing bodies and NGOs, including JETRO (n=2), JETRO-IDE (n=3), JICA (n=1) and HIDA (n=1). These participants had direct knowledge and/or experience of training, researching and conducting business in Indonesia. Table 3.2 summarises the first-phase data collection.

**Table 3.3: Summary of first-phase data collection**

<b>Activity</b>	<b>Number of participants</b>
Telephone interviews	30
Face-to-face individual interviews	50
Face-to-face group interviews	6 groups of 45
Transcriptions	65 audio files
Questionnaires	6 respondents

As a result of the first phase of data collection, and previous telephone interviews and email exchanges with research participants, the researcher negotiated access to Japanese automotive and organisational representatives in Japan, including IDE-JETRO, the Japanese JICA and HIDA.

In the second phase of data collection, the researcher benefited financially from a small research grant from the Great Britain Sasakawa Foundation to carry out research in Japan. Research access was facilitated by the research networks of IDE-JETRO, HIDA and Indonesian former trainees, as well as Japanese researchers who

had carried out decades of research on Japan-Indonesia. Gaining rare access can be difficult, and the key to success lies in being flexible and persistent, as proved by the first phase of data collection (85 interviews), in which interviews were completed with 37 Japanese and Indonesian research participants and observations undertaken in eight Indonesian subsidiary plants. The second phase, conducted in September 2016, involved interviews and observations in automotive and autoparts firms, museums, agencies and trade-related organisations in Tokyo, Nagoya and Kansai regions. The aim of this second phase was to gain further understanding and insightful perspectives from Japanese HR practitioners, business managers, expatriates, and union and agency representatives with direct knowledge and/or experience of conducting business and/or training in Indonesia and ASEAN. The fieldwork in Japan also permitted the researcher to re-access firms and organisations in Indonesia. This two-fold investigation facilitated an examination of the motivations of JMNCs operating and conducting business in Indonesia, and analysis of the applicability, implementation and impact of Japanese management and production systems to the Indonesian context. Overall, from both phases of data collection, qualitative data were gathered from 127 interviews with diverse participants. Table 3.4 summarises the 1<sup>st</sup> and 2<sup>nd</sup> phase data collection

**Table 3.4: Summary of phases 1 and 2 data collection**

<b>Organisations/Associations</b>	<b>Number of Participants</b>
Astra International	12
Toyota and Daihatsu Cars	17
Honda and Yamaha Motorcycles	33
Autoparts	35
Japanese business associations and Japanese expatriates	15
Indonesian business associations	15

#### *3.4.6 Language transcription, analysis and organisation of data using NVivo software*

The researcher's fluency in Japanese, Bahasa Indonesia, Malaysian and Javanese provided an advantage in operationalising and administering the data collection. Both language and cross-cultural skills were also useful in obtaining access—and analysing data, as well as for understanding various Japanese technical terms explained by research participants, and Japanese signs posted in the subsidiaries'

workplaces. Understanding both Japanese and Indonesian culture enabled differentiation between the Japanese and Indonesian types of work culture evident in the management offices, employees' facilities and union offices, as well as at production sites.

Audio files from the interviews were transcribed, and the data were analysed using NVivo software. The researcher attended NVivo training on campus, consulted experts and watched YouTube Nvivo presentations throughout the coding process in order to enhance software analysis skills. Given the nature of the data gathered, three-cycle coding was able to provide better organisation and results. The three-cycle coding and iterative analysis process were accompanied by readings of methodological and data analysis literature (e.g. Saldaña, 2009, 2012, 2015; Silverman, 2006; Miles et al., 2014; Bazeley & Jackson, 2013), and attendance at events on and off campus on research methods and methodology, international business and Japanese studies. These resources provided a clear understanding of why and how to conduct coding using NVivo, and to conceptualise data qualitatively. The aim of each cycle of coding and analysis was to organise, re-code and interpret the data conceptually. The focus was on exploring the participants' responses to the semi-structured interview questions in greater depth, and particularly their views on Japanese management practices and management technology transplantations. Thus, an explorative approach was applied to analysing the richness of the data, which led the direction of the research. Owing to the quality of the voice or noise interference during the recording, some of the recorded interviews could not be transcribed. The researcher re-listened to the audio files to ensure accurate transcription and to manage some defective parts of the recordings. Although there were some minor technical issues with the software and hardware, the problems were solved and the data were saved.

English and Japanese were used in conducting telephone, Skype, LINE and Whatsapp telephone interviews with Japanese and Indonesian interviewees. The majority of interviews with research participants in Indonesia were conducted in Bahasa Indonesia. Interviewees and the interviewer spoke the official Indonesian national language, Bahasa Indonesia and local languages. In the fieldwork, Indonesian, Javanese and other local languages (dialects) were used. The interviewer is fluent in Indonesian, Javanese (and some local dialects) and proficient in Japanese. The researcher had learnt informal Japanese while growing up in Indonesia,

specifically on the islands of Java and Bali. Formal Japanese language and cultural training followed several years later at McMaster University in Canada, with a one-year formal exchange at Osaka University Japan, and at the University of Oxford.

To minimise the loss of original meaning from the data, all data were transcribed in the original languages. Telephone and video interviews were conducted on Warwick Business School's premises. Observations and interviews in Indonesia were carried out in the interviewees' workplaces, offices and training sites and in union offices.

### **3.5 Conclusion**

As existing organisation studies on power, politics and conflicting interests suggest (e.g. Becker-Ritterspach, 2016; Dieleman & Sachs, 2008; Morgan & Kristensen, 2006), the epistemological and ontological insights of critical realism provide tools to investigate real causal effects, entities and observable issues to understand phenomena relating to changes to work, employment and organisation (e.g. Vincent & O'Mahoney, 2018; Smith & Elger, 2014). The CR approach is always challenging and has been criticised no less than alternative approaches such as positivism, interactionism, sociomaterialism and constructivism (Vincent & O'Mahoney, 2018). In particular, studies have indicated the difficulty of operationalising CR nuances in sociological research. Challenges often result in failing to identify actual entities, properties, causal mechanisms and effects to draw fresh insights. Although CR does not suggest specific research methods for specific issues, it does offer clear guidelines on issues such as active interviewing and investigation techniques, as used in this study.

The philosophical approaches of abduction and retroduction, which do not constrain the process to the traditional qualitative/quantitative dichotomy, generated new insights through the distinctively CR approach applied in this study. The epistemological and ontological approaches of CR were particularly applicable to this study because the researcher's own experience and intuition were reflected in the objectives of study, beyond what scholarly intuition might call "common sense". Section 3.4 has demonstrated the importance of features of active CR interviewing (i.e. the *art* of interviewing non-élite and élite), investigation and analysis with respect to gaining access to data (i.e. reflections on the researcher's own experiences led to more consciously selected research methods and techniques), and upholding



important ethical issues, such as access, confidentiality and the protection of informants (Macdonald & Hellgren, 2004; Smith & Elger, 2018). This thesis adopts a relatively new development of CR to examine both the causes and means of institutional change (e.g. Vincent & O'Mahoney, 2018; Ram et al., 2008; Sayer, 2010). Thus, this work is positioned within an under-studied stream of social research (e.g. Almond & Connolly, forthcoming), drawing fresh insights from the wider literature (e.g. Ferner et al., 2012; Bouquet & Birkinshaw, 2008) and addressing the operational challenges of CR in the social science research community. In short, the operationalisation of this research design lies in its iterative and deep form of comparative analysis of multi-site cases to contextualise understanding of work, employment and organisation in a newly industrialised country setting.

## **Chapter 4: Country and Institutional Analysis**

### **4.1 Introduction**

This chapter discusses important features of home- and host-country institutions, the business environment, and the power, politics and interests of MNC management. It concludes by exploring the roles of semi-independent business associations in responding to institutional changes and constraints.

### **4.2. Overview of Japanese Work Systems and Cross-Border Business Outlook**

The lean production system, characterised by just-in-time production and continuous improvement of production procedures, has provided the Japanese automobile industry with a global competitive advantage, transforming the Fordist mass-production systems of North America and Europe (e.g. Womack et al., 1990; Elger & Smith, 1994; Lechevalier, 2014; Stewart et al., 2016). A skilled and committed workforce has been the conduit for enhancing the productivity and competitiveness of lean production innovation (Elger & Smith, 1994). As noted above, features of the Japanese work, employment and organisation model have been identified in previous research on the automotive industry. Japan's globally accepted practices and innovation are also important for the development of Indonesia's automotive industry and are therefore important to this thesis. Accordingly, to understand the scale of change of Japanese automotive firms in Indonesia, JMNCs' work and employment practices in Japan and Indonesia are examined in depth through the lenses of actors' power, politics and conflicts of interest. The Japanese model of work, organisation and labour-capital relations may be reflected in the pattern of business operations and the spread of Japanese FDI (e.g. Elger & Smith, 1994; Aguilera & Jackson, 2010; Morgan, 2009). Thus, this thesis aims to elucidate the diffusion and implications of the Japanese model, as well as international influences on Japanese management practices beyond the European and US contexts. This chapter focuses on the applicability of the three classical pillars of the Japanese model—employment relations, functional flexibility and enterprise training—which have represented the “best model” of Japanisation since the 1950s (e.g. Elger & Smith, 1994).

Over the past 30 years, not only have Japanese institutions changed (e.g. Lechevalier, 2014; Amable & Palombarini, 2009; Jackson & Miyajima, 2007), but

the literature on Japan has further complicated understanding of Japanese institutions. Lechevalier (2014) suggests revisiting “contemporary Japanese society” (see also Cooke & Kim, 2017; Bamber et al., 2016; Stewart, 2014; Streeck & Thelen, 2005) and the “classical model” to theoretically analyse and investigate institutional changes (e.g. Morris et al., 2018; Whitely, 2014; Almond, 2011a; Whitley et al., 2003; Wood & Lane, 2011; Morgan et al., 2010).

The bursting of the Japanese economic bubble in the 1990s changed the focus of academic discourse on the impact of Japanese firms in their institutional context and on FDI in host countries (Endo et al., 2015; Witt & Redding, 2014). Recent research is focusing on linking corporate strategy with FDI, rather than on evaluating “best practice” (Endo et al., 2015). Nevertheless, since the early 1990s, most Japanese research studies have focused on advanced and mainstream EME countries, namely the USA, the EU, China and India, while a research gap remains regarding some Southeast Asian regions (see e.g. Cooke & Kim, 2017; Jürgens & Krzywdzinski, 2016; Debrah et al., 2000). This is particularly so in the case of Indonesia, which has been the largest Japanese FDI recipient since the 1950s and is the largest Japanese automotive market in ASEAN. An emerging stream of research is concentrating on the spillover of Japanese corporate strategy, management practice and the process of institutionalisation to understand Japanese firms’ motivations and how their role in host countries’ economies impedes dominant HRM “best practice”. Following Endo et al. (2015), this chapter systematically examines emerging discourses on international inter-firm relations through the process of FDI. It also investigates changes to features of Japanese HRM “best practice” and corporate strategy practices made to increase management control, economic impact and human capital development in Indonesia.

Historically, JMNCs sought resources in Southeast Asia and entered Indonesia with the intention of securing raw materials and taking advantage of cheap labour in offshore production (Holmes et al., 2013). In fact, Japan has been the major FDI player in Indonesia, and Southeast Asia (including Indonesia) has been the largest Japanese FDI recipient since the 1970s (e.g. Lechevalier, 2014). Shortly after the Asian financial crisis, JMNCs adopted new growth regimes and intensified their economic involvement in ASEAN’s regional integration. In Japan, the production paradigm is characterised by high value-added products, particularly in the automotive industry (e.g. Irawati & Charles, 2010), which raises a number of

questions. How is this paradigm being disseminated abroad? Have JMNCs moved beyond a focus on cheap labour and raw materials in their investments in Southeast Asia, and are they now actively disseminating higher value-added production paradigms? Are JMNCs in Indonesia pursuing lower/higher value-added production regimes, and how is this being affected by institutional changes?

### **4.3 Overview of Japan's Background**

The Japanese employment institution is a constellation of norms, policies and regulations that influence the operations and structure of JMNCs at home and abroad (e.g. Vogel, 2006). In order to conduct a theoretical analysis of the complexity of Japanese institutions that encapsulates scholarly debate, the theoretical discourse can be organised into four strands. First, some scholars argue that Japanese institutions have changed fundamentally through a gradual layering or transformation process (e.g. Aoki, 2010; Thelen & Mahoney, 2009; Dore, 1990). As Sako and Kotosaka (2012) assert, Japanese institutional transformation is characterised by a piecemeal process, layering the old system with the new, and gradual convergence. This is not only difficult to identify, but may also have adverse ramifications on the new system (e.g. Morgan et al., 2010). Second, Japan is very different from other coordinated market economies, such as the USA, UK and Germany, and its institutions remain isolated in their own national environment (e.g. Aoki et al., 2014; Lechevalier, 2014; Morgan et al., 2010; Kingston, 2013; Vogel, 2006). Since the 1980s, JMNCs have extended their international presence beyond Europe and North America. Nevertheless, studies of Japan from either a national or a comparative perspective seem to have focused only on advanced industrial countries such as the USA, the UK and Germany (e.g. Gospel & Pendleton, 2005; Thelen, 2010). Third, certain Japanese institutions have influenced the main aspects of JMNCs' organisation, such as their operational and strategic choices (e.g. Amable, 2003; Aguilera & Jackson, 2003; Thelen & Mahoney, 2009). Lastly, these changes relate to internationalisation triggered either by socioeconomic change or by transnational production networks as a result of heightened international competition from China (Sako & Kotosaka, 2012). JMNCs have exploited American and European markets and have subsequently adapted to the customs of local institutions. However, this thesis aims to advance understanding of Japanisation specifically through Japanese HRM "best practice" in cross-border transfer and management control. It conducts an empirical

examination of the mechanisms, implications and various applications and interpretations of Japanisation in the context of institutional duality. This explorative study of institutionalism aims to provide a better understanding of the implications of JMNCs in a specific EME context and to expand the international breadth of Japanese business management studies.

Historically, Japan has been interested in inward investment,<sup>11</sup> and by the 1990s, Southeast Asia had become the centre of Japanese FDI (ASH Center, 2011; Rahmaddi & Ichihashi, 2013). This provides a research ground beyond European and US markets, particularly in terms of understanding the home-country effect of JMNCs in Indonesia and how JMNCs interact with the host country. Furthermore, in the past three decades or so, a limited number of similar studies has been conducted outside North America and Western European countries (e.g. Thelen & Mahoney, 2009; Morgan et al., 2010; Thelen, 2010). For instance, the Japanese Multinational Enterprise Study Group (JMNESG), directed by Tetsuo Abo (2007), is conducting a 20-year study on how Japanese manufacturers operate overseas, focusing on the transferability of Japanese production systems and HRM (Kawamura, 2011).<sup>12</sup> While their study has examined an automotive plant in Thailand, it has not included any plants in Indonesia or Malaysia. JMNESG has as yet failed to highlight the importance of the Southeast Asian market economy and has ignored Indonesia in particular.

Japan has been at the forefront of FDI throughout ASEAN, engaging in trade mainly through automotive manufacturing, heavy machinery and household appliances. This has led to growing discussion of cross-national labour market institutional arrangements (Thelen, 2010), such as the “three pillars” of Japanese industrial relations and JMNCs’ “mechanisms, work, practices and organisational capabilities and interaction with host-country specificities” in different settings and conditions (Hotho & Pedersen, 2012: 251). Although JMNCs have operated successfully in Indonesia, these operations remain largely unexplored (e.g. Carney et al., 2018; Fainshmidt et al., 2016; Irawati, 2011).

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<sup>11</sup> Japanese MNCs are open to investment abroad. They have explored the USA, Canada and Mexico to serve North American markets, and Germany, UK and Poland to serve European markets.

<sup>12</sup> This survey-based study has interviewed Japanese management in some parts of ASEAN, including Malaysia, Singapore and Thailand.

#### **4.4 Overview of Indonesia's Business Environment**

Japan has been the major FDI player in Indonesia, and Indonesia has managed to attract the greatest FDI in ASEAN since the mid-1990s (e.g. Rosser, 2014; Rahmaddi & Ichihashi, 2013; Booth, 1998). In recent years, several Japanese automotive plants have opened in Indonesia and are fully operating under Japanese management to serve Southeast Asia's emerging markets (see Nikkei, 2018). Since the 1990s, JMNCs' business objectives have shifted and intensified in ASEAN (McGee, 2009; Kingston, 2013). No longer do companies simply extract natural resources and return finished products to Indonesia; increasingly, products made in Indonesia are tailored to the Indonesian market and are also marketed to other EME countries, such as the so-called BRICS nations (e.g. Surdu et al., 2018; Jürgens & Krzywdzinski, 2016). This raises questions about the extent to which JMNCs are shifting from a market-driven to an efficiency-driven model.

This explorative research investigates institutional changes in Indonesia, and the progress and challenges facing foreign MNCs entering EMEs, as well as how transformational challenges affect how they operate in Indonesia. Indonesia may potentially lose ground to Malaysia and Thailand due to over-reliance on natural resources and alarming under-investment in human capital (ASH Center, 2011). In fact, Indonesia spends less than 0.05% of its GDP on human capital development, including areas such as education, health and R&D. Since the fall of Soeharto's regime in 1998, change and institutional transformation in Indonesia have emerged as new research themes (e.g. Casez & Verick, 2013; Nehru, 2013; Dhanani et al., 2009; Booth, 1998). Thus, this thesis examines the behaviour of MNCs in newly-emerging EMEs and aims to fill a knowledge gap in IHRM, IR and IB research in the context of labour market institutional changes and challenges in the labour market since the 1997 Asian financial crisis (e.g. Morgan et al., 2010; Aguilera & Jackson, 2010).

The importance of the 1997 Asian financial recession to this thesis is that it has redefined the socioeconomic and political environments of both Japan and Indonesia. The Japanese economy has experienced greater turbulence, raising debates about whether it is still an important player in the global economy. In contrast, emerging economy countries such as Indonesia were previously treated as developing economy nations, but political economic reformation has had a positive impact on

the local economy. While Japan has experienced stagnation, Indonesia's outlook is improving, suggesting shifts of power in this dynamic situation. This is a compelling case through which to explore conditions that facilitate inward transfer and enable the JMNC to maintain its dominance in the largest ASEAN manufacturing/assembling nation.

#### **4.5 Overview of Indonesia's Background**

In 1967, following a wave of political reforms, Indonesia underwent economic changes that resulted in economic growth reliant primarily on commodities (Dhanani et al., 2009; Nehru, 2013). Furthermore, in the mid-1990s, the Indonesian economy not only experienced rapid development, but also earned a reputation as a high-performing economic actor in the Asia-Pacific region (e.g. Casez & Verick, 2013; ASH Center, 2011; Booth, 1998). Although it appeared that Indonesia's labour market institutions would be ill-prepared to respond to the aftershocks of economic crises (e.g. Casez & Verick, 2013; Schuler et al., 2012; Kostova & Zaheer, 1999), recent studies indicate that the Indonesian economy has been resilient to the global crisis, and that its performance also recovered strongly in 2009 and has continued to grow, with GDP growth rising from 5.7% to 6.2% in 2010 and to 6.5% in 2011 (Nehru, 2013).

Over a period of ten years, Indonesia has managed to reorientate its politics and economy toward transparent democratisation and decentralisation of the federal government. Recent research suggests that the Indonesian economy has been out-performing others, due in part to its growing middle-class population, large domestic markets and commodities exports (e.g. Fainshmidt et al., 2018; Ford, 2014; Casez & Verick, 2013; Irawati & Charles, 2010). Continued economic growth through episodes of crisis and prolonged structural labour market challenges has stimulated research discussions seeking to understand how Indonesia's environment has influenced JMNCs operating in the country. Indonesia's IR has experienced cultural and regulatory changes (i.e. Caraway & Ford, 2017; Ford, 2014, 2000; Rosser, 2014), such as the introduction of fixed-term contracts and subcontracting to promote labour flexibility (Dhanani et al., 2009). Indonesia's New Order regimes developed an IR system called "Pancasila industrial relations" (*hubungan industrial*

*Pancasila*) (Ford, 2000), “a modern concept” of a 1920s system, to attempt to order and structure unity across Indonesia’s diverse archipelagos (Reeve, 1985: 25).<sup>13</sup>

Unlike some advanced industrial economies such as Japan, the Asian and global financial crises have not substantially changed labour market trends in Indonesia (Casez & Verick, 2013). However, although it has managed to sustain overall economic development, it has yet to reduce informal employment and has failed to promote skills-intensive job markets. While Japan has experienced increasing numerical flexibility (e.g. Sako & Kotosaka, 2012; Sako & Satō, 1997), precarious types of employment have increased in Indonesia’s labour markets (Casez & Verick, 2013) in response to the demand for global economic integration. These appear in the form of home-country effects promoted by MNCs. Moreover, the global financial crisis has had a substantial impact on the labour market structure, which has failed to generate sufficient formal-sector and high-skilled intensive types of employment in manufacturing industries. As a result, Indonesia’s economic development is over-reliant on natural resources consumed by resource-based industries, and on employment in labour-intensive manufactured goods (Dhanani et al., 2009). High-skill and capital-intensive technology-based industries that promote sustainable economic growth while advancing human capital skills and development play a key role in increasing the capacity of EMEs. However, Indonesia is not yet at this stage. The interaction of home- and host-country effects may have an impact not only on labour market institutions, but also on socioeconomic and societal institutions and the business environment (e.g. Aguilera & Jackson, 2010; Hotho & Pedersen, 2012; Meyer & Peng, 2009).

#### **4.6 Applicability of Institutional Theory**

Analysis of the nature of institutions is aligned with Hotho and Pedersen’s (2012) discourse on the “rules of the game”. They seek to explain the conditions of national institutional frameworks (Morgan et al., 2010), and how these qualities support institutional change whilst underpinning MNCs’ operational strategies and behaviour. These analytical tools and theoretical foundations enable an examination of how home institutions influence JMNCs in Indonesia, and how changes in

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<sup>13</sup> Pancasila is Indonesia’s constitutional ideology, which consists of five pillars: belief in the divinity/almighty God; respect for humanity; the unity of Indonesia; democracy guided by the principle of deliberation to reach a consensus; and the realisation of social justice (Ford, 2000). This concept has a European political basis.



Indonesian host institutions interact with Japanese home institutions. Hence, this thesis begins with a broader discussion of aspects of institutions at the national level, and then narrows this down to the institutional context of an organisation in the country of origin, and how a particular MNC operates in two different countries with different institutional environments (see Chapter 2).

According to Jackson (2009: 625), institutional patterns are a constellation of the “social organisation of market activities, networks and internal linkages within firms”. However, although Scott (1995) postulates that “institutions act as regulatory, normative or representational pressures that lead firms to adopt similar characteristics” (Jackson, 2007: 608), “institutions do not tightly define the scripts that actors can follow” (Morgan, 2004, cited in Morgan et al., 2005: 7). Whitley (2005) suggests that in EMEs, states may play an affirmative role in promoting homogeneous practices across firms by legitimising certain institutional forms (Jackson, 2009). As a consequence, states often exercise their legislative power to coordinate institutional consistency at the national level. They must also evaluate their administrative capacities, and market conditions that contest their state powers. Therefore, governmental limitations may amplify organisational capacities and firm-specific capabilities, leading organisations to seek self-reinforcing opportunities. This reality may fundamentally re-shape JMNCs’ institutions, for instance by redefining “dualistic” labour market institutions embedded in firms’ business strategies (Dore, 1990). Morgan (2004) suggests that the nature of the national institutional context may be constitutive of the international context, depending on the degree of “fit” and interaction between institutions (Aguilera & Jackson, 2010; Morgan et al., 2010), and specifically how MNCs use their capital. Referring to JMNCs in Indonesia, Whitley (2005) adds that, since JMNCs’ cross-national coordination, planning and innovation are based on home-country routines, competences appear in “managerially coordinated types of MNCs” beyond Japan. Jackson (2009) suggests that the varied nature of institutional regimes across market economies may diversify patterns and operations. This may be extended to promoting a variety of transformational organisational capabilities across national boundaries, and it is thus important to explore interactions between these changes (Morgan et al., 2005).

This study examines how the collective voice of local employers’ associations is increasingly using power and micropolitical tactics in response to changes in foreign

MNC practices and local labour market institutions. Sections 4.7 and 4.8 discuss the roles and strategies of government agencies, and interactions between Japanese and Indonesian agencies.

#### **4.7 Constraints on Collective Action by Employers' Associations: The Case of APINDO in Indonesia**

This thesis empirically analyses how the structure of an employers' organisation affects the power and political processes of employers' collective interests in shaping the national labour market institutions and business environment. It focuses on APINDO, the only employers' association in Indonesia, and presents a detailed analysis of structural power asymmetry in the forms of collective IR preferred by the labour market and employers' associations. In contrast to Traxler's (2008) observation of employers' confederations in the UK and Canada, APINDO participates extensively in the development of national policy and governance, and influences the IR framework. This is feasible primarily because Indonesia's national institutions are weaker and less structured than those of advanced industrial countries (e.g. Barry & Wilkinson, 2011; Sheldon & Thornthwaite, 1999; Traxler, 2008). The extant IR literature also suggests that employers' collectives are a strategic organisational choice (e.g. Jun et al., 2018; Thornthwaite & Sheldon, 2012; Heery & Simms, 2010; Sheldon, 1999), particularly where there is a lack of organised business representation in the collective employers' voice (e.g. Sheldon et al., 2018; Traxler, 1999).

An employers' organisation is an association of employers with common interests involved in the key activities of representing various categories of members and practices, recruiting members, and governing members with respect to collective decisions (Traxler, 1996). Existing studies of employers' associations focus on the complexity of state and union powers (e.g. Behrens, 2004; Heery & Simms, 2010). For instance, governmental influence over the capacity for employers to organise and the density of union membership have significant consequences for the shape of employers' organisations (e.g. Barry & Wilkinson, 2011; Traxler, 2008).

APINDO is the only officially recognised employers' organisation in Indonesia (e.g. Ford, 2004; ILO, 2016; Manning & Roesad, 2007). It refers to itself as "independent" (Ford, 2013; Mizuno, 2005), but this is questionable since its management comprises both employers and (active and former) government

officials. This involvement of employers and state officials is a unique aspect of this case study, since employers' organisations are traditionally separate from government bodies, and employers usually lobby the state in addition to engaging in collective bargaining with unions (e.g. Thornthwaite & Sheldon, 2012; Traxler, 2008).

The context of APINDO and Indonesia offers an opportunity to examine employer-organised collective voice as a result of the recent political transformation of labour in "the rise of the union movement" (Traxler, 2008: 238). Following the collapse of the Soeharto dictatorship in 1998 (Aspinall, 1999), the ILO ratified Convention No. 87, protecting the right to organise and allowing freedom of association (Ford, 2004). Thus, recent changes in the structure of HR and IR developments have prompted new forms of employers' organisation and collective voice in Southeast Asia's largest EME (e.g. Barry & Wilkinson, 2011; Manning, 1998; Rosser, 2013; Sheldon & Thornthwaite, 1999). As Traxler (2008: 238) points out, employers' associations "have become increasingly reactive to the state because their viability ever more depends on supportive national regulations". Accordingly, this thesis examines how APINDO has been structured around the organisation of political interests to influence national IR policies and the business environment through its member roles, networks and power. In so doing, this research sheds light on the role and influence of employers' associations in cross-border HRM "best practice" transfer processes and outcomes.

APINDO's history is intertwined with the political power of the Soeharto dictatorship in Indonesia. From the late 1960s, Soeharto's administration endeavoured to establish and consolidate an employers' association that would play an important role in government negotiations (e.g. Ford, 2013; Manning, 1998; Mizuno, 2005; Quinn, 2003). Prior to this regime, there had been an alliance between the Golkar political party (the oldest state-sponsored party), local bureaucrats and the business élite. This regime became deeply embedded in the Indonesian political economy during the Soeharto regime (e.g. Dieleman & Sachs, 2018; Isaac et al., 2008). As a result, Indonesian IR was characterised by exclusionary corporatism. The alliance between government and corporate leaders, originating in 1952 as the Employers' Council on Socio-Economic Affairs (PUSPI), was renamed APINDO in 1985 (Mizuno, 2005). Also known as the Indonesian Employers' Association, APINDO is the only employers' collective association

recognised in Indonesia (ILO, 2016). It is based in Jakarta, with over 400 members, branches throughout Indonesia's 26 provinces and 173 district boards (APINDO, 2016). According to Bell (1994), employers' associations have shifted their resources toward the establishment and development of political influence. From a political economic perspective, Thelen (2004) and Swenson (2002) support this view. Therefore, with its combination of employers and state officials, APINDO is deeply influenced by its historical, cultural and political background.

APINDO cannot be regarded as representing solely employers' interests. Since the 2000s, its board members have included active and non-active state officials, as well as active HR and IR company directors with a wealth of government networks (APINDO, 2015b; Ford, 2013; Mizuno, 2005). For example, Indonesia's ministers of trade and manpower have served as general chairmen (APINDO, 2015a), and both the current president and vice-president of Indonesia have served as executive members of the board of directors. Mr Yusuf Kala, vice-president of Indonesia, is an honorary chairman (APINDO, 2016; Mizuno, 2005).<sup>14</sup>

APINDO received a government mandate through Presidential Decree No. 6/2013, which named it as a government partner, enabling it to sponsor and further lobby the government. As a consequence of this decree, APINDO became part of a team of expert international trade organisations making recommendations to the government and international governing bodies (APINDO, 2015a, 2015b). This is significant because APINDO is a collective of private businesses, whereas its collective voice in the form of recommendations is influential mainly at the national level—and perhaps even at the international level in terms of organisations engaging in business with Indonesia. It has a wider impact on the national economy by maintaining and even increasing its coordination capacity. The non-IR-related Decree No. 6/2013 further strengthened APINDO's strategic business superiority, enabling it to control a wide range of labour market-related areas such as trade and investment (Müller-Jentsch, 1988).

APINDO is unique amongst employers' organisations for lobbying government and being involved in drafting labour laws, indicating that its key activity is political campaigning. Its strong political ties imply that it is not the "independent" employers' association it claims to be, since it engages in political activity at national

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<sup>14</sup> APINDO's organisational structure is available at <http://apindo.or.id/en/about/struktur-organisasi> (accessed 3 October 2016).

and regional levels (e.g. Ford, 2013; Mizuno, 2005). The government has stated that “there are several matters that must be transferred/assigned to other parties (employers)” (APINDO, 2015a, 2015b), which suggests that it may appoint APINDO to oversee the implementation and enforcement of law. For instance, APINDO reportedly engages in an informal “social protocol” framework. These activities serve to legitimise its organisational political movement and power and may be a source of membership inspiration and strategic competitive advantage. The employers’ association has welcomed this strong commitment to governmental law enforcement. This commitment appears to emanate from established business–government networks, through which APINDO’s practices, whether out of obligation or as a result of its own power, protect the government’s interests (MacIntyre, 1994). APINDO’s board members’ interests are marketed as collective interests, formulated in terms of APINDO’s goals. Given its organisational structure and the government’s decrees and statements, IR actors such as non-member employers may perceive APINDO to be an extension of government control, contrary to its claim to be an independent industrial actor. Accordingly, it is referred to in this thesis as a semi-independent business association.

APINDO’s direct involvement in relation to the logic of the collective is significant in terms of how it was established and is maintained in the face of employers’ self-interests. Initially, it was formed as a communications channel for employers to respond and react to unions and government: to “adopt the same steps [as unions] in resolving problems of employers, employees and government” (APINDO, 2016). This was a similar motivation to that of other employers’ associations established in, for example, the UK, Canada, Australia and China (e.g. Barry & You, 2018; Sheldon et al., 2016; Jun et al., 2016; Sheldon & Thornthwaite, 1999; Traxler, 2008; Plowman, 1988). APINDO’s management believes that inconsistent regulations, low productivity and increased labour demands exert an adverse impact on the Indonesian business climate (e.g. APINDO, 2015b; Barry & Wilkinson, 2011), suggesting that Indonesia has weak IR institutions. As contextualised by Barry and Wilkinson (2011), this institutional fragility appears to legitimise APINDO’s active engagement in the process of reinventing IR. This may create high economic costs and decrease competitive investment in order to “balance the power of organised employee representatives that have an effect on the Indonesian business climate” (e.g. Sheldon et al., 2018; Traxler, 2008).

APINDO also promotes “self-regulation” based on business codes of conduct developed by in-house expertise. This self-designed framework may be interpreted as good IR practice, to which it expects its member businesses to adhere (see, for example, Sheldon & Thornthwaite, 2005; Traxler, 2008). Applying the logic of APINDO’s collective action to politics, power and conflicts of interest, its representation of interests is a collective good, whereas its services are private goods (Traxler, 2008).

Financial resources are a significant factor in the promotion, development and transformation of the political landscape. Significantly, APINDO’s members’ use of these resources allows it to construct a political landscape that suits its organisational interests, enabling it to respond to the government as well as unions. APINDO’s networks and resources enable board members to determine where, how and who are financially sponsored. Its organisational structure and business systems suggest that it is centrally involved and dominates much of the government’s policy and practice, similar to employers’ associations in New Zealand between 1984 and 1990 (Sheldon & Thornthwaite, 1999). In Traxler’s (1996) terms, the business framework can be characterised as collective action by APINDO to recruit and sponsor members of parliament (i.e. partnering with the government) as a means of managing and taking an active part in the rules of the IR game.

One significant incentive for local employers to be part of APINDO is its heavy investment in developing its members’ knowledge of IR and HR. It increasingly conducts training and development in collaboration with international institutions and organisations such as the ILO and HIDA. APINDO has established a Training Centre (ATC) to provide services that include training and certification, and ATC and HIDA have established an HR-IR training programme. ATC offers external training to employers, while also bringing some of APINDO’s members into training sessions and workshops where they can share their knowledge and experience of industrial training overseas, for example, in Japan. Furthermore, at the national level, ATC runs an annual Indonesian IR conference, which aims to encourage open dialogue and discussion of ATC’s recommendations to the government. ATC’s training programmes are designed to attract HR managers, rather than employee representatives or unions, to participate in training and research aimed at promoting a harmonious IR environment and maintaining a competitive business climate. Its objective is to establish harmonious IR and a sustainable and conducive climate for

national investment. However, at the macro and micro levels, the tension between employer associations and employees' representatives remains contentious. APINDO appears to act as an extension of government, rather than reacting to it. Thus, its power and political approach shape national labour market institutions.

The importance of APINDO's direct role in the cross-border transfer process lies in ATC's collaboration with Japanese quasi-government agencies in HR/IR training and development, namely HIDA and IDE-JETRO. Furthermore, Japanese agencies also actively engage in direct communications and get involved in HR/IR issues with Indonesian employees and labour unions. This suggests clear interactions between Japanese agencies and Indonesian semi-independent business associations, as well as subsidiaries' employees in cross-border HRM "best practice" transfer. APINDO appears to act as an extension of government, rather than a reacting to it. Thus, its power and political approach shape national labour market institutions.

#### **4.8 Japanese and Indonesian Business Associations' Interaction at Sub-National Institutional Level**

Business associations' organisational structures entail collections of interests of various organisations, private enterprises and governments; although they do not represent any MNC actors *per se*, their operations may represent certain elements of these. Evidently, the allocation of both Japanese and Indonesian business association actors' power resources and expertise are at the meso level. Consequently, business associations are of relevance here, as their strategic positions enable them to distil power. This thesis argues that at sub-national (meso-institutional) level, power influences MNC–subsidiary relationships by constructing power variants and mitigating dominance effects. Although the cross-border processes appear consensual at the macro level, there are divergent views at the micro level. Thus, at the meso level, it is important to address internal and external pressures that are not yet fully understood, in terms of actors' power and control (e.g. Almond, 2011b; Ferner et al., 2004).

Institutionally, Japanese business associations' roles and objectives are protected by the host country's institutions (international bilateral agreements) and operate according to JMNC and governmental investment policies. In fact, business associations are in the "strategic" position (a term used by Kostova and Zaheer, 1999) of having formal capacity to forge cross-border, cross-organisational alliances

with the state, business organisations, and non-state organisations and governing bodies. These include local governance networks involved in regulatory frameworks (Delbridge et al., 2011). These strategies at the meso level enhance strategic actors' agency in using sources of ideological power as a vehicle to deliver their objectives.

Japanese quasi-government agencies (HIDA and IDE-JETRO) and business associations (JETRO) play an important coordinating role between the Japanese government, BG and MNCs in promoting Japanese management ideology and production systems overseas (e.g. Morris et al., 2018; MacKenzie & Martínez Lucio, 2014; Stewart et al., 2016). Japanese agencies/business associations are particularly important because Indonesia has regulations prohibiting foreign expatriates from occupying positions in or directly involved with HRM-IR. HIDA's operations are governed by a bilateral agreement for official development assistance (ODA) between Japan and Indonesia. Historically, these Japanese associations have collaborated with the host country's business associations, namely APINDO with regard to IR and HR development issues and training, and the Indonesian Chamber of Commerce and Industry (KADIN) with regard to promoting a better business and trade environment. APINDO's establishment was mandated by KADIN.<sup>15</sup>

The established relationships of these Japanese associations are significant because APINDO is a collective of local businesses, whereas its collective interests and agenda in the form of recommendations are influential mainly at the national and international level in terms of organisations engaging in business with Indonesia. As noted by Barry and Wilkinson (2011) and Traxler (2004), governmental sponsorship of the employers' association has a wider impact on the national political economy, maintaining or even increasing employers' coordination capacity.

APINDO has unique resources amongst influential local firms to lobby local government and be involved in drafting labour laws. Outside Indonesia, APINDO's extensive networks with governmental and non-governmental agencies provide its business members with a competitive advantage. This indicates that its key activities are political-economic campaigning and the exercise of power. According to international IR scholars (e.g. Sheldon et al., 2018; Ferner & Varul, 2000; Ford, 2013; Mizuno, 2005), its strong ties with government and its engagement in political

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<sup>15</sup> APINDO and KADIN are classified as semi-independent business associations in this thesis, given their formal establishment supported by local laws and their micropolitical approach to shaping national labour market institutions and policies.



activities with local and foreign subsidiaries are similar to other organisations across Europe and Australia. Furthermore, alliances between local actors and government provide institutional support for local actors committed to protecting local systems, which is very important for low-power actors in a “weak” institutional setting. APINDO has gained a mandate directly from the government to oversee the development and implementation of HR and IR policies. Given its organisational structure and the government’s decrees, local actors may perceive APINDO as an extension of the government’s eyes and ears, as it participates extensively in the development of national policy and governance and influences the IR framework. This perception arises primarily because Indonesia’s national institutions are deemed to be weak and less structured than those of advanced industrial countries such as the UK, Canada and Australia (Barry & Wilkinson, 2011; Sheldon & Thornthwaite, 1999).

It may therefore be a challenge for JMNCs to diffuse HRM “best practice” to their Indonesian subsidiaries, and local actors may respond in various ways to JMNCs’ investment practices. This may decrease competitive investment and increase the cost of balancing the power of organised employee representatives, which will affect the overall Indonesian business climate. APINDO also incentivises its members to join and stay within the collective organisation. In order to receive HRM-IR training, local firms must respect the range of possibilities in which APINDO is interested. Importantly, the training offered in collaboration with the ILO and HIDA is not only an incentive, but also a technique to improve, standardise, and also protect local HRM-IR systems.

Overall, Japanese and Indonesian business associations’ institutional establishment, networks and allocations of power at sub-national (meso) level demonstrate different levels of relationships, resources and potentially power capacities in relation to cross-border management transfer. Thus, these agencies’/associations’ direct roles, involvement and interests in the mechanism of cross-border HRM “best practice” transfer may have an impact on organisational capabilities and actors’ participation.

Therefore, in this thesis it is argued that understanding the mechanisms and processes of cross-border transfer relative to power resources and interactions at the meso-institutional level may shed light on MNCs’ strategy in configuring types and allocations of power. In so doing, this research moves beyond examining subsidiary

actors' strategy (i.e. boycott, resist or ignore) to investigate the strategy underlying their coordination with local institutions and associations.

#### **4.9 Conclusion**

Despite the rise of Southeast Asia's market economy, Japan is managing to maintain its status and geopolitical influence as the world's third largest economy. New policy changes have been designed to revive economic performance, yet the country itself has experienced "institutional inertia". This has triggered JMNCs to change their operations and strategies in Southeast Asia (Kingston, 2013). It is imperative to understand the cohesiveness of Japanese society and reject the image of Japanese institutions as homogenised: an inaccurate view still widely held by the Japanese research community. The configuration of Japanese and Indonesian societal institutions appears to be shaped by the rules of formal and informal established institutions. Stable and democratic institutions promoting economic growth are a positive institutional change. Indonesia has managed to move away from the post-authoritarian types of government prevalent in Southeast Asia. Following a 33-year, deeply-rooted oligarchic economy and the severe nepotism of Soeharto's authoritarian regimes, Indonesia has gradually managed to change its institutions. Neoliberal changes, guided by democracy, have transformed the country's socioeconomic and political platforms, which are testing the labour market's capacity to respond to increasing numbers of MNCs in Indonesia, and reassuring the world of commerce of its political stability.

The 1997 Asian financial recession redefined the socioeconomic and political context of both Japan and Indonesia. The Japanese economy has experienced greater turbulence, raising questions about whether it is still a key player in the global economy. In contrast, EME countries such as Indonesia have been treated as developing economy nations. However, the political-economic reformation has impacted positively on the local economy. This dynamic situation and greater power distance, where Japan has experienced stagnation while Indonesia's outlook has been improving, suggests more power. It is an engaging case through which to examine conditions facilitating inward transfer and how the JMNC maintains its dominant influence in the largest ASEAN manufacturing/assembling nation.

"Classical" Japanese institutions have changed profoundly since World War II, and many prominent changes have appeared since the early 1990s (e.g. Yamamura &

Streeck, 2001; Vogel, 2006; Witt, 2006; Aoki et al., 2007). Varieties of capitalism (VOC) is a particularly influential stream of institutional theory (e.g. Hall & Soskice, 2001; Wood & Lane, 2011; Thelen, 2010; Witt & Redding, 2014). To advance discussion of the “model of institutional change from *coordinated* to more *liberal*, and to identify organisational diversity as a feature of the change and the new emergent system, is to analyse the type/classification of the market institutions and the features of the changes within it” (Aguilera & Jackson, 2010). Sako (2012) claims that Japan’s institutions are moving from coordinated to liberal market economy-types as a result of increasing organisational change resulting from intensification of competitive pressures. Although the changes have been substantial, the Japanese case clarifies that “the historical evolution of corporate governance illustrates how institutions emerged in a piecemeal fashion, often fitting together in ways that were unintended rather than by design” (Jackson & Miyajima, 2007: 2; see also Aoki, 1996; Jackson, 2009). Other researchers argue that Japan’s institutional change is incremental, layering the approaches of older institutions by facilitating new strategies while leaving old strategies as they are (e.g. Streeck & Thelen, 2005; Morgan & Whitley, 2012).

Institutional and managerial constraints are exemplified in this thesis by JMNCs in Indonesia. The host country systematically opposes direct influence from foreign actors, and by forbidding foreigners from working in HR functions, Indonesian law (decree of the Minister of Manpower and Transmigration no. 40/2012) limits the possibility of using expatriates to directly control foreign subsidiaries in the country. This suggests that the host country has its own management practices, systems and national policy, and is selective in adopting HRM “best practice”. As an EME with “weak” institutions, Indonesia may be receptive to these dominant practices. Even so, local semi-independent business associations such as APINDO and KADIN may be instrumental in either blocking or permitting foreign HRM “best practice”. In particular, APINDO is the only authorised employers’ association in Indonesia that sits on tripartite national committees (although there are reportedly many sectoral employers’ associations) and institutionally involved in HR/IR development. APINDO’s voice is strengthened by its composition of government officials and BGs (conglomerates) participating in shaping local labour market institutions in terms of policy and protectionist interests, and by its established relationships with

governmental bodies, international agencies and Japanese quasi-governmental agencies.

## **Chapter 5: Presentation of the Case Study**

### **5.1. Introduction**

This chapter is based on data gathered from publicly available archives, such as company reports, newspaper articles, and government and agency reports, as well as published research and the researcher's fieldwork diary. Data were gathered and analysed from original sources in Bahasa Indonesia, Malaysian, Japanese and English, while the final analysis was conducted in English.

Some difficulties were encountered in obtaining data from official company websites and reports. For example, although English site options are available, some company websites are not completely bilingual in the original language and English. AOP provides an English version of its website, whereas even on the English sites of PT Toyota Motor Manufacturing Indonesia (TMMIN, hereafter Toyota), much of the information is in Indonesian. Moreover, the English versions are less complete and accurate than the Indonesian versions, and the English version sites use Indonesian terms and syntax. The author is fluent in all these languages, enabling language difficulties to be overcome in order to analyse data from different sources and languages. A researcher proficient in only one language might experience greater difficulty in gathering and analysing data from this region.

Furthermore, the author learned about changes in ownership and investor structure after the research project had begun, particularly in AOP subsidiaries, but some up-to-date information may not be available in company profiles or in the public domain. In addition, some company information is poorly presented and even unreadable. In spite of these challenging circumstances, the author maintained communications with key management informants throughout the analysis and writing processes. Keeping this contact enabled the information to be crosschecked against reliable sources.

The presentation of the company analysis in this chapter depends on the accuracy of the primary and secondary data. The companies were concerned to protect confidential data and information, and the amount of information made available varied, which affected the data presented in this chapter. It was challenging to obtain sufficient data to provide a balanced analysis of each selected case study, while upholding research ethics.

The main objective of this chapter is to present the background to the empirical studies by illustrating the importance and relevance of the case to the research. The four main firms are presented descriptively based on published data and the author's notes. This chapter proceeds as follows. Section 5.2 outlines the background, history, ownership and capital structure of Astra and its four automotive divisions by reviewing the companies' profiles to determine what prompted their establishment and IJV. The remainder of the chapter analyses the companies' strategies, examining the capital structure, business management practices and activities of the JMNCs within Astra Automotive Group (AAG). Three of AAG's business lines are discussed – cars (Toyota and Daihatsu), motorcycles (Honda) and autoparts (AOP) – focusing on the mechanisms of JMNCs' investment in, involvement with and assimilation of the Japanese-dominated autoparts supply chain. The background of employment relations and unions, and the implementation of Japanese working practices are examined in all cases. The chapter also examines the involvement and influence of business associations, before drawing conclusions.

## **5.2 Business Group: Astra International**

### *5.2.1 Overview of Astra International*

Astra International (hereafter Astra) is a premier, listed Indonesian conglomerate and IJV firm. Its parent company is AAG, and it has four Japanese subsidiaries selected as case study firms: car manufacturers, Toyota and Daihatsu; motorcycle manufacturer, Astra Honda Motor (hereafter Honda); and automotive component manufacturer, AOP. This offers a unique case to examine interactions between a dominant foreign MNC and low-power local subsidiaries. In particular, it provides an opportunity to understand how the dominant Japanese automotive firm's work, employment and organisation systems are transferred to various sectors of the Indonesian automotive industry. Astra is recognised as Southeast Asia's largest automotive group, and is a powerful, leading provider of a full range of automotive products. It is a very diversified firm, employing over 223,000 people in its 215 subsidiaries, joint ventures and associates.<sup>16</sup> Thus, exploring the diverse business management practices of each business line enables an examination of the patterns, conditions and strategies of JMNCs engaged in IJVs with local firms, and the impact

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<sup>16</sup> As at December 2017 (<https://www.astra.co.id/About-Astra>, accessed 9 September 2018).

of IJVs on firms' productivity and IR. Detailed findings on Astra's empowerment of local actors are discussed in Chapter 8.

Jardine Cycle & Carriage, a member of Jardine Matheson Group, owns 50.1% of Astra International.<sup>17</sup> Although Jardine focuses on the Southeast-Asian market, the group has non-Japanese management: Jardine's headquarters is in Bermuda under British management with a long list of non-Japanese/Asian directors and managers. Although Jardine has a stake in Astra, the focus of this research is on JMNCs' ownership structures, presence and level of influence over Astra and its sub-units.

Astra was established in Jakarta, Indonesia in 1957 as a general trading company under the name of PT Astra International Inc. In 1990 it changed its name to PT Astra International Tbk.<sup>18</sup> It is one of the largest Indonesian firms in terms of the number of employees and business entities, and comprises seven business segments: automotive, financial services, heavy equipment and energy, agribusiness, infrastructure and logistics, information technology and property (see Appendix C for details).

Astra's market capitalisation at the end of 2015 was 300.6 trillion Indonesian rupiah (IDR). Figure 5.1 illustrates the structure of the firms pertaining to this study, showing the four classifications (I-IV) of Astra's automotive subsidiaries. As shown, the focus is on the manufacturing businesses of Toyota, Daihatsu, Honda and AOP.<sup>19</sup>



**Figure 5.1: Astra Automotive Group Structure**

(Source: adapted from <http://www.component.astra.co.id/profile.asp>, accessed 30 August 2016)

This research highlights AAG's car and motorcycle manufacturing business lines and one of its eight automotive component subsidiaries (AOP). (Table 3.1 in

<sup>17</sup> Source: <http://www.jcclgroup.com/about/overview/> (accessed: 9 September 2018).

<sup>18</sup> "PT" is an Indonesian term meaning "the" in English, while "Tbk" means limited company ("Ltd").

<sup>19</sup> Astra Motor II combines Toyota's dealership/sales and manufacturing.

Chapter 3 provides details of the 12 cases in this study.) Toyota is a joint-venture firm in which Astra has only a 5% stake, while Toyota Motor Corporation (TMC) Japan owns 95%.<sup>20</sup> Daihatsu Motor Company (DMC) and Toyota Tsusho Corporation own 68% of Astra Daihatsu Motor (ADM). In Honda, equal stakes are owned by Astra and Honda Motor Corporation (HMC) Japan, while AAG owns 80% of AOP. Six out of 48 AOP manufacturing subsidiaries<sup>21</sup> were selected for this study, with varying levels of Japanese capital investment. Astra's stake ranges from 25% to 100%. Greater detail about these AOP companies can be found in Section 5.5.

Between 1960 and 2010, Astra experienced the ups and downs of Indonesia's economic and democratic development, while continuing to grow by leveraging opportunities and maintaining business management synergies in Indonesia. Since its establishment, Astra has successfully built its corporate image, with a reputation for doing good business, and improving working conditions and employment relations. It has become a household name for Indonesian products and services. It has also invested and engaged in a range of corporate social responsibility programmes in areas such as education, the environment, development of small and medium-sized enterprises (SMEs) and health and has strongly promoted its achievements and reputation in Indonesia and abroad. Such CSR activities are relatively uncommon in the Indonesian business context.

Astra claims to play an active role in ongoing efforts to foster harmonious IR and improve the welfare of the Indonesian people at large, rather than of specific groups. This intriguing business perspective is probed in this thesis, as it demonstrates that Astra's journey to become the pride of the nation is intertwined with the development of the Indonesian people and economy. Crucially, as the largest Indonesian employer by number of employees and diversified firms, Astra promotes the human capital development (HCD) of its own employees and of its subsidiaries, realising that its skilled employees play an important role in many of its business accomplishments and in its competitive advantage at national and international levels.

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<sup>20</sup> Toyota is listed not in the company structure but under Toyota-Astra Motor (TAM), with sales and distribution owned 51% by Astra and 49% by Toyota Japan. TAM is *not* the focus of this study.

<sup>21</sup> Since this study was conducted, ownership structures have changed, and foreign (non-Japanese) investors now own some AOP subsidiaries. The eight selected AOP subsidiaries in this study have only Japanese or Indonesian ownership and were thus appropriate for this research.



### 5.2.2 Brief history of Astra

This sub-section discusses Astra's trajectory and important events. Data on Astra's history were gathered and adapted from *Sejarah Astra* (the History of Astra) and other public archives. Table 5.1 highlights elements of importance to this study, including Astra's establishment, varying levels of investment and the Astra-Japanese business partnership. Significant years and events in relation to Toyota, Daihatsu, Honda and AOP are discussed in more detail in the subsequent sections on each firm.

**Table 5.1: History and development of Astra International<sup>22</sup>**

Year	Event
1957	PT Astra International Inc. commences business as a trading company.
1969	Granted sole distributorship for Toyota vehicles in Indonesia.
1970	Appointed as sole distributor for Honda motorcycles in Indonesia.
1971	Establishment of Federal Motor (renamed Astra Honda Motor in 2001). Establishment of Toyota Astra Motor (TAM) as a sole distributor for Toyota.
1973	Appointment as sole distributor for Daihatsu.
1976	Establishment of PT Alfa Delta Motor as an auto industry trading company, assembling and constructing machines.
1978	Establishment of Daihatsu Indonesia (TMC Japan acquires 51% share of Daihatsu in 1988, and it becomes a wholly-owned subsidiary of Toyota in August 2016).
1981	TAM launches the <i>Kijang</i> car as a family car.
1989	Establishment of TAM as a Toyota manufacturer, comprising four Toyota-Astra subsidiaries. The World Bank's International Finance Cooperation (IFC) acquires 6.6% of Astra shares.
1992	Establishment of Astra-Daihatsu Motor (ADM), a consolidated subsidiary owned 61.75% by Daihatsu Motor Japan and 38.25% by Astra International. <sup>23</sup>
1995	Establishment of Astra Manufacturing Polytechnic, which provides formal diploma-level manufacturing education. Many of its graduates are employed by Astra Group.
1997	Establishment of AOP (under the name of PT Astra Dian Lestari).
2000	Restructuring of motorcycle business. Acquisition by a consortium led by Jardine Cycle & Carriage of a 40% shareholding in Astra (51% by 31 July 2016).
2001	Establishment of Astra Honda Motor, operating as a subsidiary of Honda Motor Co Ltd.
2003	Restructuring of Toyota business: Toyota-Astra Motor becomes Toyota

<sup>22</sup> Source: adapted from *History of Astra* and *Sejarah Astra* (available at: <https://www.astra.co.id/Profile/History-Of-Astra>); Bloomberg Business Company Profile (available at: <http://www.bloomberg.com/Research/stocks/private/snapshot.asp?privcapid=11712494>, accessed 29 August 2016).

<sup>23</sup> Daihatsu Japan only operates in Japan, China, Malaysia and Indonesia.

Year	Event
	Motor Manufacturing Indonesia (TMMIN), and a new company, Toyota Astra Motor (TAM), is established as a distributor and importer of Toyota vehicles in Indonesia. Daihatsu-Toyota markets the first jointly-developed cars in Indonesia: Toyota Avanza and Daihatsu Xenia.
2008	Astra-Daihatsu begins to export complete vehicles from Indonesia to Japan.
2009	AHM manufactures its 25 millionth motorcycle.
2012	AOP and Pirelli agree to establish a joint venture (60% Pirelli, 40% AOP) to manufacture conventional motorcycle tyres in Indonesia. Astra-Toyota AGYA and Astra Daihatsu AYLA launch “Pride for Indonesia”, a collaboration between Astra International, Toyota and Daihatsu.
2014	AOP acquires a 51% share in PT Pakoakuina, a manufacturer of wheel rims for two- and four-wheeled vehicles. AHM commences construction of its fourth plant in Karawang (KIIC), <sup>24</sup> with a capacity of 1.1 million units per year. IAMI starts construction of a new commercial vehicle plant in Karawang with a capacity of 52,000 units.
2015	Astra-Daihatsu reaches five million cars manufactured in Indonesia. AOP acquires a further 25.8% interest in SKF Indonesia, a bearings producer, for a purchase price of 67 billion IDR, raising its shareholding to 40%.

Astra’s first business partnership with a foreign automotive firm for manufacturing was with TMC Japan in 1968. It acquired the distributorship for Toyota cars, followed by Honda motorcycles a year later. In 1971, it established plants for cars (under the name of Toyota-Astra Motor) and motorcycles (under the name of Federal Motor). Five years later, the first AOP subsidiary was established, a purely Indonesian firm under the management of Astra and another local firm. All three firms went through reorganisations, mergers and acquisitions, as illustrated in Table 5.1. These included a capital acquisition by Jardine Cycle & Carriage, and as at May 2016, Jardine had a 50.1% stake in Astra. Unlike JMNCs, Jardine appears to be more interested in capital investment than in involvement in business management practices. This study does not examine Jardine’s capital investment but focuses instead on the capital investment and involvement of JMNCs in AAG’s business lines I, II, III and IV.

The complexity of Astra’s reorganisation and the establishment of Toyota, Daihatsu, Honda and AOP are illustrated by three important time points relevant to

<sup>24</sup> Karawang is a major manufacturing centre in Indonesia. Some company visits and interviews were conducted at KIIC (see <http://www.kiic.co.id/>, accessed 11 October 2016).

this research. First, in 1971, Honda was established only to assemble Japanese autoparts to make Honda motorcycles. Astra established Federal Motor (rebranded to AHM) as its first automotive assembly plant, with the launch of the Honda Motorcycle 90 Z/90cc. Second, Daihatsu's assembly productions started between 1973 and 1975, and in 1989, TAM (rebranded to TMMIN) started to manufacture Toyota cars. As with Honda, all Toyota parts were still exported from Japan (Busser & Sadoi, 2004). Astra launched its first national family car under the brand name *Kijang* ("Deer" in English; Irawati, 2011). The joint ventures with Honda and Toyota have both been successful. Third, AOP was established in 1997 after two decades of re-organisation, renaming and mergers with local autoparts firms. In 1998, it was listed as a public company on the Indonesian Stock Exchange (IDX). Lastly, Daihatsu entered Indonesia and engaged in business with Astra in 1968 to establish completely knocked down (CKD) operations and an assembly plant. However, although DMC began its manufacturing operations in 1972, it did not establish an IJV with Astra until 1992.<sup>25</sup>

These four firms have experienced similar business patterns and partnership processes with JMNCs. Initially, each firm was granted a licence as sole distributor of Toyota, Daihatsu, Honda or Japanese (e.g. Denso and Aisin) autoparts. Gradually, Astra-Toyota and Honda became Toyota, Daihatsu and Honda assemblers. As Busser and Sadoi (2004) argue, until the late 1980s, Southeast Asia did not have adequate technological standards, capabilities and infrastructure, so Astra is unlikely to have had the capability to manufacture Japanese automotive products. In 1989, Toyota and Honda began to manufacture Toyota and Honda products in Indonesia. Similarly, AOP gradually started to manufacture and engineer some autoparts and was licensed as a Japanese autoparts manufacturer, serving both Japanese and non-Japanese clients. Table 5.1 tracks the transformation of Astra's business entities and production, which may be attributable to the investment and involvement of JMNCs. It also illustrates similar JMNC business partnerships in the establishment of Daihatsu and in other business operations such as training and development. The focus of this study is on Toyota, Daihatsu, Honda and automotive component producers.

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<sup>25</sup> Source: <https://www.daihatsu.com/company/outline.html>; [https://www.daihatsu.com/company/databook2017\\_5.pdf](https://www.daihatsu.com/company/databook2017_5.pdf); <https://www.daihatsu.com/company/group.html> (accessed 9 September 2018).

Another important element of Astra's history has been its management's maintenance of the core vision and mission of its founder. Mr William Soerjadjaya, known as "Oom" William ("Uncle William" in English),<sup>26</sup> co-founded Astra with his brother and business partners. It was originally established in the 1940s as a small drink, agricultural and groceries trading business. Oom William's business vision was to establish a company that would grow sustainably with the nation and improve the welfare of the Indonesian people. His vision continues to resonate in Astra's business management practices and corporate governance. It translates into Astra's business philosophy of *Catur Dharma* (Four Forces), a principle that has enabled Astra to differentiate its business management practices from those of other Indonesian firms, and to gain competitive advantage by selecting foreign firms with which to do business to support its vision. Astra's business philanthropy focuses on the interests of the local economy and people. For his business vision, and particularly for his business policy on labour relations, Oom William is highly respected as a visionary Indonesian businessman promoting better working conditions, productivity and harmonious IR. As Indonesia's largest and most prominent business conglomerate, Astra's business management network and operations model are similar to the business conglomerates known in Japan as *zaibatsu* and in Korea as *chaebols*.

### 5.2.3 The 1997 Asian financial recession, diversity of capital and investment in Astra

As at July 2014, Astra was the largest Indonesian conglomerate by total market capitalisation (9.44%), and its automotive sector accounted for 42% of Indonesia's car market.<sup>27</sup> Since late 1990, Astra has been registered as a public company, listed on the Indonesian stock exchange (IDX) with a market capitalisation, as at 31 December 2012, of 310.5 trillion IDR. It has grown to become the largest Japanese automotive producer and distributor in Indonesia, which has enabled it to become one of Indonesia's most diversified conglomerates. With regard to joint ventures, Astra also partners with Daihatsu and Isuzu, in addition to Toyota and Honda.<sup>28</sup>

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<sup>26</sup> It is common practice for Indonesians to address people by their first names rather than last names.

<sup>27</sup> The other top-four Indonesian firms by total market capitalisation were Salim Group (3.42%), Lippo Group (2.40%) and Sinar Mas Group (2.23%); see <http://www.indonesia-investments.com/news/todays-headlines/top-listed-indonesian-conglomerates-with-largest-market-capitalization/item2226> (accessed 30 August 2016).

<sup>28</sup> Astra also engages in business partnerships with non-JMNCs, namely Peugeot and BMW car dealerships and sales.

Importantly, as a result of the prolonged 1997 Asian financial recession (OECD, 2010), Astra suffered a financial downturn. This had a direct impact on the conglomerate because automobile production dropped drastically (Tarmidi, 2004), forcing it to undertake further reorganisation. In 1990, Astra had issued an initial public offering of 30 million shares listed on the IDX, but this was insufficient to bring its financial position to a level where it could operate steadily. The 1997 Asian great recession and the 1998 collapse of Soeharto's regime severely affected Indonesia's economy, and the rupiah depreciated significantly. As a result, in 1999 Astra signed phase one of a debt restructuring agreement. Then, in 2000, Jardine Cycle & Carriage of Singapore acquired a 40% stake in Astra, which had increased to 50.1% by 31 July 2016.<sup>29</sup> In 2002, Astra signed phase two of the debt restructuring agreement, which resulted in it initially settling for debt restructuring in 2004.

In May 2003, TMC Japan acquired a 95% stake in Astra's automotive manufacturing. This targeted a reduction of Astra's one billion USD debt, forcing a restructuring of the Toyota-Astra business. While Astra refocused primarily on its automotive sales and distribution network, a Toyota-Astra joint venture was established to produce Toyota cars with autoparts made in Indonesia. TMC has a majority stake in Toyota Indonesia. The reorganisation of both Astra and Toyota enabled Astra's automotive segment to thrive more successfully than the other five Astra business segments. In fact, Honda motorcycles and Toyota car sales and distribution networks remain the largest in the Indonesian automotive industry.

Indonesian foreign investment regulations may have attracted JMNCs to partner with Astra. Foreign Capital Investment Law No. 1, 1967<sup>30</sup> and a resolution of the cabinet in January 1974 primarily govern foreign investment in Indonesia. Foreign investors operating in Indonesia are legally required to have local partners (Gurney, 1983; Irawati, 2011; OECD, 2014). Although the law does not necessarily require a maximum/minimum equity stake (OECD, 2014), it prevents Jardine and JMNCs from owning Astra entirely. This may explain the dynamics of JMNCs' capital investment arrangements in Toyota, Daihatsu, Honda and AOP.

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<sup>29</sup> See <http://www.jardines.com/group-companies/overview.html> (accessed 30 August 2016).

<sup>30</sup> Amended by Law No. 11, 1970.

## 5.3 Cars

### 5.3.1 Development of Toyota Manufacturing Indonesia (TMMIN)

TMC's primary interest in entering Indonesia was to secure natural resources, prompted by problems relating to the supply of parts and components in Japan (e.g. Abo, 2007; Irawati, 2011; Sato, 1998; Wie, 1984). The New Order government regime under President Soeharto welcomed Japanese investment. TMC started its business with Astra in 1971, and since then, the 47-year Toyota-Astra business partnership has established TMMIN as an Indonesian Toyota automaker. TMC values the Indonesian market and Astra's reputation and commitment. Initially, Toyota Indonesia was established as a joint venture between TMC (51%) and Astra (49%), but its capital and partnership status have changed. Table 5.2 shows the TMC-Astra business partnership and status as at December 2015. Toyota Indonesia comprises TMMIN, TAM and ADM,<sup>31</sup> and the focus of this study is on the manufacturing business entities, Toyota and Daihatsu. According to TMMIN's corporate reports, it has been a joint venture between TMC and Astra since its establishment in 2003.<sup>32</sup> The business focuses on manufacturing, motor vehicle exports, machinery and components.

**Table 5.2: Toyota Indonesia's capital structure and status**

	<b>TMMIN</b>	<b>TAM</b>	<b>ADM</b>
Japan	TMC 95%	TMC 50%	TMC 68.1%
Indonesia	Astra 5%	Astra 50%	Astra 31.9%
Status	Joint venture	Joint venture	Joint venture

As indicated in Table 5.2, TMC has a controlling stake in TMMIN and ADM, but equal capital ownership with Astra in TAM. Understanding the business partnership arrangements between TMC and DMC Japan is relevant to the orientation of the TMC-TMMIN-ADM joint venture. TMC was interested in increasing its stake in order to gain management control of Daihatsu. It began with an ownership stake of 51% in 1988, which rose to 100% in 2016, leaving Daihatsu with only 0.26% of shares. As a result, Daihatsu became a wholly-owned subsidiary of TMC in August 2016. Similarly, TMC began to partner with Astra with a 49%

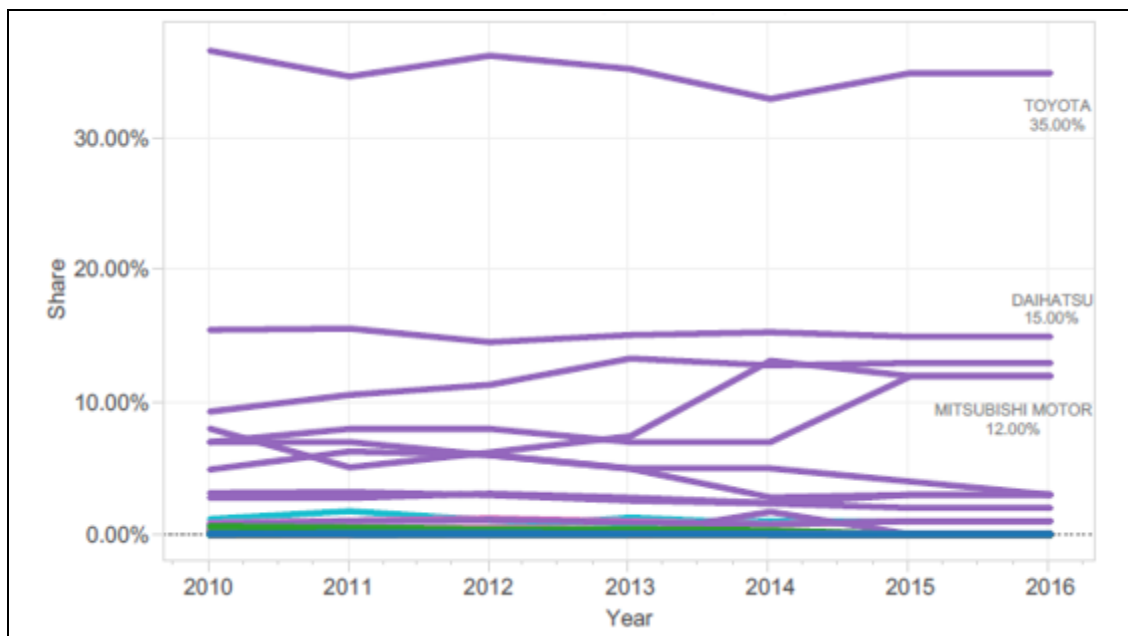
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<sup>31</sup> This section refers to TMMIN, TAM and ADM to ease differentiation between these firms. The rest of the thesis uses Toyota and Daihatsu to refer to the Indonesian subsidiaries.

<sup>32</sup> There is a minor discrepancy between information on TMMIN's status reported by Astra and TMMIN. This study follows TMMIN's corporate report, which states that TMMIN is a joint venture between the Japanese and Indonesian automotive firms.

stake in car sales and distribution in Indonesia. As Toyota's sales and distribution networks expanded, Astra built a stronger business relationship, and gained status and reputation. This satisfied TMC, which has since maintained its business with Astra. In 1973, prior to the establishment of TMMIN, Astra was granted the sole distributorship for Toyota cars under the name of TAM. Since TAM's establishment as a Toyota car dealer and assembler, Astra and TMC have had equal stakes, meaning that they have equal management power.

In 1981, TMC licensed TAM as a Toyota assembler and launched the first Indonesian-made Toyota family car, the *Kijang*. This was ground-breaking for Astra and for Indonesia's automotive industry. In 2003 TMC increased its stake to 95% and established the first Toyota manufacturing plant in Indonesia. Despite their differing business status, TMMIN and TAM are clearly subsidiaries of TMC Japan. Since its establishment, TMMIN has been well-regarded as a powerhouse of automotive manufacturing in Indonesia and has gained in status. Figure 5.2 shows how TMMIN dominates car production in the Indonesian automotive industry (OICA, 2010-2016).



**Figure 5.2: Car production by brand, 2010-2016**

(Sources: OICA and GAIKINDO)

TMMIN is a joint venture between Astra and TMC Japan. TMC holds a 95% and Astra a 5% stake.<sup>33</sup> Its union, KSPSI is the largest and oldest union in Indonesia. It was originally a military-type union, formed by Soeharto and his regime. Working

<sup>33</sup> Source: <http://www.toyotaindonesiamanufacturing.co.id/corporate/company-milestone> (accessed 9 September 2018).

conditions and employment benefits are both above the national average and those of other Astra employees. KSPSI maintains its conventional objective of being cooperative with management, yet it is perceived by others as a union that lacks solidarity and movement. Both firm and union have been widely studied and appear to be getting tougher in granting access to researchers.

### *5.3.2 Effects of investment and automotive regulations on the automotive industry in Indonesia*

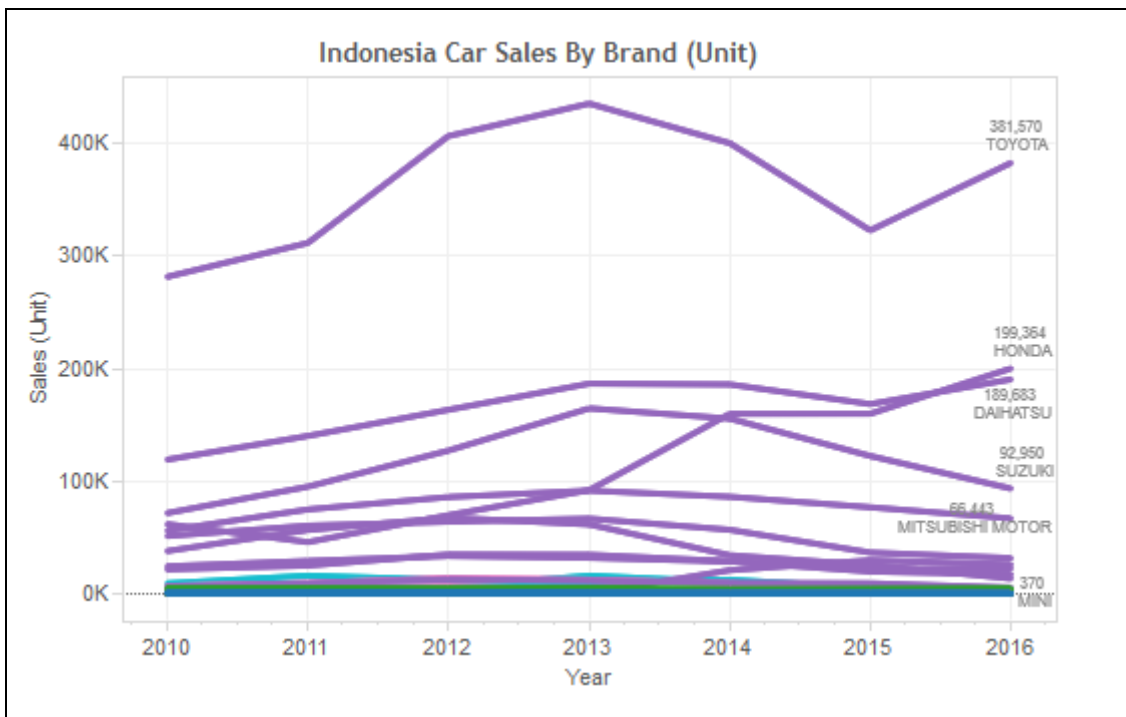
TMMIN appears to be supported by Indonesian national policies. For example:

*In keeping with the spirit of Kijang which was presented in 1977 to meet the dream of Indonesian society and government for a car that would drive Indonesia's economy, TMMIN is also committed to developing the automotive industry in Indonesia (TMMIN, 2014).*

Studies suggest that Indonesian industrial policy in the automobile sector may have had an impact on the inflow of foreign investment and the capabilities of potential local manufacturers such as Toyota. This policy may also explain Astra-TMC's joint venture mechanism. In 1969, the Indonesian government began to regulate imports of motor vehicles, limiting them to completely assembled and completely unassembled units, and requiring the sole agents or brand owners to be of Indonesian nationality (Tarmidi, 2004). However, the government did not make local production of automobile parts mandatory until 1976. Then in 1982, it expanded its regulation of unassembled automobiles manufactured locally in Indonesia (Tarmidi, 2004). These policies required JMNCs to invest in manufacturing plants in the host country (Busser & Sadoi, 2004). Some scholars argue that the Astra conglomerate has had a close relationship with local government, enabling it to lobby for a favourable tariff structure and implementation, and investment and automotive manufacturing regulations, particularly during the 33 years when Soeharto was in power (see Aspinall & Fealy, 2010; Irawati, 2011; Mizuno, 2005; Sato, 1998). However, that is not the focus of this study. Of greater relevance is the fact that tightened foreign investment and business regulations have not discouraged JMNCs from investing in Indonesia. In fact, reports by the Indonesian Investment Coordinating Board (BKPM) and the Japan Export Trade Organisation (JETRO) in Jakarta suggest that, between 1967 and 1980, Japan topped the list of 25 foreign countries investing in Indonesia (Wie, 1984).



Moreover, this policy has enabled JMNCs to transplant important features of Japanese industrial management practices to Indonesian subsidiaries (Busser & Sadoi, 2004; Tarmidi, 2004). Astra and Toyota Indonesia company reports suggest that federal regulations have further empowered TMMIN to expand its business and partnership opportunities with JMNCs. Some notably positive impacts of the regulations and business partnerships include increased production, the establishment of state-of-the-art engine plants and increased local employment, while the population of Japanese expatriate employees has decreased. This suggests that Toyota may have benefited from the Indonesian government’s investment regulations. Toyota’s business reputation is evidenced in its local market sales, as shown in Figure 5.3.



**Figure 5.3: Indonesian car sales 2010-2016**

(Source: OICA and GAIKINDO)

### 5.3.3 TMC’s capital investment and management involvement in Toyota Indonesia

TMC’s 95% cent stake and 47-year presence may have contributed to Toyota’s good working conditions and business practices. Working conditions on its production lines are better than the national average. Furthermore, Toyota has experienced almost no industrial action, any such action having been solely to demonstrate solidarity. Its conditions and IR practices are well-respected, not only within Astra, but also within Toyota’s supply chains (including non-Astra affiliates) and

nationally. Toyota's employment structure and IR record are better than those of Honda, Yamaha and AOP. Its HR policies and IR practices are discussed in more detail in Chapters 6, 7 and 8.

Much of the transfer of Japanese technology and knowledge may relate to Toyota's preliminary achievements in developing dealer networks and assembly plants following its establishment as a sole car agent. In 2007, Toyota remodelled the *Kijang* and *Innova* family cars, making them its signature automotive products and demonstrating localisation in its innovative adoption and development of TPS in the Indonesian context. TPS has enabled Toyota to promote management system transfer from TMC and implement the Toyotism HRM model (Nakamura, 2004). The latter has made a significant contribution to the successful transplantation of TPS to Toyota (Hill & Thee, 1998; Irawati, 2011; Nakamura, 2004). The types and levels of in-house production illustrated in Toyota's timeline may be the result of workers' commitment, skills and knowledge transfer (see Appendix G). Toyota's export destinations, production volumes and export performance are illustrated in Appendices D to F. These automotive products and exports further suggest that joint-venture and investment arrangements may have had a positive impact on Toyota Indonesia's business, supply chains and HCD, redefining the local automotive industry as a whole.

As shown in Table 5.3, the 47-year partnership has enabled TMMIN to achieve high status as a Toyota car maker. In 1971, TMC started to partner with Astra, establishing the latter as a sole Toyota dealer. Three years later, Astra became sole agent for the assembly and sale of Toyota products. Then, in 2003 it became a fully-fledged Toyota-brand automaker (see Table 5.3, years 1971-2003). Since 1982, Toyota has demonstrated its achievements, reputation and ability to produce unassembled automotive products.

Similarly, Astra has established its global competence through partnership with TMC Japan, a Japanese powerhouse in the automotive industry. The 5% Astra ownership, coupled with the long presence and intensification of Japanese involvement in HCD, particularly through on-/off-the-job-training, has contributed significantly to the establishment of Toyota Indonesia and the transplantation of TPS into TMMIN. Knowledge transfer from TMC to TMMIN is discussed in greater detail in Chapter 6.

**Table 5.3: TMMIN's businesses and capital investment<sup>34</sup>**

Year	Event	Capital
1971	Establishment of Toyota Astra Motor (TAM). TAM operates as a sole agent, importer and distributor of Toyota-brand vehicles.	TMC 49%, Astra 51%
1973	Establishment of Multi-Astra, assembler of Toyota vehicles.	Astra 50%, Multi-investors 50%
1976	Establishment of Toyota Mobilindo, manufacturer of vehicle bodies. Indonesian Minister of Industry rules on the mandatory use of components made domestically. <sup>35</sup>	TMC 57.3%, Astra 43.7%
1982	Establishment of Toyota-Engine Indonesia plant. <sup>36</sup>	TMC 51%, Astra 49%
1987	TMMIN first exports <i>Kijang</i> super-brand to Asia Pacific countries	
1989	Merger of four companies of Toyota Indonesia (Toyota Astra Motor, Multi Astra, Toyota Mobilindo and Toyota Engine Indonesia) under one company name, TAM.	
1996	Establishment of first Karawang plant, an integrated vehicle manufacturing facility.	
2003	Reorganisation of TAM to become Toyota Motor Manufacturing Indonesia (TMMIN); separation of TAM and TMMIN. Establishment of a new TAM as a distributor and importer of Toyota-brand vehicles in Indonesia.	TMIIN-TMC 95%, Astra 5% TAM-TMC 49%, Astra 51%
2004	Production and launch of Toyota Avanza, a collaboration with Daihatsu.	
2006	Increase in annual production capacity from 70,000 to 100,000 units.	
2007	TMMIN introduces facelifts for <i>Kijang</i> and <i>Innova</i> models.	
2008	Awarded Primaniyarta Award by the Ministry of Trade of the Republic of Indonesia for the best export performance.	
2011	40-year anniversary of Toyota Indonesia. Establishment of the second Karawang Plant.	
2012	Establishment of TMMIN Learning Centre. Annual production capacity of the first Karawang plant increases from 100,000 to 110,000 units, and of the second Karawang plant from 70,000 to 120,000 units.	
2013	Increased annual production capacity of the first Karawang plant from 110,000 to 130,000 units.	
2014	TMMIN establishes a new engine plant. Awarded first place in the Energy Management for Large Industry category of the ASEAN Energy Awards by the ASEAN Centre for Energy.	
2015	Establishment of Toyota Indonesia Academy. Certified as an authorised economic operator by the World Custom Organisation. Opening of third engine plant.	

<sup>34</sup> Adapted and translated from Toyota-Astra Motor Milestones (<http://www.toyota.astra.co.id/corporate-information/profile/#Fact Sheet>, accessed 20 January 2015); <http://www.toyotaindonesiamanufacturing.co.id/corporate/company-milestone?lang=en> (accessed 31 August 2016).

<sup>35</sup> Toyota Engine Indonesia was established in Sunter I, Jakarta and began full operation in 1985. Toyota established Toyota Mobilindo to make body components for commercial vehicles.

<sup>36</sup> This engine plant was established in response to the Deletion Programme or Programme Calendar issued by the Indonesian government on localising the manufacturing of automobile components imported in unassembled form (Tarmidi, 2004).

Like Astra's business management, Toyota underwent several re-organisations and mergers with TMC before Toyota was fully established as the Toyota manufacturer for Toyota Indonesia. Astra and TMC embarked on a sustainable automotive manufacturing business partnership in 2003. TMC's 95% capital stake in Astra suggests that it may have stronger management influence than Astra. However, there is a distinguishable business practice common to both Astra and TMC: corporate reports suggest that investment in and commitment to HR are at the heart of both TMC's and Astra's business management. As exhibited in its global value reports, TMC is committed to upholding its core business values and spreading them throughout its global subsidiaries, regardless of its ownership stake (Busser & Sadoi, 2004; TMC, 2016). TMC has shown interest in transferring Japanese management practices to its Indonesian subsidiary. An identifiable feature of TMC's core management practices in Toyota is the Toyotism HR model, including TPS (Busser & Sadoi, 2004; Koike, 2004; Nakamura, 2004). In addition, Astra's 5% ownership does not appear to have discouraged Toyota from adopting this model, nor does it indicate that a lower proportion of ownership creates less power to adopt TMC management practices.

In view of the level of Japanese ownership, presence and involvement, the dominant business value may derive from TMC. Furthermore, as previously discussed, Astra's corporate reports show that Astra is an Indonesian firm that values HCD and is very proud of its results. TMMIN's HR and IR conditions have been a reference for Astra's HCD results, providing a successful example of Toyota's core management value of "hard work and teamwork". Similarly, Astra's corporate governance exhibits a desire to "respect individuals and promote team work", which is the foundation of Astra's human capital management system. This combination of TMC's and Astra's core business values may strengthen Toyota's HCD and its adoption of the Toyotism HR model, and the implementation of this model may affect the work, employment and organisation of Toyota's joint venture. The joint forces of TMC Japan and Toyota Indonesia point to the appropriateness of Toyota as a case study for understanding Japanese-Indonesian joint ventures.

TMC's 95% stake does not necessarily lead to a higher number of Japanese workers at Toyota. On the Toyota shop floor, the number of Japanese expatriates has steadily reduced. In 2014, foreign expatriate workers accounted for only 1% of the 8,800 total, and in December 2016, Japanese workers comprised only 1% of the total

9,500 TMMIN labour force. Moreover, since Toyota has been in full operation as TMC's subsidiary automaker, the number of Japanese expatriates has remained at 1%, with 99% local Indonesian workers in production, non-production and head offices across four plants (TMMIN, 2014c). The small proportion of Japanese expatriates on the Toyota shop floor appears not to have lessened the extent of Japanisation or Japanese management practices. Toyota shows an ambition to maintain its international standards, develop the automotive market and localise the automotive supply chain in Indonesia. Therefore, it is imperative to understand the commitment and skills formation of Indonesian workers in the Japanese-Indonesian joint-venture automotive context (Nakamura, 2004). This study examines TMC's joint-venture business practices and mechanisms.

TMC's enormous stake and the length of the business partnership may strongly influence the level of Toyotism in Toyota and its business networks. Scholars (e.g. Nakamura, 2004; Irawati, 2011) contend that TPS has been successfully transplanted to Toyota Indonesia and identify the implications of Toyotism for supply chain relationships, the development of supplier capabilities and localisation. Published research suggests that TMMIN's organisational culture is based on the *kanban* (just-in-time, or JIT) system, a mechanism of TPS (Irawati, 2011; Nakamura, 2004; Sato, 1998; TMMIN, 2014c).

In maintaining its global standards, Toyota develops suppliers by training and transplanting elements of Toyotism, such as lean manufacturing and improvements to the production shop floor, to the more than 300,000 employees of its 1,656 local suppliers (2014 figures; see Nakamura, 2004; TMMIN, 2014a, 2014b). Continuous improvement, *kaizen* (corporate culture of learning) and long-term supplier relationships (*genba*) in shop floor management practices are common TMC management practices that have been adopted by and successfully transplanted to Toyota (Irawati, 2011; Nakamura, 2004). Furthermore, TMC implements *jishuken* (problem-solving) activities through the establishment of joint improvement groups, enabling suppliers to be more independent and transplant *kaizen* (Nakamura, 2004; TMC, 2016b; TMMIN, 2014a; Toyota Kentucky, 2006-2016). In the Toyota context, *jishuken* is important for dynamic firm capabilities and HR in TMMIN's first-, second- and third-tier component suppliers, suggesting that Toyota has managed to adapt the TPS philosophy to the Indonesian context (Irawati, 2011; Nakamura, 2004). TPS is rooted in two pillars of Toyota management production (Narusawa &

Shook, 2009; Ohno, 2012; Rother & Shook, 2003): JIT (making only what, when and as much as is needed) and *jidoka*, which is the ability to stop production lines, manually or automatically, in the event of problems, quality issues or late work (Toyota Kentucky, 2006-2016).

TMC's 95% ownership, combined with its 47-plus years of presence, may have promoted a stronger interest in being involved in Toyota's HR skills formation and workers' commitment. As previously discussed, Toyota applies TPS (see also Nakamura, 2004). TMC and Toyota place HR systems at the heart of TPS, which was engineered by Toyota to develop an integrated approach to production in managing equipment, materials and people in the most efficient manner while ensuring a healthy and safe working environment. TMMIN production-line workers are provided with important skills in the lean philosophy. Moreover, Toyota, as a Japanese joint-venture automotive firm, has sought to establish an international reputation and foster competitive advantage in Indonesian automotive manufacturing. The reputable Toyota brand has been built by the international Japanese automotive firm. Therefore, understanding the history and capital structure of the TMC-Astra joint venture reveals the relevance of foreign ownership level, length of presence and level of involvement to subsidiaries' HRM practices. The Toyota-Astra alliance appears to promote not only Astra's business and reputation, but also Indonesian industrial development, involving local and foreign investors as well as government (Busser & Sadoi, 2004; Irawati, 2011; Tarmidi, 2004). Reports on Toyota's car group (OICA, 2010-2017) suggest that Toyota production has been very competitive in Asia, third after China and Thailand, and second in ASEAN behind Thailand. The International Organisation of Motor Vehicle Manufacturers (OICA, 2014) reports that Toyota Indonesia production surpassed that of Thailand. TMMIN states that its overall automotive performance is "proof that products made in Indonesia can be recognized globally" (TMMIN, 2018).

Thus, Toyota Indonesia's profound commitment to be a global automotive player confirms the relevance of exploring how Astra-Toyota has reached and maintained its reputation locally and globally, and how Toyota Indonesia impacts on

its 1,656 local automotive component suppliers, subsidiaries and (first-, second- and third-tier) business partners employing over 300,000 local people.<sup>37</sup>

#### 5.3.4 Astra-Daihatsu Motor

DMC first entered Indonesia in 1968. In 1992 it started to manufacture cars and parts, engaged in IJVs and recognised Astra as one of its three main overseas joint ventures (in Malaysia, Indonesia and China).<sup>38</sup> DMC holds 61.75% of Astra-Daihatsu and Astra 38.25%. Its HRM-IR policies and practices are similar to Toyota's. Daihatsu formed a business alliance with TMC in 1967, and in 1998 TMC officially took over and become Daihatsu's parent company.<sup>39</sup> In 2010 TMC began to cooperate with Daihatsu Indonesia. This suggests that Toyota's work, employment and organisation systems have been adopted by DMC. Daihatsu Indonesia has since had similar management and work systems to Toyota.

In 2008 Daihatsu began to export completed vehicles from Indonesia to Japan, and in 2013 it opened a new manufacturing plant in Indonesia. In the same year, Daihatsu had cumulatively produced three million cars locally, and by 2017 its production had reached five million vehicles. Table 5.4 summarises significant events illustrating Astra-Daihatsu's business patterns and production achievements. The events show the flow of both foreign capital and knowledge.

**Table 5.4: Astra-Daihatsu's business patterns<sup>40</sup>**

Year	Event
1975	DMC enters Indonesia market. Daihatsu Indonesia begins to operate.
1985	Engine plant established and begins to operate.
1992	Manufacturing joint venture established.
1999	First Indonesian-designed Daihatsu car, <i>Taruna</i> hits the local market.
2002	DMC increases its stake and makes Astra-Daihatsu Motor a Daihatsu subsidiary.
2003	Daihatsu-Toyota begins to produce jointly developed cars in Indonesia.
2005	Astra-Daihatsu reaches production of 150,000 vehicles.
2008	Astra-Daihatsu begins to export completed cars from Indonesia to Japan.
2010	TMC-DMC Japan announces original equipment manufacturer (OEM) co-operations in Indonesia.
2013	New manufacturing and engine production plants open. Astra-Daihatsu reaches production of three million cars.
2015	Astra-Daihatsu reaches production of five million cars.

<sup>37</sup> Source: <http://www.toyotaindonesiamanufacturing.co.id/industrial/supplier-development> (accessed 10 September 2018). Owing to company confidentiality, permanent and contract workers are not distinguished in total employee numbers. Numbers of contract workers also fluctuate. Thus, the total worker population in this study represents the total number of employees.

<sup>38</sup> Source: [https://www.daihatsu.com/company/databook2017\\_1.pdf](https://www.daihatsu.com/company/databook2017_1.pdf) (accessed 9 September 2018).

<sup>39</sup> Source: [https://www.daihatsu.com/company/databook2017\\_5.pdf](https://www.daihatsu.com/company/databook2017_5.pdf) (accessed 9 September 2018).

<sup>40</sup> Adapted from [https://www.daihatsu.com/company/databook2017\\_5.pdf](https://www.daihatsu.com/company/databook2017_5.pdf); <https://www.astra.co.id/About-Astra/Astra-Group-Structure> (accessed 10 September 2018).

## 5.4 Motorcycles

### 5.4.1 Astra Honda Motor

In 1971 Honda pioneered motorcycle production in Indonesia under the name of Federal Motor, and it remains the biggest motorcycle manufacturer in Indonesia. Astra and HMC signed a joint venture agreement with 50:50 ownership in 2001.<sup>41</sup> By 2013 Honda had a solid market leadership position, with a 61% market share. Honda produces motorcycles and genuine parts mainly for national consumption. As of December 2017, Honda had 24,659 employees and 25 Japanese expatriates.

**Table 5.5: Astra-Honda event highlights<sup>42</sup>**

Year	Event
1971	PT Federal Motor established to assemble motorcycles components. All components exported from Japan in complete-knock-down (CKD) form
2001	PT Federal Motor merges with other local firms and forms PT Astra Honda Motor firm.
2014	Opens and operates four production plants.
2015	Honda Indonesia production reaches 50 million motorcycles, the highest in Indonesia and ASEAN.

Historically, Honda was the birthplace of KSPMI, a reformed type of union arising from dissatisfaction with KSPSI's lack of solidarity and action. HR managers and union members working collaboratively formed an HR-IR auditor to audit Honda's automotive component subsidiaries, including AOP. The focus on HR-IR evaluations has been based on concern over workers' skills, training and working conditions, which have the biggest impact on production and quality standards in Honda's subsidiaries. The Honda HR-IR auditor's main internal role is to maintain Honda's HR/IR standards and improve working conditions. The internal audit serves two roles: advocating Honda standards, particularly to new Honda autoparts firms, and minimising industrial action. While KSPSI has the largest number of union members, there are three registered unions in Honda: KSPSI, the minority Confederation of Indonesian Prosperity Trade Unions (KSBSI), and the Confederation of Indonesian Metalworkers Union (KSPMI), the only internationally confederated union. Union records suggests conflict between unions in Honda; four of the unions provide support to each other, with KSPSI taking a leadership role. There is only one union office on the site, which belongs to KSPSI but to which the

<sup>41</sup> Source: <http://www.astra-honda.com/corporate#sejarah-ahm> (accessed 9 September 2018).

<sup>42</sup> Source: <http://www.astra-honda.com/corporate#sejarah-ahm> (accessed 10 September 2018).



other three unions have access for use as office space for IR-related issues. Key events in Astra-Honda's history are shown in Table 5.5.

#### 5.4.2 Yamaha Indonesia Motor Manufacturing

Yamaha Indonesia Motor Manufacturing (YIMM, hereafter Yamaha)<sup>43</sup> is Honda Indonesia's main rival. It entered Indonesia in 1971 and engaged in an IJV with non-Astra local firm, Haraban. In 1974 it was established as a motorcycle parts maker and seller. Yamaha Motor Parts Manufacturing Indonesia (YPMI) was not established until 1996. Prior to its establishment, Yamaha depended mainly on exported autoparts, with a small percentage of AOP production. In 1997 YMC engaged in Yamaha manufacturing production in Indonesia through a partnership with a local non-Astra group to establish Yamaha Motor Nuansa Indonesia. Yamaha has gradually increased its manufacturing in Indonesia. In 2006 it opened a manufacturing plant in Karawang International Industrial City (KICC) but did not begin R&D activities in Indonesia until 2015. This suggests that the JMNC's capital and HCD is less advanced than in Honda. Yamaha remains the second-largest motorcycle firm in terms of both production and sales, followed by Suzuki, Honda's rival in Indonesia. Under the Lippo Group, one of Asia's largest and most diversified conglomerates, Lippo's subsidiary has a 10% stake and Mitsui Japan has a 90% stake in Yamaha.<sup>44</sup> As of December 2017, Yamaha employed about 11,000 local people and 50 Japanese expatriates. Since the rise of KSPMI, Yamaha's union representation has been equally split between KSPSI and KSPMI. However, primary data suggest that Yamaha employees are increasingly interested in joining SPMI. Furthermore, Yamaha's HR manager has engaged in HR/IR consultations with Honda, and Honda's HR-IR auditor has been invited to Yamaha's motorcycle and component manufacturing sites. Detailed findings relating to Yamaha are discussed in Chapter 8. Table 5.6 summarises key events in Yamaha's timeline.

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<sup>43</sup> Source: <https://global.yamaha-motor.com/about/history/timeline/> (accessed 9 September 2018).

<sup>44</sup> Sources: <https://lippogroup.com/about-lippo-group/>; <https://www.mitsui.com/jp/en/company/outline/relation/unit/index.html> (accessed 9 September 2018).

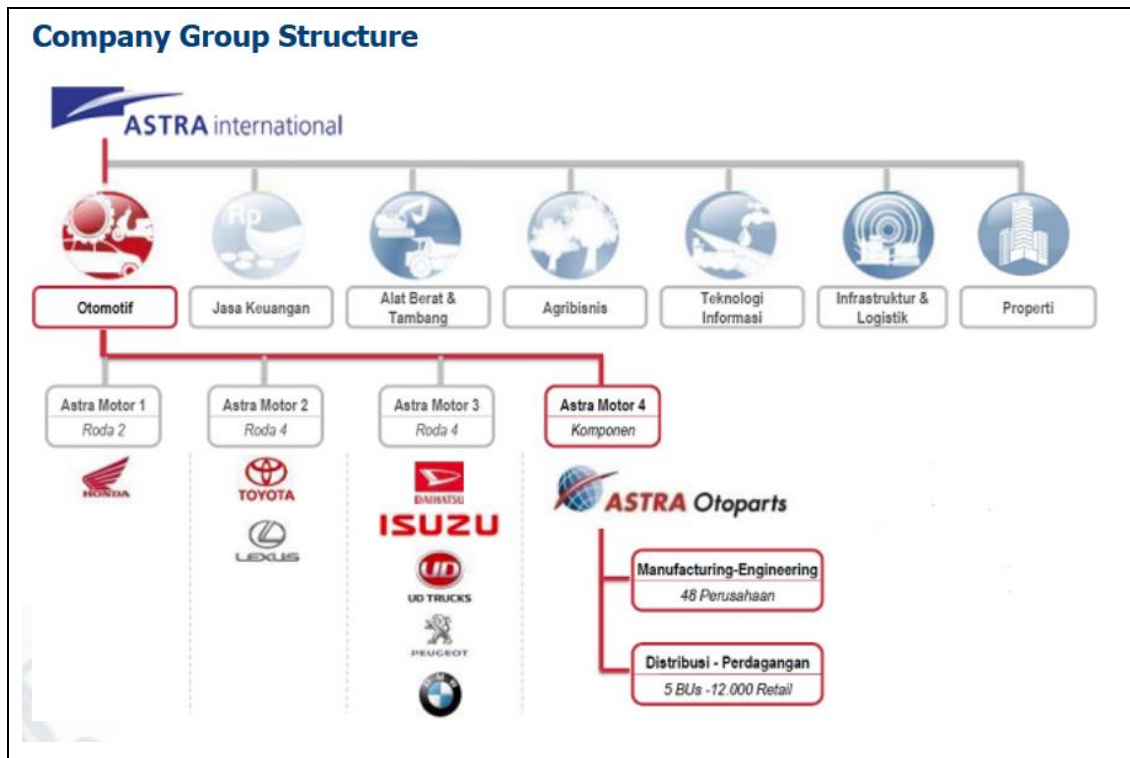
**Table 5.6: Yamaha Indonesia Motor Manufacturing event highlights**

Year	Event
1971	Partnership with Haraban Motor corporation and local production begin.
1974	PT Yamaha Indonesia Motor Manufacturing (YIMM) established as motorcycle parts maker.
1996	PT Yamaha Motor Parts Manufacturing (YMPI) established.
1997	PT Yamaha Motor Nuansa Indonesia (YMNI) established.
2006	Motorcycle manufacturing factory Yamaha Motor Manufacturing (YMMWJ) established.
2007	Number of motorcycles produced in Indonesia plants reaches cumulative total of 10 million units.
2008	Global Training Centre established.
2015	PT Yamaha Motor R&D Indonesia (YMRID) begins to operate.

### 5.5 Astra Auto Parts (AOP)

AOP's business lines are classified into Tiers 1, 2 and 3. Its subsidiary production lines are spread across Jabotabek, West Java, Indonesia. However, with the exception of Denso, the largest automotive component manufacturer located within Astra HQ, there are over 48 subsidiaries<sup>45</sup> under AOP management, with various levels of Japanese shared ownership, producing all automotive parts for Toyota-Astra, Honda, and other Astra (e.g. Daihatsu) and non-Astra (e.g. Yamaha, Mercedes and Suzuki) automotive business lines. Data indicate that organisations with higher Japanese ownership remain in Tier 1, and those with lower Japanese ownership are in lower tiers. Furthermore, the lower the tier, the less harmonious the IR. Thus, AOP has unique qualities. Analysis also suggests that the tier classification reflects the level of Japanese ownership, management practices, working environment and HCD. Figure 5.4 illustrates AOP's position in AAG and its number of business lines. Importantly, the eight selected AOP subsidiaries represent the diverse ownership structure, tier classifications and types of product relating to types of labour, skills, and working and IR conditions. These eight AOP subsidiaries are also suppliers of Toyota, Daihatsu, Honda and Yamaha; thus, they are in buyer-supplier relationships.

<sup>45</sup> This number fluctuates as Astra and AOP continuously reassess current and potential firms. The website only lists core subsidiaries.



**Figure 5.4: AOP business structure**

(Source: <http://www.component.astra.co.id/profile.asp?id=1004002&lang=EL>, accessed 10 September 2018)

AOP has seven main business units, 14 consolidated subsidiaries, 20 joint ventures and 11 sub-subsidiaries. In addition to IJVs with Japanese automakers, AOP engages in IJVs with firms from the USA, China, Italy, Taiwan and Sweden, with Japanese IJVs accounting for 80%. AOP is a subsidiary listed on the IDX, with 80% share ownership by Astra, and market capitalisation at the end of 2013 amounting to 17.6 trillion IDR. It manufactures motorcycle and car components as original equipment for manufacturers (OEM) and products for the replacement market (REM) for motorcycles such as Honda, Yamaha, Suzuki and Kawasaki, as well as cars, including Toyota, Daihatsu, Suzuki, Nissan, Hino, Mitsubishi and Isuzu.

According to AOP company reports, as at December 2017, AOP employed 37,064 local people.<sup>46</sup> The eight subsidiaries have more than five unions, including one internal non-affiliated union (SPTP)<sup>47</sup> and one internationally affiliated union, KSPMI which is regarded as a radical type of union in Indonesia. SPTP and KSPMI have very contrasting union objectives. AOP's distributed location across the Jabotabek international manufacturing site, some distance away from Astra's head

<sup>46</sup> Source: <http://www.component.astra.co.id/profile.asp?id=1003039> [accessed 10 September 2018].

<sup>47</sup> The Indonesian Corporate Level Trade Union, the most favourable type of union for Astra.

office, promotes a different kind of IR dynamic within AOP's subsidiaries. As a result of local government autonomy, labour laws and regulations, AOP has experienced serious issues in managing its subsidiaries. In general, however, most Tier 1 subsidiaries with greater Japanese ownership have experienced harmonious IR.

### **5.6 Business Associations: HIDA Japan and APINDO Indonesia**

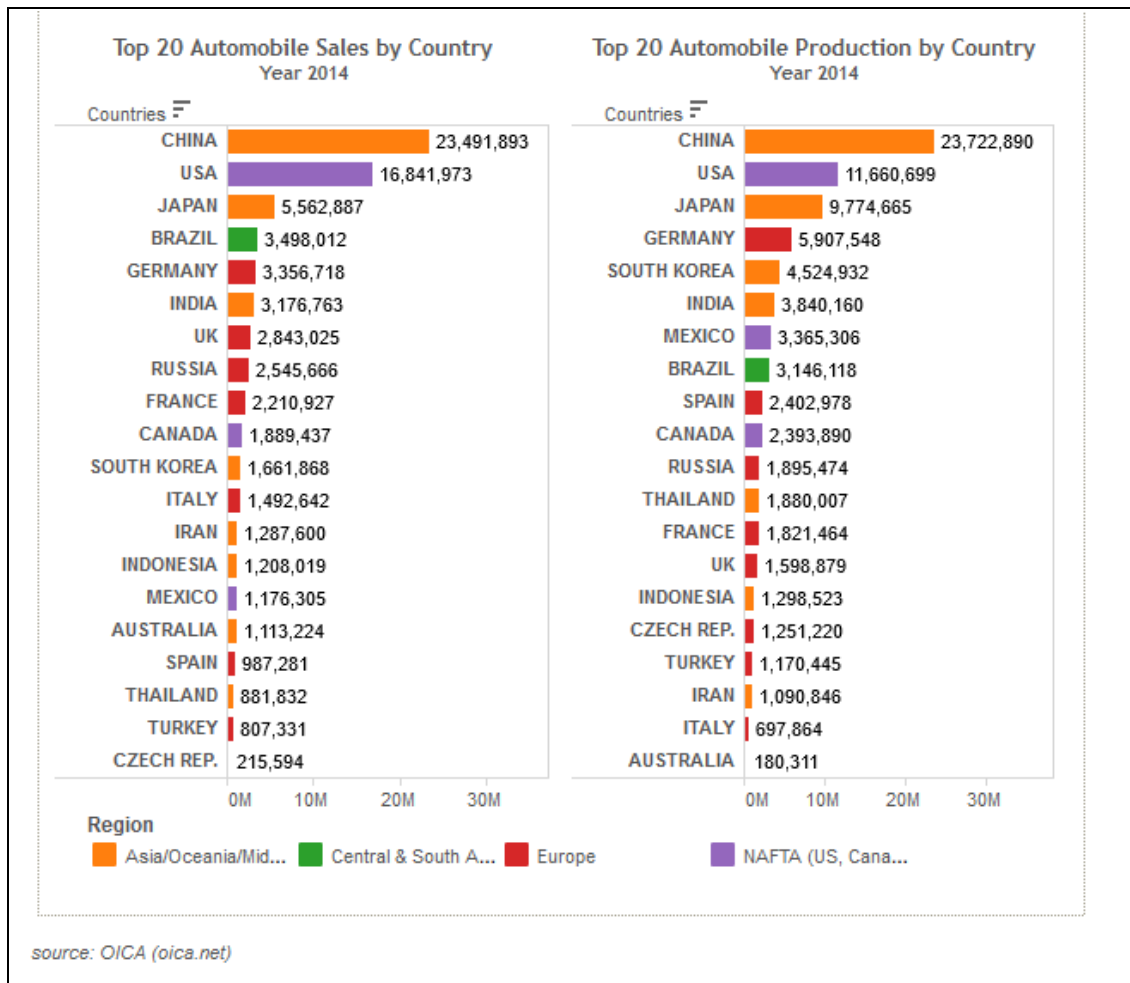
Two important semi-independent business associations are directly involved in the cross-border transfer of HRM "best practice", i.e. HIDA and APINDO. The objective of HIDA, a Japanese quasi-governmental agency, is to "contribute to the mutual economic growth of developing countries and Japan as well as enhancing friendly relations between those countries". HIDA engages in HR, IR and technical training for Japanese subsidiaries, as well as for local firms linked with and supporting Japanese businesses. Since its establishment in 1959, HIDA has delivered human resource development in developing countries to promote technical cooperation through Japanese-type training, using Japanese experts and Japanese HRM-IR programmes. It has offices in China, India, Indonesia, Myanmar and Thailand. Its training programmes and objectives play an important role in supporting JMNCs in diffusing dominant HRM-IR "best-practices" transfer. Detailed findings are discussed in Chapters 6 and 7. To deliver its training programmes, HIDA partners with APINDO Indonesia.

Since its establishment in 1952, APINDO has had strong national and international networks. HIDA has been at the forefront of APINDO's training programmes beyond manufacturing and technical topics, including health and safety, HRM, IR, leadership and organisation, for its own members and other participants. Cooperation between HIDA and APINDO has led to Japanese-type work, employment and organisation training for Indonesian workers, held in Japan, Thailand and Indonesia. The role of APINDO in the host country's business environment and IR issues have been discussed in Chapter 3. Details of the APINDO-HIDA partnership are discussed in Chapter 8, relating to the Japanese and Indonesian agencies' power at meso level in shaping cross-border management transfer processes, mechanisms and outputs.

## 5.7 Conclusion

With the world's fourth-largest population and Southeast Asia's largest economy, Indonesia is an engaging case for studying the operation of MNCs in an EME setting. Of particular interest are institutional labour market changes arising from economic development, as well as substantial socioeconomic and political structural changes under a promisingly sustainable government (e.g. Carney et al., 2018; McGee, 2009; Thelen, 2010; ASH Center, 2011; Wood & Lane, 2011; Morgan et al., 2010). Furthermore, following the success of Japanese automakers, and with the intensification of business opportunities in Indonesia, which is the world's tenth fastest-growing market economy (Jürgens & Krzywdzinski, 2016; Worldbank Report, 2014), the Japanese government, along with JBIC, has unveiled a programme to increase and accelerate investment in Indonesia. Obe (2014) reports that the Japanese government and JMNCs appear to be labelling Indonesia the new manufacturing hub for Southeast Asia. Japan's coordinated market economy may enhance incorporation of subsidiaries' interests and control of the local economy. While the host country's government and local actors welcome and appreciate Japanese commitment to investment, it has incentivised local actors to negotiate and bargain with JMNCs to gain some influence in the MNCs' global networks, in order to step up from being an assembler nation. For example, in 2014 Toyota doubled its investment to boost its export production from 60,000 to 120,000. Shoji (2012) and Mah (2012) report that, along with Honda, Nissan and Suzuki, these JMNCs are attempting to turn Indonesia into an export hub.

OICA reports show that Indonesia's automotive manufacturing (ranked 15th) and automotive market (ranked 14th) are among the top 20 in the global automotive industry (see Figure 5.5). Among EMEs, Indonesia is ranked sixth for automobile production (behind Brazil, Russia, China, India and Thailand) and fifth for market sales. The OICA (2015) also reports that Indonesia's automotive industry remains one of the most competitive in ASEAN (see Appendix H). Therefore, it provides a good case study in terms of the operations of Japanese subsidiaries, the amount of capital, resources and technology coming into the country, and the level of MNC control.



**Figure 5.5: Top 20 countries for global automotive sales and production, 2014**  
(Source: OICA and GAIKINDO)

## Chapter 6: Knowledge Transfer and the Co-Evolution of Japanese Working Practices in Indonesia

### 6.1 Introduction

This chapter seeks to unravel the complexities of knowledge transfer by examining data from a unique study of the transfer of Japanese HRM “best practice” and organisational practices in Japanese-controlled plants in Indonesia. Building on the work of Minbaeva et al. (2003, 2014), this study contributes to the existing organisational learning and absorptive capacity literature by examining (a) the role of HRM practices and, (b) the role of inter-organisational networks in developing the absorptive capacity of foreign-owned subsidiaries. This study explores interrelationships between ownership, value chain position, HRM “best practices” and subsidiary employees’ abilities and motivation to acquire knowledge from abroad, thereby addressing an important deficit in the work of Minbaeva et al. (2003, 2014). The findings extend extant research on local employees’ acceptance of foreign interventions (e.g. Minbaeva et al., 2014, 2003; Martínez Lucio, 2014b; Björkman et al., 2007; Volberda et al., 2010), the role of inter-organisational knowledge transfer networks and institutional constraints (e.g. Gupta & Govindarajan, 2000; Wright et al., 2005; Noorderhaven & Harzing, 2009), and specific knowledge transfer processes across different tiers of the automotive industry (e.g. Khan et al., 2015; Kumaraswamy et al., 2012; Gereffi et al., 2005; Sturgeon et al., 2008).

This study investigates how subsidiaries’ HRM and IR practices promote local employees’ ability and motivation, using primary data from nine firms within the same BG, Astra International (hereafter Astra), but with differing levels of Indonesian/Japanese ownership within the same BG covering cars, motorcycles and autoparts. This unique setting allows home-country, host-country and sectoral effects to be kept constant, in order to focus on organisational effects. It explores *inter-organisational* relationships between Japanese firms, Indonesian subsidiaries, an Indonesian joint-venture partner and Japanese state-sponsored organisations involved in cross-border knowledge transfer, as well as *intra-organisational* processes among different actors. The focus is on (particularly HRM) processes that support local capacity and motivation to utilise new knowledge, in a host-country

environment characterised by less stable institutions (e.g. Fainshmidt et al., 2016; Meyer & Peng, 2016). The specific empirical case examines the transfer of Japanese organisational concepts, also known as “Japanisation”, a term coined by Turnbull (1986) and adopted by other organisation and IB scholars (e.g. Smith & Elger, 1994; Womack et al., 1990). The case focuses specifically on the knowledge transfer dimension of organisational philosophies exemplified by the Toyota Production System (TPS), total quality management (TQM), just-in-time (JIT), *Kaizen* and 5S. Described by Saka-Helmout (2014: 190) as “housekeeping principles”, the 5S are *seiri* or sort, *seiton* or straighten, *seiso* or shine, *seiketsu* or standardised, and *shitsuke* or sustain (Narusawa & Shook, 2009). A fuller appreciation of how Japanese HRM “best practices” contribute to absorptive capacity contributes to the more nuanced and contextualised approach to knowledge transfer called for by Minbaeva et al. (2014), May et al. (2011) and Michailova (2011). This study thereby seeks to advance the debate from simply documenting the extent of this phenomenon (which has been done largely through quantitative methods) to capturing the nature, processes and context of knowledge assimilation.

This chapter is structured as follows. First, it revisits relevant IB literature in the EME context and integrates it with HRM contributions. Next, it sets out research questions on the hitherto under-explored issues of: 1) absorptive capacity mechanisms under diverse levels of HQ direct control; 2) the implications of dominant HRM “best practices” for subsidiary employees’ abilities with respect to knowledge inflow; and 3) the contribution of IR arrangements to fostering employees’ and unions’ motivation to adopt, assimilate and share new knowledge. The methodology is then explained, followed by presentation and discussion of the findings.

## **6.2 Conceptualising Absorptive Capacity in Emerging Market Economies**

Minbaeva et al. (2014, 2003) identify numerous knowledge gaps in understandings of the cross-border transfer of HRM practices. Indeed, in their retrospective, they contend that although several HRM practices may be identified as potential contributors to absorptive capacity, and thus as facilitators of knowledge transfer, there is a paucity of empirical research in this area. A particular challenge is the need to consider absorptive capacity as “a dynamic rather than static theoretical construct that is contingent upon the context in which is embedded” (Minbaeva et al., 2014:



58). At the same time, IB (e.g. Meyer et al., 2009; Björkman et al., 2004; Wright et al., 2005) and IHRM scholars (e.g. Martínez Lucio, 2014a; Stewart, 2014; Ferner et al., 2012) recognise various compelling means of organisational control, motivation and capability-coordinating knowledge flow across EMEs, which in situations of rapid institutional and economic development offer few stable, tested channels for knowledge transfer. This further problematises recipients' engagement in knowledge creation (e.g. Michailova & Mustaffa, 2012; Song, 2014).

The term “knowledge transfer” is used in many contexts covering a wide range of phenomena, from technology embedded in physical capital, through to tacit knowledge and management practices. Similarly, absorptive capacity is used as a general term to describe the ability to assimilate such knowledge. By focusing on the causal mechanisms of the transfer of Japanese work, employment and organisation systems, this chapter aims to understand the phenomenon of contested cross-border management transfer from the perspectives of power, politics and conflicts of interest. The literature on knowledge transfer is rich in open questions related to *how* multinationals transfer knowledge and affect absorptive capacity (Table 6.1).

**Table 6.1: Summary of literature on knowledge transfer**

<b>Authors</b>	<b>Topics</b>	<b>Main findings</b>	<b>Future research</b>
Cohen & Levinthal (1990)	Organisational learning	Absorptive capacity is the ability to recognise, assimilate and apply new knowledge.	Examine the mechanisms of absorptive capacity and the process of knowledge transfer at subsidiary level.
Ghoshal & Bartlett (1990)	The HQ–subsidiary relationship	HQ control hinders subsidiaries from engaging in knowledge transfer and absorptive capacity.	Explore the impact of autonomy on developing and enhancing subsidiaries' learning capabilities and innovation.
Gupta & Govindarajan (2000)	Multi-level analyses of knowledge flows from a sender and recipient network perspective	Subsidiaries have the capacity to adopt and motivation to diffuse knowledge. Knowledge in- and outflows occur in the context of inter-organisational networks.	Investigate subsidiary absorptive capacity and knowledge transfer as dynamic constructs.
Tsai (2001, 2002)	Relationship between organisational actors and inter-unit competition	The central position and focal status of an organisation within the network determine the level of absorptive capacity to innovate.	Examine how access to knowledge and central network position enhance absorptive capacity.
Zahra & George (2002)	Four dimensions of absorptive capacity regarding	Social integration is an important element in assimilating knowledge.	Examine types of informal setting and implications for subsidiary-level

<b>Authors</b>	<b>Topics</b>	<b>Main findings</b>	<b>Future research</b>
	organisational abilities (no employee motivation)		absorptive capacity.
Noorderhaven & Harzing (2009)	Social interactions among intra-organisational managers.	Face-to-face social interactions are an effective communication channel for actors' exchange of knowledge and learning.	Explain how sender–receiver social interactions shape the flow of knowledge and constitute MNC knowledge management.
Almeida et al. (2002)	Communication infrastructure and mechanisms	Formal and informal communication infrastructure and mechanisms improve the efficiency and development of cross-border knowledge transfer.	Understand how interpersonal relationships and communication between employees affect processes and outcomes of knowledge transfer.
Minbaeva et al. (2003)	Relationships between HRM practices, subsidiary-level absorptive capacity and intra-organisational knowledge transfer	A key aspect of absorptive capacity is interaction between employees' ability and motivation, determining the extent of intra-organisational knowledge transfer.	Investigate the processes of absorptive capacity developed within firms and examining the role of HR practices as an important element in enhancing absorptive capacity and outcomes.
Björkman, Fey, & Park (2007)	Host-country institution, HRM norms and practices, and involvement of subsidiary in knowledge transfer processes	Subsidiary involvement and participation in knowledge transfer motivate subsidiaries to adopt MNC HRM practices.	Investigate how MNC diffuses HRM practices to the host country, and how subsidiaries motivate the adoption of MNC HRM practices.
Phene & Almeida (2012); Foss & Pedersen (2002)	Sources of knowledge	External and internal knowledge sources and subsidiary organisational learning capabilities shape subsidiaries' use of new knowledge.	Investigate how subsidiary organisational learning capabilities determine the quality and utilisation of new knowledge.
Kostova & Roth (2002)	The level of trust affects the process of knowledge transfer in an institutional duality context	Trust reduces ambiguity and enhances the usefulness of mechanisms for adopting new knowledge.	On the basis of host-country characteristics, examine how subsidiaries' cognitive and normative profiles facilitate the adoption of MNC management practices.
Song et al. (2011)	Two key social knowledge transfer networks	External networks in the host location are promoted by internal networks within the MNC.	Explore how a systematic and formal external network in the host country signifies the internal embeddedness of organisational learning.

<b>Authors</b>	<b>Topics</b>	<b>Main findings</b>	<b>Future research</b>
Björkman, Barner-Rasmussen, & Li (2004); Boyacigiller (1990)	Expatriate and knowledge transfer	Expatriation promotes inter-unit knowledge flows and serves as a control mechanism for HQs.	Examine the role of expatriates and their impact on the extent of knowledge transfer across national contexts.
Scullion and Brewster (2001)	Expatriate and knowledge transfer	Expatriate skills and competences deal with complex HRM issues and problems associated with the growth of MNC internationalisation.	Examine the integration of various expatriate HRM practices in MNCs and non-governmental organisations.

Minbaeva et al. (2003: 587) define knowledge transfer as “a process of dyadic exchanges of knowledge between the source and recipient units consisting of initiation, implementation, ramp-up, and integration”. However, the role of HRM practices, procedures and policies in cross-border knowledge transfer remains within a “black box”, limiting understanding of how and why subsidiaries’ employees acquire, apply and share new knowledge (e.g. Jiang et al., 2012; Kang et al., 2007; Gupta & Govindarajan, 2000). Scholars have observed that knowledge transfer mechanisms rely on individual and interpersonal interactions (e.g. Mäkelä & Brewster, 2009; Felin & Hesterly, 2007). Minbaeva et al. (2014) argue that when these are absent, knowledge transfer is limited. In turn, weak interpersonal interactions, in turn, diminish ability, motivation and opportunities for knowledge processing. According to previous studies (e.g. Wright et al., 2005; Tsai, 2001; Gupta & Govindarajan, 2000), the absorptive capacity of the receiving units is crucial. To stimulate subsidiaries’ adoption and diffusion of knowledge, MNCs must maintain transparent communication among organisational units (Meyer & Peng, 2016; Björkman et al., 2007). This interpersonal interaction mechanism is an interface through which to share expertise and recognise the capabilities of foreign subsidiaries, which Minbaeva et al. (2014) postulate as the micro-foundation of absorptive capacity.

Zahra and George (2002) maintain that a firm’s dynamic capability for a high level of absorptive capacity stems from high levels of knowledge coordination across the organisation and its sub-units. However, knowledge transformation and utilisation are enhanced by systems that enable actors’ social integration (Volberda et al., 2010). In particular, systemic social integration is the result of established

inter-organisational and interpersonal relationships that promote absorptive capacity, which McDermott and Corredoira (2010) and Ambos and Ambos (2009) suggest acts as an inter-organisational knowledge transfer tool in EME settings. Furthermore, Meyer and Peng (2016) argue that both formal and informal knowledge sharing is important for knowledge assimilation, given differing organisational learning characteristics across firms. Importantly, mechanisms for social integration may be a primary avenue for lower-tier firms in a supply-chain network to access knowledge and develop learning capabilities where there is competition for new knowledge (e.g. Khan et al., 2015; Kogut, 2000). Hence, it is proposed in this chapter that patterns of control and interactions between HQ and subsidiaries, especially in complex inter-organisational networks, affect cross-border knowledge transfer processes and outcomes. This leads to the following research question (RQ1):

*How do HQ–subsidiary inter-organisational interactions, in particular intensity and forms of direct control, affect subsidiaries’ ability and motivation for knowledge absorption?*

Building on work by Aguilera (2007), Björkman et al. (2007) and Minbaeva et al. (2014), this study posits the existence of a series of causal relationships in the HRM practices of employee participation, communication and knowledge sharing engaged in by organisational units. These relationships, in turn, influence knowledge-based performance. For instance, the Japanese work organisation philosophy of TPS promotes employees’ participation and commitment by empowering them in their day-to-day workplace practices. HRM and knowledge transfer are likely to interact through different paths, such as employee engagement, skills development regimes, retention, teamwork, participation, job rotation and communication, all contributing to absorptive capacity. Japanese organisational concepts are privileged in the literature, which establishes the importance of their embeddedness in Japanese HRM and IR “best practices” (Stewart, 2014; Aoki et al., 2014; Ferner et al., 2012; Marchington et al., 2016). When Japanese organisations internationalise, questions emerge regarding how such specific learning mechanisms can be diffused, and what the role of inter-human interactions is in promoting subsidiaries’ absorptive capacity. Cohen and Levinthal (1990) observe that absorptive capacity is supported by investment in training, which in turn influences how a firm manages its HRM practices; however, insufficient is known about which forms of training provide such support, and how. For example, Barley et al. (2017)

observe that research exploring processes of knowledge differentiation is still underdeveloped.

At the micro level, this study focuses on the importance of formal home-country HR training schemes in fostering subsidiary employees' participation in and commitment to Japanisation. It has been proposed that trainer–trainee face-to-face interactions influence learning relationships (Khan et al., 2015; Volberda et al., 2010; Lichtenthaler, 2009), but this is particularly complex in an international setting across countries that are geographically and institutionally distant (Jansen et al., 2005; Lenox & King, 2004; Meyer, 2004). The question of how subsidiaries' HR managers engage local trainees in using skills and knowledge from the MNC's home country leads to RQ2:

*How do home-based training models shape employees' ability to adopt new knowledge?*

Another fundamental factor shaping organisational learning is the structure of knowledge utilisation. According to Pfeffer (1998), mechanisms enabling the influx of knowledge are key factors in motivating employees to use their acquired knowledge in the organisation's best interests. Especially in the context of Japanisation, trust is perceived as a key motivator (Stewart, 2014; Roy, 2012). Dhanaraj et al. (2004) also note that strong motivation is based on both trust and shared values in inter-human and sender–recipient knowledge relationships (e.g. Inkpen & Tsang, 2005; Kostova & Roth, 2002). Crucially, the inter-organisational knowledge transfer network includes actors such as unions and employers' associations (e.g. Michailova & Mustafa, 2012; Levin & Cross, 2004). Therefore, HRM practices such as employee participation, job rotation and internal communications may be viewed as motivational tools, particularly when they contribute to trust among actors (e.g. MacDuffie & Helper, 2006; Levin & Cross, 2004; Argote et al., 2003; Coleman, 2000; Kostova, 1999).

Martínez Lucio (2014a) argues that the essence of such HRM practices is the expectation of a positive correlation between employment relations and employee commitment. Commitment depends largely on management commitment to training, alongside the role and effectiveness of unions and employers' associations. Training that focuses on changing the mindsets of employees in relation to accepting or tolerating new forms of work, such as Japanese lean production, can be seen as promoting either further exploitation or the skills formation of workers. Martínez

Lucio and Mustchin (2014:119) question whether, in Indonesia, learning is driven by the objective of enhancing real skills and technical knowledge to allow employees to improve their job performance, or whether it is about creating a more flexible workforce for new overseas investors. As a result, while in principle the Japanese lean ideology promotes a form of employee involvement, its implementation outside Japan varies widely, depending on employee representatives' level of involvement (Stewart, 2014).

Extending this idea, this study examines how MNCs' and subsidiary employees' participation practices interact, and how they contribute to a conducive learning environment and to changing local mindsets, particularly through the involvement of employee representatives. Previous research reveals the potentially counter-intuitive contribution of employee representatives' involvement to the adoption of Japanese organisational practices in Central Eastern European subsidiaries (Meardi & Tóth, 2006), and more broadly to surprising levels of retention and skills upgrades (Meardi et al., 2013, 2009), but this has not yet been explored in an Asian context and from a knowledge transfer perspective. Analysis of how intra-organisational communication and relationships between management, employees and unions or employee representatives affect the adoption of Japanisation is particularly appropriate for JMNCs characterised by strong employee engagement (Martínez Lucio & Mustchin, 2014; Stewart, 2014). This leads to RQ3:

*How do subsidiaries' HR and IR practices motivate local employees and unions to acquire, assimilate and diffuse new knowledge across and within sub-units?*

### **6.3 Methodology**

The analysis of the research presented in this chapter is based on a large-scale collection of primary data covering a set of JMNC automotive manufacturer's subsidiaries operating in Indonesia. Since the 1990s, Indonesia has been one of the largest Japanese FDI recipients (Lindblad, 2015) and the largest Japanese automotive manufacturer and market in the ASEAN region (OECD, 2017, 2014). It is one of the 13 most rapidly growing developing countries and transition economies globally (e.g. Jürgens & Krzywdzinski, 2016; Temouri et al., 2016; Wright et al., 2005; Hoskisson, et al., 2000). Relevant to this study, Indonesian organisations have their own HR policies and practices, supported by local laws that prohibit MNCs from direct involvement in HRM and IR issues (e.g. Irawati, 2011; Debrah et al., 2000).

These laws add another layer of complexity to the management of knowledge transfer from foreign sources.

The automotive industry has workplaces with large labour forces and high technological content, making them particularly relevant to this study, since knowledge transfer pertaining to technology and organisation is indispensable (e.g. Jürgens & Krzywdzinski, 2016). A single multi-site case study was conducted on Astra Automotive Group, an Indonesian industrial conglomerate with subsidiaries owned, to different extents, by JMNCs. This case distinguished between three main divisions: Toyota (cars), Honda (motorcycles) and Astra Auto Parts (AOP, autoparts). This method allowed investigation of the co-variation of foreign control and knowledge transfer processes to address RQ1 on direct control and subsidiaries' knowledge absorption; the tracing of causal processes to address RQ2 on training and learning abilities; and congruence analysis to address RQ3 on employment relations and learning motivation (e.g. Blatter & Haverland, 2012). Following approaches pioneered by Eisenhardt (1989), the case study was used to develop analytical rather than statistically-generalisable findings from rich empirical data with a multi-level research logic. A single-case study is best suited to addressing explorative research questions, leading to theoretical propositions that may guide further larger-scale studies.

Rich and extensive qualitative data were gathered from detailed interviews and observations at the company level, as well as from two business associations in Japan and Indonesia that play an important role in the knowledge transfer network. The AOP sites for this study comprised first-, second- and third-tier production plants for cars, motorcycles and autoparts. Specifically, the sites were characterised by different levels and lengths of Japanese ownership, which are factors associated with different levels of direct control, particularly through expatriates.

**Table 6.2: Characteristics of AOP subsidiaries**

<b>Name of firm</b>	<b>Japanese stake</b>	<b>Japanese presence</b>	<b>Tier classification</b>
Musashi	78%	22 years	2nd
Denso	75%	40 years	1st
Aisin	66%	23 years	1st
Federal Nittan	60%	23 years	1st
Kayaba	50%	48 years	2nd
Adiwira Plastik	-	-	3rd
Indokarlo Perkasa	-	-	3rd

Data were collected from management, employees and union representatives involved in cross-border knowledge transfer in Toyota, Honda and seven AOP subsidiaries. Details of the AOP subsidiaries' characteristics are presented in Table 6.2. Additional data were collected from two business associations: HIDA in Indonesia and Japan, and APINDO in Indonesia. Triangulation of data from different actors and organisations allows "a distinct experiment that stands on its own as an analytic unit" (Eisenhardt & Graebner, 2007: 25). These nine sites were selected to cover the maximum variation in HRM practices, forms of control and knowledge transfer processes.

The respondents represented various hierarchical levels and functional business areas. HR participants were selected on the basis of their knowledge and experience of training, especially in Japan and other Japanese automotive training centres (e.g. in Thailand and Malaysia). The selection of employees was based on their technical and non-technical (i.e. HR- and IR-related) training experience and implementation of Japanisation, while agency participants' selection was based on their involvement and experience in facilitating training for Japanese expatriates and Indonesian HR managers, employees and union stewards. A total of 102 interviews (10 in Astra, 12 in Toyota, 25 in Honda, 30 in AOP and 25 in agencies) was conducted with 15 Japanese and 87 Indonesian participants. Eighty of the Indonesian participants had participated in TPS management and production training in Japan, Thailand, Malaysia and Indonesia. Qualitative analysis was conducted in line with IB studies focusing on experience, views and cross-cultural nuances (Birkinshaw et al., 2011; Corley & Gioia, 2011). Further data were collected from Indonesian trade unions KSPSI, KSPMI, KSBI, and non-subsidiary union, IDE-JETRO.

This discourse-based approach deepens understanding of the evolution of knowledge transfer in the subsidiaries (Balogun et al., 2011). To meet the objectives of this research, micro-level analysis was conducted to explore ways in which the organisation had adapted, developed and changed as it received new knowledge. This inductive method was appropriate for this study because it generated new explanations (e.g. Edwards et al., 2014; Welch et al., 2011) and ways of conceptualising the phenomenon of the co-evolution of MNC cross-border management transfer (e.g. Klag & Langley, 2013). In addition to this triangulation method, reliability was enhanced by collecting and selecting data from a vast range of participants at all levels.



## 6.4 Findings

### 6.4.1 Inter- and intra-organisational interactions (RQ1)

Cross-border knowledge transfer is all-encompassing and is crucial for plant operations. As an AOP employee remarked: “The impact of implementing 5S is beyond technical. It has fundamental work organisation skills which can be applied beyond the shop floor [manufacturing]. It can reshape workers’ mentality, discipline and understanding in the organisation.” The nine sites (Toyota, Honda, and seven AOP supply-chain firms) are characterised by different knowledge transfer outcomes: the higher the foreign capital and inter-organisational interactions and the longer the foreign presence, the higher the level of subsidiaries’ absorptive capacity.

The case of Toyota Indonesia suggests that a strong, long-term direct foreign presence with more extensive HQ–subsidiary interactions results in an increase in absorptive capacity and stronger diffusion of new knowledge. Toyota Japan’s 95% stake and 47-year presence are associated with Toyota Indonesia’s positive HRM-IR practices and improved working conditions. Interview data from Toyota, triangulated with data from Honda, APINDO, IDE-JETRO and HIDA, reveal that working conditions on Toyota’s production lines are better than in AOP subsidiaries and the Indonesian national average. While cognitive and relational levels of Japanese capital positively promote inward organisational knowledge transfer, responses by 65 interviewees indicated that the dynamic organisational absorptive capacity of all organisations involved in the study is contingent on the level of Japanese management involvement and presence.

Across the board, including amongst AOP management, it was reported that even lower-tier AOP firms exhibit some nuances of Japanisation to meet internal audit standards, albeit more unevenly. However, the interviewees also emphasised that subsidiaries with higher levels of Japanese capital, length of presence and influence invest more in training (e.g. home-based assimilation training at satellite training campuses in Thailand), and have superior working and employment conditions that result in better work performance. Toyota Indonesia has invested in training and skills development more and for longer than the other observed organisations. In particular, first- and second-tier subsidiaries with higher levels of Japanese capital (e.g. Musashi, Denso, Aisin, Federal Nittan, Showa and Kayaba) have higher levels of Japanisation than third-tier autoparts suppliers with no

Japanese ownership (e.g. Adiwira Plastik and Indokarlo), even though autoparts suppliers are formally committed to the same Japanese principles (e.g. TPS and 5S). As a group of AOP interviewees put it, “With a higher proportion of Japanese stakeholders, the workers and unions experience greater access to training resources, mentorship and open communications with the Japanese.” In firms lower down the autoparts supply chain, informal mechanisms and social integration are more important, and knowledge transfer is weaker. For low-tier firms, relationships with a Japanese external organisation, HIDA are paramount. HIDA mediates organisational learning, HRM-IR training and development, and knowledge resources for innovation within local suppliers. Relationships with HIDA’s inter-organisational networks offset the weakness of direct channels of knowledge transfer. In these low-tier, more marginal organisations, inter-organisational channels replace intra-organisational ones, although they can never be as effective.

As all nine sites are part of the same Indonesian BG, Astra International, knowledge flow is also co-ordinated among subsidiaries that have closer relationships with Astra and/or intra-related Astra firms. Astra is subject to internal (within Astra) collaboration as well as competition. One area of competition is improvement of management practices through enhanced business relationships with the JMNC. As Japanese knowledge is highly regarded by Astra, which is interested in upgrading Indonesian manufacturing, competition among divisions results in a diffused political motivation to acquire and absorb more Japanese knowledge in order to acquire higher standing within Astra.

Another relevant factor affecting absorptive capacity is firm size. Since Toyota and its business networks employ over 300,000 local people, the company’s commitment and capability to diffuse Japanisation has the critical mass necessary to spread to the Indonesian labour market, and particularly to suppliers and business networks. Astra, Honda and AOP, and HIDA and APINDO informants claimed that Toyota’s mechanisms for organisational knowledge transfer are superior to those of Honda and AOP, particularly in the quality of acquisition, implementation and integration of Japanese knowledge. As one Toyota HR employee remarked: “It is not unusual for our management to be invited by Astra to design the [Japanese-inspired] HR training and IR policy framework for Astra businesses, in particular in Astra’s automotive business sector.” A former Toyota manager added:

*Astra's HR and IR training framework is adapted from Toyota [manufacturing Indonesia]. Our firm has always been actively involved with the development of Astra's automotive group HR and IR infrastructures. Toyota has been at the forefront of Astra's motor achievement ... and has even developed case studies based on ours.*

Indonesian Law (No. 40, 2012) forbids non-Indonesians from occupying the positions of HR director, manager, supervisor, analyst or administrator. Toyota, Honda and AOP have their own distinct HRM structures, all occupied by Indonesians, that selectively support absorptive capacity and regularly report to the HQ. Analysis indicates that strong, durable interactions within and between organisations stimulate competitive dynamics and the co-evolution of JMNCs' work practices in Indonesia. Direct foreign presence, which tends to grow alongside investment share, has an impact on the quality of knowledge transfer and motivates both investment in training and involvement in diffusing knowledge, resulting in more intensive absorptive capacity in subsidiaries. Between 1971 and 1989, Toyota Motor Corporation Japan's (TMC's) stake was between 49 and 51%. In 2003, Toyota Indonesia's operation was split into two: sales/distribution and manufacturing. Since 2003, TMC has had a 95% stake in manufacturing, and since then, Toyota Indonesia has operated in two manufacturing plants (in Karawang and Sunter). As a consequence, TMC has greater control and oversight of quality, production and performance than Astra. Interviewees from Astra, APINDO, Honda and AOP suggested that Japanese inward knowledge transfer is now much more rigorous than when TMC only had a 41% stake and when Toyota Indonesia was assembling rather than producing cars. AOP interviewees also reported that Toyota conducts a much more rigorous HR-IR internal audit of its autoparts supply chain. Employees and unions have seen a difference since the Japanese gained influence over Toyota Indonesia's manufacturing. Thus, the HQ's direct and indirect interactions with subsidiaries (i.e. through JMNC- and state-sponsored knowledge transfer networks) promote employees' ability and motivation to accept foreign knowledge.

#### *6.4.2 The role of Japan-based training (RQ2)*

Absorptive capacity in the analysed cases is affected not only by the intensity of direct contacts, but also by home-based HRM training. The types of training differ across organisations and over time, and specific forms of training, notably those

based on direct HQ–subsidiary interactions, appear to facilitate the ability, motivation and capability of Indonesian trainees to understand the applicability and utilisation of TPS in their organisations. At Toyota, training is more systematically and regularly planned, and involves more Japanese expatriates, while Honda Indonesia has very few expatriates, and AOP firms have varying numbers. Much of the training is in the form of classroom or workshop sessions, led by locals who have received extensive training (mainly) in Japan, Thailand and Malaysia, alongside a Japanese TPS *sensei* (master/guru/trainer). This partnership of trainers delivering training in the local environment is significant, because the objective of the Japanese expatriates and Indonesian Japanese-trained graduates is to shape subsidiary trainees’ understanding and motivate them to use TPS in their workplaces. Whereas the Indonesian trainer appreciates the local issues experienced by local employees, while the Japanese *sensei* is regarded as a source of knowledge. This mode of training illustrates the essence of “localised” TPS and its applicability to the local context, equipping trainees with high-quality skills and organisational learning beyond the shop floor. For instance, interviewees from Honda and AOP said that those who gain knowledge and implement what they learn reflect on their behaviour and develop higher levels of professionalism. As a result, they not only perform better in their jobs, but also gain respect in their communities. Thus, a home-based assimilation type of training may redefine employees’ perspectives and understanding of new knowledge.

The analysis of this study confirms that the human interface serves as a conduit for knowledge transfer and boosts employees’ absorptive capacity in the specific case of TPS, which relies largely on tacit knowledge. Face-to-face, Japanese HR training contributes profoundly to employees’ understanding of the philosophy of Japanese work systems and “prescriptions” for lean production. It can be argued that this type of training might be driving a management agenda or intervention. Although it may be difficult to accept, employees and unions who identify a need to improve their skills and working conditions may be motivated to accept and participate in the management agenda. In this context, the emphasis on building inter-human relationships may be regarded as an organisational tool to shape employees’ perceptions. This suggests that relationships between firms override pre-training behaviour and norms in establishing trust, changing mindsets and facilitating knowledge transfer. In addition, the findings from six interviewees in Astra, ten in

Toyota, 20 in Honda and 30 in AOP reaffirm that trust between Indonesian subsidiaries and the JMNC promotes mutual organisational learning and enhances the ability of Indonesian employees and unions to embrace new knowledge.

One example of the role of inter-human relationships in interpretations of TPS by Japanese and Indonesian employees is their changing attitudes toward waste reduction and quality control. Japanese and Indonesian interviewees reported divergent opinions on this subject. While Japanese employees perceive “waste” reduction in the context of the lean production methods of TPS, Indonesian workers view “waste” in terms of the generic waste of resources and capital. For instance, they see the prescribed replacement of safety equipment such as gloves, regardless of their defects, as a waste of resources. Indonesian workers revealed some lack of understanding of and subsequent reluctance to adopt the Japanese work system, even though using proper tools and equipment promotes safety, productivity and performance. Extensive TPS training has changed the Indonesian workers’ opinions on “waste management” and health and safety.

According to 60 Indonesian interviewees, Japan-based training programmes run by the JMNC and HIDA last between ten days and ten months, and combine technical and HR aspects, emphasising inter-human relationships and supporting the dissemination of knowledge across organisational sub-units. In particular, systemic social integration is the result of established inter-organisational and inter-human relationships, such as those between the JMNC and HIDA, Astra and APINDO. An interpersonal knowledge approach may also create strong relationships among workers, making them more receptive to Japanisation and the development and diffusion of tacit knowledge. Clearly, such agencies facilitate local knowledge creation through the adoption of Japanisation and ongoing support, even after the training in Japan and Indonesia has been completed. HIDA is vital for lower-tier firms that lack knowledge resources, investment in organisational learning and absorptive capacity. Actors’ interfaces, through company-based or agency-based training, affect Indonesian trainees’ understanding, commitment and motivation to use new knowledge related to product quality and innovation. Furthermore, the conventional Japanese learning approach of *sensei-seito* (trainer-trainee) fosters trust, thereby making Indonesians more receptive to Japanisation. A Toyota manager (former HIDA trainee) referred to this point in discussing his *sensei-seito* relationship with his subordinates: “They [subordinates] can learn and see the

implementation of the well-organised and good coordination of TPS by showing them the required ability and attitude.” This finding underscores the importance of transferring TPS by applying a learning model similar to the interpersonal relationships that Indonesian employees learn from their Japanese *sensei*.

This study reveals that the combined HIDA/Japanese home-based training model emphasises assimilation, human relationships (including socio-cultural integration and Japanese working culture) and ongoing learning support, motivating Indonesian employees to develop their capabilities. At HIDA Japan, Indonesian trainees attend training sessions with other trainees from different countries, and harmonious human connections appear to have developed, creating a positive impact on Indonesian trainees’ ability and motivation to adopt Japanisation. A Toyota Indonesia manager and HIDA alumnus reported:

*I thought to myself that I must do my best [on the overseas training]. I felt more and more strongly that I must do something for my fellow Indonesian workers’ skills and understanding of Japanese work systems.*

Another HIDA alumnus added: “[HIDA] training in Japan seemed like a discovery journey [for me] ... Oh, this is the TPS!” HIDA plays an even more important role in facilitating combined production and HR management training outside Toyota, as reported by interviewees at Astra and in the agencies (APINDO, KADIN and GAIKINDO, the Association of Automotive Industries of Indonesia). A HIDA alumnus further reported:

*The participants were from 12 different nationalities, and we shared information and experiences with each other. It gave me a much wider view of how to build good relationships. And from excellent instructors I obtained precious insights, such as Japanese management systems.*

Interviews with both HIDA Japanese personnel and HIDA Indonesian alumni reveal that an understanding of and commitment to Japanese work systems are fundamental objectives of the Japanese training model. The above discussion further corroborates the enormous influence of social interactions on employees’ abilities and motivation. In fact, both trainee–trainee and trainer–trainee bonds are conduits for knowledge transfer.

The qualitative data also suggest that inter-human interfaces promote subsidiaries’ organisational learning and trainees’ skills and competencies, which may lead to organisational innovation. Indonesian interviewees indicated that they had gained not only technical skills, but also invaluable experience, including the

self-confidence to share their aspirations with their Japanese counterparts. Such personal interactions may stimulate absorptive capacity by reducing the complexity and insecurity surrounding the adoption of new knowledge, and by enhancing employees' understanding from within. Although the overall aim of JMNCs is to transfer their working practices to their own subsidiaries, their presence encourages knowledge transfer to parts of local firms with no Japanese investment. Japanisation has been meticulously adopted, transformed and shared by Toyota, and has then been taken up by local businesses. Having seen the positive impact of adopting Japanisation at Toyota and Honda, Astra has also been prompted to incorporate Japanisation into its own management practices. An Astra HR executive reported:

*In Astra, in particular the Astra Automotive Group, there are Japanese companies that bring a number of Japanese manufacturing cultures, such as Kaizen, Gemba, Gembatsu, Gemba and 5S. These cultures were adopted and eventually became integral to the Astra system. These working cultures were further internalised and crystallised in Astra.*

A Toyota IR director added:

*The Japanese quality control is one [aspect] of Japanisation that Astra adopted very well. It works well and it is applicable to us. Since 1985, every year Astra conducts an innovation challenge. We call it "Inov-Astra" [Astra Innovation]. This competition [is] based on the collection of continuous improvement or Kaizen. Astra holds this competition internally. Each [subsidiary] sends a small group of employees to represent their firms.*

Toyota Indonesia's adoption of TPS provides an example of inter-organisational knowledge transfer and intra-organisational knowledge sharing with local subsidiaries. As the Indonesian trainees have become local experts in TPS, the interviewees gave them honorific titles such as "black-belt TPS". They provide training to their fellow Indonesians in other Toyota subsidiaries. Additionally, during the fieldwork, the researcher was invited to take part in Astra's HRM-IR training for non-Astra subsidiaries (state-owned oil and gas firms). Astra HR and IR directors later explained that they receive and agree to a number of such training requests, which was also a motivation for Astra to establish and manage the APINDO training centre. Consequently, knowledge flows in both directions. While increasing local knowledge, it also facilitates improved transfer and integration of this knowledge by inward investors. Indonesian interviewees confirmed that their training experiences in Japan are codified in the Astra training programme, particularly relating to the applicability of different facets of Japanisation to local firms. In addition, they

participate directly in designing and delivering training within the Astra automotive group. This intra-organisational knowledge transfer process is key to promoting intra-organisational capability. Indeed, the training process is geared to developing employees' motivation and capability. A former HIDA trainee in Toyota's union remarked:

*The training in Japan administered by HIDA and TMC Japan focuses on human capital development. It places humans at the core of TPS. This aligns with our value of respecting people. By so doing, employees can work comfortably, following proper processes and producing high-quality, international-standard products.*

Following Astra's and Toyota's management practices, Honda has thoroughly embraced 5S, modifying it to suit the company's context and extending it to "5S-2K", which includes health and safety. The data indicate that Honda introduces 5S-2K to new hires at the beginning of the recruitment process and offers a core training module to new and existing employees as part of HR. Respondents in different organisational roles (Toyota, Honda and AOP) reported that knowledge transfer mechanisms similar to those first developed by Toyota and HIDA have been diffused across all companies involved in the Japanese automakers' supply chains.

Toyota and Honda, AOP's biggest customers, expect AOP firms to embrace their own HRM practices and IR policies. In so doing, facets of Japanisation proliferate within the Astra automotive group and throughout the automotive industry in Indonesia. Toyota's audit of suppliers focuses largely on the suppliers' development and mentoring approach to maintaining quality. In fact, representatives from Japan come to visit the subsidiaries in Indonesia to ensure compliance with Japanese standards. Another co-evolution of JMNC practice is seen in Astra's rotation of its local HR management within its automotive group, particularly those who have undergone training in Japan. This HR rotation promotes organisational learning, and benefits non-JMNC AOP subsidiaries, such as Indokarlo and Adiwira Plastik.

Job rotation for Astra-, Toyota- and Honda-trained employees within the AOP organisation confirms that inter-human relationships are the main channel for the transfer of Japanese knowledge. Overall, the empirical case studies confirm that Japanese-focused training stimulates organisational learning and the ability to acquire, internalise and spread new knowledge. Importantly, face-to-face, home-based training held in Japan and elsewhere may enhance the quality of training. The



cases suggest that Japanese expatriates and HIDA not only play a role in overseeing the training, but also address difficulties, such as demotivation, experienced by local employees in utilising Japanisation in their workplaces. HQ and subsidiaries are engaged in both delivering and examining the quality of training.

#### *6.4.3 Building relationships between management and unions to promote motivation (RQ3)*

The analysed sites differ in their IR arrangements. Interestingly, Toyota has experienced almost no industrial action (the rare occurrences of industrial action have been solidarity strikes), but this is not the case for Honda and AOP. In Honda, management, employees and unions have fair, open communication channels, as Honda's HR director and representatives from three different unions reported:

*In any industrial action, our strategy to minimise impact on the organisation, and the type of support unions need from management, are communicated. Unions inform and coordinate with management on the number of strike participants. On the street [where strikes take place], we do it in an organised and presentable way, e.g. clean uniform, wearing helmets. We also pay attention to the management's message – safety first – and are mindful that they are representing Honda.*

A former Japanese trainee quickly added, “it's a Japanese type of organised one [strike]”.

In AOP, antagonistic management–union communications are exhibited throughout first-, second- and third-tier firms. However, since management and unions have begun to engage in open communications, Aisin and Federal Nittan have experienced less antagonism. Interviews with IR actors show that clear internal and management–union communications are conducive to knowledge transfer through broader actor involvement and employee engagement. Effective communication, and especially information and consultation, motivate employees and employee representatives to improve organisational performance, and promote trust, which stimulates commitment. This sense of trust is recognised by employees and unions as vital to establishing equal partnerships.

An important addition to the training described in the previous section is that training opportunities in Japan include Indonesian union representatives, who thereby also gain direct understanding and hands-on experience of the “Toyota Way” communications model. This is an exposure approach that motivates individual employees by providing them with relevant knowledge, job-related experience and

problem-solving skills. A higher level of Japanese investment and presence intensifies Toyota HR management's commitment to applying the Japanese model. Conceptually, the JMNC's strategy emphasises the role of individuals in the organisation in utilising and exploiting new knowledge. This emphasis is reflected in intra-organisational knowledge sharing. Given the size of the firm and the resources devoted to knowledge transfer, Toyota has adopted the Japanese management–union communications model much more rigorously than either Honda or AOP. Impressed by the success of Toyota's management–union communications mechanism, Honda and Astra are now imitating that model.

However, Japanese involvement in HRM-IR training for management and employees varies, resulting in uneven levels of employee commitment and capability to establish management–union communications. Employees' abilities and motivation to adopt the Japanese style of communications are therefore influenced by the JMNC's investment in and involvement with IR. The subsidiaries' HRM practices provide a context in which to examine the structure of management–union communications and their implications for employee motivation. An HR forum has been established as a communication platform through which Astra's HR personnel have face-to-face discussions. Similarly, Honda and AOP have established a union forum, a communication platform for union members within and outside Astra to engage in discussions on many aspects of IR, as well as on technical and safety procedures. Unlike the HR forum, the union forum is not exclusively for union and employee representatives; HR and management are also invited. The union forum operates as a vehicle for sub-units to communicate, establishing and maintaining management–union partnerships and knowledge sharing based on mutual trust. The creation of a union forum was inspired by the Japanese model of communications, particularly in terms of an open management–union communications platform. Indonesian trainees had acquired and utilised the Japanese way of communication, and some interviewees also stated that employees and union representatives had been inspired by the Japanese forum. The interviewees simply wanted to implement the new knowledge they had gained from Japan in their workplaces. The Indonesian trainees adopted the forum to demonstrate partnership and trust between union and management.

This trust has significant theoretical implications for organisational learning. By developing strong and trusting relationships between employees, particularly across

organisational boundaries, improved management–union communications may foster closer cooperation, thereby supporting knowledge transfer. It is also possible to distinguish here between inter- and intra-organisational interactions. Although the JMNC was not directly involved in establishing the union forum, Toyota Indonesia displays a high level of adoption of Japanese IR practices pertaining to knowledge transfer. In the words of one Toyota manager:

*It has been similar in Japan: how we would have dialogue and communication with the union, workers' representatives, then we have an "employee voice" to deliver feedback. That has become the norm of this firm.*

Honda (50% Japanese owned) has also demonstrated greater ownership of and a firmer commitment to establishing a union forum than has AOP, where Japanese ownership varies, with strong implementation at AOP-Aisin Indonesia but less interest elsewhere. Therefore, the cases reveal that involvement of IR actors supports employees' and managers' motivation to adopt and diffuse new knowledge.

## **6.5 Discussion and Conclusion**

This study extends existing theoretical models of absorptive capacity by exploring it at both inter- and intra-organisational levels of analysis. It finds that HQ–subsidiary interactions and inter-human relations serve as a conduit for knowledge transfer, as well as being an important characteristic of absorptive capacity. Comparison of different Japanese auto-manufacturing sites and their supply chains in Indonesia, all linked to the same BG, is instructive on how knowledge transfer, which is a crucial element of Japanese work systems, is implemented across broad cultural and geographical distances.

The first important finding is that knowledge transfer is built over long periods of time and with major organisational investment; it cannot be improvised. The main difference across the various sites is associated with the length and extent of direct Japanese presence, in terms of investment, the presence of expatriates, and the density of direct communications and production networks. For organisations where this direct presence is weaker, support for knowledge transfer occurs more indirectly through Indonesian and Japanese agencies that invest in training and knowledge-sharing programmes. By contrast, where Japanese direct presence is very strong, as in Toyota, associated channels of knowledge transfer are secondary. The important, if contingent, role of inter-organisational knowledge creation networks in the EME

context extends Ghoshal and Bartlett's (1990) concept of inter-organisational networks.

In terms of specific forms of knowledge transfer operating in EME business environments (Meyer & Peng, 2016), across all cases, the reported processes and evaluations indicate the importance of two channels. The first is face-to-face, home country-based training, whether provided by companies or by agencies such as HIDA. The second is the involvement of IR actors such as unions, modelled on Japanese patterns, which enhance employees' engagement and subsidiaries' absorptive capacity.

Gupta and Govindarajan (2000) and Minbaeva et al. (2014) argue that larger subsidiaries with greater knowledge resources provide opportunities for employees to create, retain and transfer knowledge. This study reveals that what matters is the quality of the knowledge transfer relationship, which is associated with the level of managerial investment in it, in terms of time and resources. This is illustrated by differences between Toyota, Honda and AOP. In the case of Toyota, Toyota Indonesia has a substantial foreign Japanese stake (95%) and, as a huge MNC, has a competitive advantage in terms of overall organisational learning capability and resources compared with Honda and AOP. With ample financial resources, it can more easily adapt, retain, develop and disseminate knowledge to satisfy local needs. On the other hand, firms lacking direct foreign capital investment and foreign ownership in their knowledge transfer networks (e.g. HIDA) require indirect investment to overcome this shortcoming and facilitate inflows of new knowledge to subsidiaries. This contrast suggests that indirect MNC investment remains a crucial cross-border management mechanism for stimulating local organisational learning, resources and capabilities.

The AOP case reveals an apparent tension between the JMNC's and Japanese inter-organisational networks' objective of promoting Japanisation in Southeast Asia, in terms of the degree to which this knowledge improves the performance of potential competitors. Many dominant firms in EMEs and developing countries have structures like that of AOP, with varying levels of foreign involvement (e.g. Khan et al., 2015; Kumaraswamy et al., 2012; McDermott & Corredoira, 2010; Zhao et al., 2005). However, this study has established that, while the extent of Japanisation increases in accordance with the extent of Japanese stakeholders, there is potential for this trend to spread throughout the organisation and into areas of the business that

compete directly with the foreign subsidiary (Kogut, 2000). Thus, the analysis of AOP highlights how knowledge transfer permeates the complex and overlapping networks of subsidiaries that characterise many large emerging-market firms.

The AOP subsidiary cases (e.g. Denso, Aisin, Musashi, Federal Nittan, Kayaba, Adiwira Plastik and Indokarlo Perkasa) also demonstrate that Japanese work culture has become entrenched in local subsidiaries and has boosted absorptive capacity. Thus, it can be concluded that the structure of subsidiaries' HRM and IR practices is a significant factor in inter- and intra-organisational knowledge transfer mechanisms. Moreover, two levels of absorptive capacity are identified in this study: direct knowledge transfer from foreign firms, and spillovers into the wider economy. The JMNC has *indirect* involvement in terms of HR practices, home-based training schemes, previous knowledge and expertise (Minbaeva et al., 2014), whereas Astra has *direct* involvement in setting HR principles, guidelines and frameworks for its independent (non-foreign-controlled) subsidiaries. Both provide a deeper understanding of Cohen and Levinthal's (1990) concept of distinct organisational absorptive capacities.

Since the publication of Minbaeva et al.'s (2003) influential work, the subsequent literature has not yet fully examined the mechanisms through which HRM practices may develop employees' abilities and motivation. In addition, much of the discussion has focused on how subsidiaries operate in advanced industrialised countries (Minbaeva et al., 2014), and on knowledge transfer in mainstream EMEs such as China and India. This study has sought to offer new insights into knowledge transfer processes in the under-studied and largest EME economy in Southeast Asia, as well as the role of inter-organisational networks and HRM practices, to explain the mechanism of inward knowledge transfer from an advanced industrial-economy MNC (Japan) to its EME subsidiaries (Indonesia). Thus, the findings add granularity to Hansen's (1999) and Lichtenthaler's (2009) analyses of the highly complex nature of absorptive capacity.

Table 6.3 summarises the main findings in terms of characteristics of the subsidiaries, their HRM practices and absorptive capacity, linked to the varying degrees of foreign involvement. It indicates the MNC's contribution to the diffusion of cross-border management practices to foreign subsidiaries. All three knowledge transfer mechanisms have a positive impact on subsidiaries' absorptive capacity to

acquire, adopt and assimilate new knowledge. However, more research is needed on the relative importance of each.

**Table 6.3: JMNC subsidiary characteristics, training practices and implications for absorptive capacity**

	JMNC subsidiaries		
	Toyota	Honda	AOP
Foreign ownership, level of involvement	95% ownership; strong Japanese influence	50% ownership; weaker Japanese influence	0–78% ownership; varied Japanese influence
Japanese entry	1971	1971	1978–1996
Country-of-origin-focused HRM training	Training in Japan and Japanese mentors	Japanese training in Indonesia	Little training
IR and inter-organisational knowledge transfer networks	HR–union partnership and APINDO	Mixed: HR–union forum and APINDO	HIDA
Outcome of knowledge transfer, i.e. JIT, TQM and 5S	Strict adoption of Japanisation	Adaptation of Japanisation	Japanisation varies in line with previous factors

Two important aspects are particularly noteworthy. First, direct foreign presence contributes to the mechanism, type and quality of knowledge transfer, as noted in the examples of Toyota, Honda and AOP. Second, the type of foreign MNC training and the type of IR are relevant. At one extreme, Toyota has managed to transfer most of its home-country employee representation policies and practices. By contrast, the case of AOP indicates that in non-JMNC (mostly lower-tier) subsidiaries, unions lack adequate learning resources and capabilities to retain and assimilate new knowledge. Hence, the nine case-study firms reveal that different ownership structures and IR practices cause variability in knowledge transfer. Differences in training provision, notably in Japan or with Japanese trainers, also appear to be significant. Even so, the differences between Toyota, Honda and AOP on this dimension are less remarkable. All in all, these findings add credence to Cohen and Levinthal’s (1990) assertion that the inter-human relationship mode of training has a critical impact on the extent of knowledge transfer.

This examination of a multi-site case in an EME sheds light on intra- and inter-organisational processes that support knowledge transfer and balance co-evolution and competition across the supply chain. The supply tier system that exists at AOP, and between AOP, Toyota and Honda corresponds with the complex co-evolution and competition for knowledge discussed by Kogut (2000) in a US setting. The

qualitative research of this study, confirmed through triangulation with both company actors and external associations, reveals the importance of direct presence, supporting agencies, culture-specific face-to-face training, and IR actor involvement.

Finally, the micro-level evidence of this study suggests that knowledge transferred through MNCs has implications for the host country's wider economy as it spills across the labour market. Japanese and Indonesian supporting agencies are of paramount importance in this respect. This influence starts with transfers across different elements of the Indonesian BG (i.e. Astra International), and also involves external organisations (i.e. APINDO and HIDA) in the diffusion and codification of new knowledge from the JMNC, thus encouraging more general transference to local Indonesian firms. The Astra International BG serves as a particularly compelling example of a vehicle for knowledge transfer and competitive governance in a situation where there is strong political interest in knowledge acquisition and industrial upgrading.

# **Chapter 7: Tracing Power and Influence in Institutional Diversity – Competing HR Models in Japanese and Indonesian Joint Ventures**

## **7.1 HRM “Best Practice” in an Emerging Market Economy**

In EMEs, with weak local labour market institutions and human capital ill-prepared for FDI, the workplace is vulnerable to control by dominant MNCs. JMNCs have the power to impose HRM “best practices” on their subsidiaries. Although globally accepted (e.g. Elger & Smith, 1994), these practices may be fiercely resisted by subsidiaries’ management (e.g. Mellahi et al., 2013; Ferner et al., 2004; Delbridge, 1995); yet subsidiaries’ employees and unions may be open to some aspects of “best practice” (e.g. employee participation and union roles) because a receptive attitude may elevate their voice and power. This may lead to conflict between the JMNC management’s interest in diffusing HRM “best practice”, and subsidiaries’ interest in protecting local HRM practice.

This chapter focuses on the use of power in conflicts of interest in Japanese–Indonesian automotive manufacturing joint ventures. It is proposed that subsidiaries’ managers may not fully accept JMNCs’ HRM “best practice” because increased employee empowerment may strengthen local bargaining power. Japanese management and production systems require Japanese skills, behaviours and systems, which subsidiary actors may perceive as unsuited to local relationship-based norms and regulations. Also, while JMNCs promote equal partnerships and open management–employee communications, subsidiaries’ managers may find that Indonesian employees and unions lack the necessary understanding, commitment and skills to be equal partners. However, the JMNC’s dominance makes it difficult for subsidiaries to challenge the transfer and protect Indonesian systems.

This study applies Ferner et al.’s (2012) paradigm relating to actors’ power to overcome conflicts of interest in the context of the dissemination of HRM “best practice”. In doing so, it identifies the importance of institutions at the sub-national level (e.g. Ferner et al., 2012; Almond, 2011b; Kostova & Roth, 2002). Following Delbridge et al. (2011) and Morris et al. (2018), this study also articulates a layered assessment of the various systems, society, dominance and corporate (SSDC) effects at play in corporate Japan and “capitalist employment relations under Japanese



HRM” (Aoki et al., 2014: 2557) in order to understand strategic choice (corporate effects) arising from increasing institutional pressures at the meso-level that are experienced at the organisational level. JMNCs and Indonesian subsidiaries involve non-organisational actors (i.e. associations) in HRM and IR issues, and business associations’ peculiar power to circumvent conflict may determine the processes and outcomes of power utilisation. This research considers the pivotal role of associations which, unlike MNC actors, have the capability and access to engage in direct communications with JMNCs and subsidiaries to establish meso-political alliances with industry, government and institutions in home and host countries. As Morris et al. (2018) argue, the analytical value of the SSDC framework lies in its explication of variations in IR practices. This study refines their arguments, first by showing how strategic choices are conditioned by other actors, namely business associations/organisations, and second by explaining the outcomes of meso-level institutional pressures, and the implications of meso-institutional complexity for specific organisations pressured by power inequalities, and inequitable and systematically antagonistic relations.

Lean management practices are established in first-, second-, and third-tier Japanese automotive subsidiaries through the philosophy of the TPS. This study examines their power to circumvent institutional resistance at macro, meso and micro levels. A meso- rather than macro-level analysis provides an overarching perspective on national institutional factors and the sub-national niches and variants in which they are located (Ferner et al., 2012: 170); yet this contested power at the meso level has not previously been fully investigated (Geppert & Dörrenbächer, 2014; Kostova et al., 2008). The central objective of this chapter is therefore to identify the meso-level and corporate effects and strategic changes that have influenced divergence or continuity in HRM and IR practices.

This chapter reviews relevant IHRM theoretical frameworks to conceptualise the role and involvement of MNC actors and business associations in diffusing the dominant Japanese HRM model (i.e. joint labour–management committees, training system/skills formation and productivity performance at plant level) to the Indonesian context. It discusses agencies’ use of the power of meaning (Lukes, 1975), outlines the case studies, research approach and design, presents the findings, and provides concluding remarks.

## 7.2 MNC and Business Association Actors' Roles, Power and Resources

### 7.2.1 IHRM

Delbridge et al. (2011) suggest that the IHRM research agenda should include evaluation of the roles of multiple actors at multiple levels of analysis to explain the mechanisms, structures and implications of IHRM beyond the focal organisation. Their SSDC effects framework is applied to this study to broaden the IHRM context beyond Asia's mainstream EMEs (China and India). The *System* effect applies to MNCs operating in capitalist political-economic contexts. While Japan is recognised as a coordinated market economy, coordination by Indonesia's state and institutions is low, and the role of the family is high (Fainshmidt et al., 2018). The *Society* effect operates in the formal institutions, norms and customs that shape Japanese and Indonesian national business systems. The role of quasi-governmental agencies in developing human capital, training and development has a wider impact on society, particularly where the national demographic lacks formal education. The *Dominance* effect is evident in TPS nuances of lean management practices, diffused by actors using direct power to coordinate states and corporations. The *Corporate* effects of FDI and ownership structures are recognised in the JMNC's pursuit of "legitimation" of HRM "best practice" and control over subsidiaries' management practices.

This study also examines systematic (but negotiable) relationships between dominant and low-power actors, and subsidiary actors' efforts to protect local work and employment institutions (Delbridge & Keenoy, 2010). In doing so, it broadens the political model, leading to a more balanced analysis.

### 7.2.2 Power of meaning (management ideology)

Power is defined in terms of strategies to influence other actors to change their behaviour or practices. According to Ferner et al. (2012: 164):

*Power has to be understood in its institutional context. On the one hand, it is deployed by powerful MNC actors to shape, sustain and activate macro- and micro-level institutions. On the other hand, institutional context provides actors with capabilities with which to facilitate, block or modify transfer.*

JMNCs face institutional challenges in diffusing HRM practices at all (macro, meso and micro) levels. Foreign investments in the host country are governed by investment laws. Although local investment regulations may be perceived as a form

of institutional resistance in less-developed host countries, labour market institutions may nevertheless remain receptive to control by JMNCs. A robust desire to protect national business systems prevails at the macro level, but the need for foreign capital and expertise is evident at the micro level.

Turnbull's (1986) concept of Japanese production and employment relations has deepened understanding of lean production, framed within the paradigm of the Japanisation of management control and maintenance of workplace peace (e.g. Stewart et al., 2009; Elger & Smith, 1994). However, it has proved difficult to theorise the diffusion of Japanisation in the context of institutional power held by MNC actors (e.g. Abo, 2015; Womack et al., 1990), or to produce a clear theoretical framework to explain how institutional strength, power interactions and characteristics of Japanese HRM models have determined the dominant "best practice" phenomenon over the last 30 years. Aoki et al. (2014: 2551) postulate that "Japanese HRM practice has waned" as a consequence of dramatic changes in the ownership structures of JMNCs arising from the 1997 Asian and 2007 global financial crises (e.g. Cooke & Kim, 2017; Aoki et al., 2014; Chang et al., 2009). The weakening of *zaibatsu* (Japanese conglomerate) relationships and *keiretsu* (business affiliation) structures, in particular, have impacted on specific HRM "best practices", and particularly management–employee relationships. The lean paradigm of management control may also clash with host-country institutions and subsidiaries' HRM practices (Stewart, 2014). To examine this complexity, this research draws on nuances suggested by Ferner et al. (2012), who construct power resources and actors' interests at macro, meso (i.e. sub-national) and micro levels, and by Bouquet and Birkinshaw (2008), who focus on low-power (i.e. subsidiary) actors' pursuit of influence within the dominant IHRM paradigm.

Lukes's (1975) power of meaning (management ideology) also has implications for this study, in that it may influence or change actors' observable behaviour and may be deployed by dominant actors where circumstances are institutionally constrained. Ferner et al. (2012) highlight that through dialectical relationships, MNC actors may, individually or collectively, promote, manage or ignore inward transfer as a result of evolving subsidiary actors' interests and local institutions' legitimate power. Bouquet and Birkinshaw's (2008) framework for understanding why and how MNC actors achieve legitimacy can be brought together with Lukes's (1975) power of meaning and Ferner et al.'s (2012) three institutional levels of

power. As Ferner et al. (2012) observe, MNC actors' power may not necessarily outweigh that of subsidiary actors. Thus, understanding the power capabilities and processes involved in incorporating ideological power and how actors' interests emerge may facilitate analysis of the use of power to diffuse HRM processes and outcomes.

The ideological power centres on shared values and understandings, enabling processes to be diffused by overlaying existing frameworks with foreign/new normative ones (Crouch et al., 2009). This may delegitimise other actors' practices (Suddaby & Greenwood, 2005), resulting in modification of existing behaviour and acceptance of foreign interventions (Hyman, 2001), and potentially creating conflict.

Adding to the complexity, diffusion may also be facilitated by external organisations, such as agencies and corporate alliances. Agencies may have different capabilities from MNC actors, enabling them to access and negotiate diffusion processes. Using the power of ideology, they may thus circumvent the norms, practices and understandings of the dominant HRM-IR "best practices". Although JMNC subsidiary actors retain some scope for normative practices and interests of their own, this is likely to increase tensions over (re)defining the meaning of HRM-IR "best practices".

The significance of meso-level structures of the power of dominant management ideology has been overlooked, specifically with regard to the legitimisation of meso-political influence by MNC actors seeking to impose HRM-IR "best practices" outside their home institutions. While macro and micro levels remain important, a meso level of analysis aids understanding of the MNC's and subsidiary actors' use of meso-political power to contest dominant HRM-IR "best practices".

Meso-level associations and state agencies develop important influence where macro- and micro-level channels of influence are institutionally limited, as is the case for JMNCs in Indonesia, where foreigners are forbidden from working in HR/IR functions, limiting the use of expatriates. Thus, business associations such as employers' associations and chambers of commerce may be instrumental in diffusing dominant HRM-IR "best practices". Institutionally, Japanese business associations (i.e. quasi-government agencies) are protected by international bilateral agreements (i.e. ODA policy) and operate according to JMNC and governmental investment policies (i.e. FDI). In fact, agencies have exclusive formal capacity to forge cross-border, cross-organisational alliances with state and non-state organisations and

governing bodies. They represent the interests of various organisations, associations and governments, rather than MNC actors *per se*. Thus, this thesis proposes that meso-level power influences JMNC–subsidiary relationships by constructing power variants and mitigating dominance effects.

At the macro level, the Japanese state’s active role in business alliances contributes to JMNC actors’ power. Diplomatic relationships also create opportunities for JMNCs to engage in business activities abroad (Smith & Meiksins, 1995), in collaboration with business association actors. This home-country advantage has allowed Japanese HRM “best practice” to gain international recognition, facilitated by the coordinated market economy nature of Japanese institutions (Hall & Soskice, 2001). Hence, diffusion of management practices may arise from country-specific advantages exploited by JMNC actors (Buckley et al., 2012) and government alliances with business associations, consistent with JMNC and Japanese lean management ideology.

The *kaizen* philosophy of lean production (e.g. Stewart, 2014) has transformed work practices globally (Martínez Lucio, 2014b). The cross-border training infrastructure plays a significant role in propagating Japanese HRM “best practice”, for example through expatriation (e.g. Buckley et al., 2012) and the development of internal networks such as business alliances, overseas *keiretsu* and established support networks, i.e. business associations of their own, as well as other governmental agencies abroad. Furthermore, coordinated state–corporate investment provides resources to maintain the Japanese management ideology (Clegg, 2013). The globally recognised ideology of Japanisation is thus conveyed by the Japanese state, firms and actors, translating country-specific into firm-level competitive advantage and contributing to the dominant effect of JMNCs (Morris et al., 2018). Through meso-level power, actors achieve a particularly important *means* of influencing subsidiaries’ HRM practices, since host-country institutions systematically block HQ actors’ involvement.

To further assess low-power actors’ use of power as a balancing or defensive mechanism, this research empirically explores actors’ motivations (*ends*) and strategies (*means*) to influence corporate networks to protect their own institutions (Bouquet & Birkinshaw, 2008). Low-power subsidiary actors have mainly micro- and meso-level sources of power, as EMEs are experiencing institutional change resulting from national and international political-economic transitions (e.g. Meyer

& Peng, 2016). Subsidiary actors are interested in improving their organisations and local labour market institutions to enhance their power capabilities. In seeking to gain a legitimate voice in their corporate networks to protect their own practices, they must make a deliberate choice to ignore, accept or modify the JMNC's HRM "best practice".

In the presence of diverse subsidiary–MNC relationships, ownership structures such as BGs (e.g. Dieleman & Sachs 2008), and interests, low-power actors often engage in political alliances with business associations to gain power and legitimacy (Kristensen & Zeitlin, 2005). Actor alliances use tactics to establish, align or reconstruct their means of power (e.g. Morgan & Kristensen, 2006). Micropolitical strategies at the firm level are crucial to gaining legitimate influence by engaging lower-power actors and building political alliances from the bottom up. Management, employees and unions use mechanisms of micro-coalition building to strengthen low-power actors' positions in the corporate system.

This theoretical discussion of the sources of power held by JMNCs, Indonesian subsidiary actors and agencies leads to the following research question:

*How do MNC and subsidiary actors mobilise macro, meso and micro sources of power to promote their preferred HRM practices?*

### **7.3 Methodology**

This research investigates causal processes, management ideology and MNC actors' power in ten case organisations. To examine why actors appear to accept Japanisation yet exhibit profoundly different HRM practices, it is necessary to identify how power is allocated, how actors are involved/impacted and how conflicts are negotiated. Hence, data were gathered from Japanese and Indonesian business associations as well as from management. The selected case study subsidiaries have an MNC HQ in Japan and a local parent firm, Astra International in Indonesia, while two non-Japanese-owned autoparts firms have varying levels of involvement by the JMNC and business associations (see Table 7.1).

The analysis of this study maps onto Delbridge et al.'s (2011) and Morris et al.'s (2018) constructs of multiple actors, multiple levels of analysis and varying political-economic contexts. The ten case organisations represent a reasonably diverse sample in terms of their capacity to execute the Japanese lean production ideology. The eight selected AOP subsidiaries have different tier classifications, providing empirical

evidence of Japanese lean ideology in both direct and indirect JMNC subsidiaries in the autoparts supply chain. The resource and capital investment structures of the automotive plants, with large labour forces and high levels of capital, demonstrate both Japanese management’s power in lean production, and a clear pattern of actors’ strategies to sustain or accept Japanese influence in practice (Endo et al., 2015). Examining different actors’ understandings of HRM “best practice” enables analysis of the power of ideology at three analytical levels.

**Table 7.1: Toyota, Honda and AOP subsidiary case studies**

<b>Firm</b>	<b>Japanese ownership</b>	<b>Japanese presence</b>	<b>Products</b>
Toyota	95%	1971	Cars
Honda	50%	1971	Motorcycles
Musashi	78%	1996	2nd-tier autoparts
Denso	75%	1978	1st-tier autoparts
Aisin	66%	1995	1st-tier autoparts
Federal Nittan	60%	1995	1st-tier autoparts
Showa	55%	1980	2nd-tier autoparts
Kayaba	50%	1976	2nd-tier autoparts
Indokarlo Perkasa	0%	-	3rd-tier autoparts
Adiwira Plastik	0%	-	3rd-tier autoparts

Data were collected through individual and group interviews and on-site visits to manufacturing plants and organisations in Japan and Indonesia between November 2014 and September 2016. Of the 110 individual participants (10 in Astra, 12 in Toyota, 25 in Honda, 35 in AOP and 28 in agencies and associations), drawn from a wide range of hierarchical levels and functional business areas, 85 had participated in formal training facilitated by HIDA and APINDO in Japan. A three-stage analysis was conducted, entailing the construction of dominant actors’ episodic interventions, and general analysis of the adoption of the JMNC’s ideology, practices and policies. This study follows Balogun et al.’s (2011) and Pulignano’s (2002) discourse-based approach to deepen understanding of the processes and outcomes relating to subsidiaries’ acceptance of and resistance to transfer. Through a three-cycle coding process, the analysis was systematically refined to develop a conceptual picture and articulate insights.

#### **7.4 Findings**

This single-case study consisting of ten multi-site cases and covering multiple levels of analysis reveals a clear pattern of conflict between the JMNC and its Indonesian

subsidiaries over the *ideology* of HRM-IR “best practices”, in terms of employment relations, employee participation and disciplinary procedures. For example, Japanese disciplinary schemes were perceived by subsidiary actors as “inhumane and contradictory to the Indonesian state ideology of humanitarianism; the Japanese [model] does not fit with our practices, HR policies and norms” (Astra HRM-IR directors). Subsidiaries’ management, employees, unions and agency actors all agreed that although TPS is applicable to workplaces other than production lines, and that Japanese technology may improve competitiveness, certain Japanese HRM practices are profoundly unsuited to the Indonesian context. Both individual and group participants referred to the second *Pancasila* principle of the Indonesian constitution. For example, “We are God’s creatures, not Japanese” and “we do not live to work...we are not Japanese”. Indonesian management, employees and unions saw the Japanese model as being built on Japanese conditions: “Being a part of the machine...not a human; we have to live, look after families and live outside the workplace; we do not live to work” (AOP employees and union representatives).

Managers valued nuances of Japanese practices that might help to improve the Indonesian workforce. Astra’s HR and IR directors suggested that “our systems are built on the Indonesian ideology” and that “Astra systems allow management and unions to sit down together...The aim is to give them an opportunity to explain their situations.” During a company visit to Aisin Indonesia, the researcher witnessed management and union roles in a disciplinary procedure. According to Aisin Japan’s guidelines, employment can be terminated after three warnings. However, HR and union informants said that “both management and union share responsibility and play an important role in making a disciplinary/termination decision”. In this disciplinary scheme, management and union engage in open communications as partners, exemplifying local management–union relationships in the Indonesian IR environment. This suggests that certain Japanese-type union roles are applicable to local union participation conditions. While open communications may reflect the Japanese approach, the Indonesian-type disciplinary scheme prevails:

*Aisin is really mindful of the employee’s future and family. He is the sole breadwinner in his family; his parents were sick, had been in and out of the hospital* (Aisin union representative).

*We need to consider what would happen to his wife, child and ill parents; Indonesia does not have social support for unemployed workers, child or elderly care...We do not have it* (Aisin management).



An Aisin employee interview group added:

*The future of our fellow will be grim...We need to remember that unemployment and crime rates in our city remain high. I think it is necessary to give him another opportunity.*

The case studies also reveal some consensus on Japanese acceptance. For example, Indonesian managers in Astra, Toyota, Honda and AOP admitted that subsidiaries working under the world-renowned Japanese automotive umbrella think and behave like Japanese. As Toyota Indonesia management and employees reported, “‘made in Japan’ resonates with a powerful global quality of acceptance, reputation and harmonious employment relations”, promoting a peaceful image of the Japanese workplace that inspires Indonesian subsidiaries.

Nuances of Japanisation are observable in changes to subsidiaries’ behaviour, understanding and commitment to the lean management ideology. Lean management practices in Japanese subsidiaries (Toyota, Honda and AOP Tier 1) are clearly important to the JMNC. Lean behaviour was evident throughout observations of management and union offices and in employee facilities, including the canteen, car park and prayer areas. Acceptance of Japanisation was also evident in interviewees’ comments:

*Japanese values are actually universal values: neatness, cleanliness, and craftsmanship. They are actually common values. I think these Japanese values are very good values; they have been practised internationally, and that is what we want to implement in our workplace (Kayaba employee).*

Subsidiary managers also seek to control the inflow of certain types of Japanese HRM-IR “best practices” applicable to their workplaces and organisations which will not exacerbate local IR.

## **7.5 Sources of Power for JMNCs**

### *7.5.1 Macro level*

The power of ideology in the Japanese IR of the 1960s and 1970s was reflected in JMNC actors’ understanding of host-country labour market development. Since the collapse of the 33-year Soeharto dictatorship, JMNCs have exerted their influence, although agencies have demonstrated greater understanding of increased worker organisation, heightened industrial action and management-union tensions in subsidiaries’ IR. Nevertheless, Japanese actors have seen this as an opportunity to incorporate the Japanese ideology of workplace peace into local HRM-IR

development. This implies that the power of ideology, sharing of JMNC-subsidary experiences and management-union partnerships play an integral role. A JETRO agency interviewee suggested that Japanese IR lessons have equipped the Japanese with knowledge that may be applicable to the Indonesian context, as a HIDA representative echoed:

*In the 1960s/1970s, management and unions were against each other in Japan. It was very much a hard conflict during that period. In the end, the union side realised that if the company grows, their salaries will also rise, so there is a very strong correlation; they realised that management and union need to work harmoniously. In the 1960s we had a similar situation [to Indonesia now].*

Furthermore, Indonesia continues to welcome FDI and the highly-skilled jobs it generates. The types of job created by JMNCs (compared with Korean and Chinese investors) are perceived particularly positively because they provide not only security, but also skills advancement and improved working conditions. The positive reputation of JMNCs' practices motivates subsidiary actors to learn more about HRM "best practice". Therefore, the power of meaning may promote greater understanding of local workplaces and the host country's political-economic conditions.

### *7.5.2 Meso level*

Business associations' power may modify and neutralise resistance, focusing on the applicability of best practice and sharing of cognitive HRM frameworks. Japan has been the largest provider of ODA to Indonesia since 1954. Although an independent organisation, HIDA is financed by Japanese ODA, has close ties with the Japanese government and Japanese and non-Japanese agencies and corporations. HIDA spreads the lean ideology by developing local skills and changing mindsets and behaviour. Since it operates in the host country without an official local partner, its business agenda is to operationalise and closely link the dominant Japanese ideology with local institutions and actors. While it serves mainly Japanese-affiliated organisations, it also promotes the ODA mission of developing local human capital. HIDA focuses on establishing understanding and operational and institutional support, including training and on-site coaching of local actors within bilateral agreements, while JETRO operates at the level of the overall business or corporation.

HIDA transforms the power of HQ management ideology into “Japanese business association ideology” through the diffusion process. Many former Indonesian HIDA trainees have gained managerial and directorial positions in Indonesian employers’ and industry organisations. HIDA mobilises lean ideology in subsidiary actors’ interests and diffuses it through an alumni network of former trainees and close partnerships with APINDO. According to management, employee and union participants, HIDA’s training provides knowledge of Japanese-type HR and union participation roles in Japan and enables trainees to apply this knowledge to their workplaces. Hence, HIDA focuses on the power of meaning to change local actors’ behaviour and layer existing practices with HRM “best practice”. A HIDA representative confirmed:

*The goal is to spread out the expertise that is needed, less on disseminating perfection of Japanisation. Since the objective is to develop a product and business which is associated with the Japanese, spillover is expected. The [local] HR development does not necessarily focus on transferring high-tech, robot-type skills, but the focus is on the know-how, more on the soft skills.*

This reveals HIDA’s main objective of developing local human capital by disseminating Japanese lean ideology and HRM “best practice” to targeted actors. HIDA’s interests are met by incorporating corporate and bilateral ODA programmes, reinforced by support and training for non-Japanese subsidiaries. JETRO and HIDA train local actors in order to make an impact on the wider economy. As one interviewee explained:

*JETRO helps Indonesia in the form of sending Japanese expatriates to develop local businesses and people, particularly small businesses and supply chains that do not have funding to pay Japanese expatriates.*

HIDA partners with JMNCs, as well as with Indonesian agencies such as APINDO, ATC and KADIN. In doing so, it empowers local actors to legitimise Japanisation in the local context. Its training arrangements illustrate Japanese commitment to developing local human capital. A HIDA representative noted:

*These days, Japanese companies want to promote local people—not only executives, but also R&D and production managers – because Japanese companies want to localise, and at the same time globalise. In order to do this, they need local people’s cooperation!*

Also, HIDA’s operations are exempt from local investment policy because it is a not-for-profit organisation under ODA. Its alliances cover a wide spectrum of MNC actors, institutions, government agencies and NGOs that strengthen its power, since

it is able to negotiate directly with MNC actors at home and in the host country. In arrangements at the meso-institutional level, actors become not only local agents of the JMNC, but also access points for the JMNC to validate consistent HRM-IR “best practices”. Therefore, at the meso level, the agency’s power of dominant management ideology is deployed to mediate, circumvent or even avoid tensions between the JMNC and subsidiary actors. Thus, the JMNC and the state invest political resources, knowledge and capital in HIDA.

### *7.5.3 Micro level*

Indonesia’s need for technology transfer has enabled JMNCs to access local markets and promote the Japanese model. Toyota’s global reputation as a robust and employee-centred MNC may enhance subsidiaries’ understanding of the lean ideology. Local unions perceive it positively and have welcomed Toyota’s establishment because it boosts employee participation and union negotiation roles. One Toyota union interviewee offered an insight:

*It is my understanding that Japanese IR promotes management-union relationships. The Japanese company values its employees as an asset and the union as a partner. There are harmonious relationships throughout the organisation: management–employees, and executives–workers.*

The JMNC is interested in partnering with Astra because of its reputation and commitment to championing HRM “best practice” by local subsidiaries. Subsidiaries’ HRM systems are susceptible to Japanisation; hence, the JMNC’s dominant resources may shape the power capabilities of both MNC and subsidiaries.

## **7.6 Sources of Power for Indonesian Subsidiary Actors**

### *7.6.1 Macro level*

Indonesian regulations to protect and organise workers, aligned with Japanese regulations promoted by the JMNC and agencies, may contribute to employees’ acceptance of Japanese IR practices. One Honda HR-IR audit team interviewee offered his view on the JMNC’s practices:

*In terms of policy, it is true that Japan cannot intervene with our HR. This is a local affair. However, due to increasingly organised industrial action, to some extent, Japan must get involved. Japan has planned to place an “HR advisor” in our office. The aim is to provide some advice and expertise.*

It is important to note that protection of workers’ rights and working conditions underpins unions’ understanding of nuances of Japanese IR, which is a selling point

for subsidiaries. Although the level of management control may be overlooked by some union members, others regard the rigid, stressful monitoring characteristics of Japanese lean ideology as too stringent for the local workplace. Nonetheless, Japanese “workplace peace” has strong power of meaning. A Denso union interview group reported:

*It is our understanding that the Japanese have a tendency to respect the rule of laws, policies and agreements, in particular how to uphold the values of harmonious management-employee relationships.*

Organised Indonesian workers are particularly interested in understanding Japanese IR regulations, employee participation and union negotiation roles; the positive image of Japanese industrial development resonates with Indonesian unions. A Federal Nittan interviewee stated: “That is my hope, to see local firms moving forward to value their employees and unions as partners. That is what I learned about Japanese IR.” The JMNC and subsidiaries’ unions may thus have shared interests. The JMNC may be motivated to increase its stake in order to gain control and standardise subsidiary practices. As a Japanese JETRO interviewee noted:

*It is a very important factor. Japanese companies always want to increase their share...But there are regulations, so at 50/50 this is not a wholly Japanese company but a joint venture. So not only relationships between management and union but also among the management side have a different management style, that is, Indonesian and Japanese management. It is very hard for Japanese people to control.*

To balance dominant actors’ control, Astra maintains close relationships with local government, enabling it to lobby for favourable tariffs and regulations.

### 7.6.2 Meso level

Heightened institutional resistance and tough business regulations have not discouraged JMNCs from investing in Indonesia. In fact, they have been motivated to transplant HRM “best practice” into their subsidiaries. This suggests that Astra may benefit from Indonesian institutions and political alliances, enhancing its meso-political power *vis-à-vis* the JMNC.

As in Japan, pseudo-government agencies in Indonesia work to protect and advance HRM practices and labour market institutions. APINDO is the main “independent” employers’ organisation in Indonesia. Given its policy development with the Indonesian government, as well as with Japanese agencies such as HIDA and JETRO, it has a unique cross-border transfer role, strengthening local

management's sources of power. For example, according to one APINDO respondent, "APINDO, together with KADIN and other BGs, builds a solid door to govern our future". This is a clear defensive effort. Seeing a lack of government participation and manpower to develop the IR infrastructure, these agencies have taken bold action, prompting KADIN and APINDO to exercise their power by taking an active role in a "weak" IR institution. This view was supported by a Musashi union steward:

*The role of government should be to accommodate and mediate IR between APINDO, workers and unions. So far, however, the government has not played an active role. The government has the capability at least to enact laws, policies to protect workers, similar to policies protecting investors.*

A similar view was expressed by an ILO representative:

*If I may blame the government, Indonesian institutions lack infrastructure. For example, lack of [HR-IR] inspectors: inspectors lack capability and inspection capacity.*

This government deficiency provides APINDO with a source of power. It also maintains an institutional outlook in representing the interests of employers and establishing closer links with government and policy makers. Hence, meso-political alliances appear to be mechanisms for defending and protecting local institutions and values. The nature of agential business objectives and internal networks permits subsidiaries to gain substantial power and influence. Locally, APINDO's key role in the meso-institutional setting is its involvement in managing local HRM systems.

The combination of JMNC and subsidiary power resources at the meso level suggests that Indonesian agencies' strength lies at the level of local Indonesian institutions, whereas Japanese agencies have power both at home and in host institutions.

### *7.6.3 Micro level*

Astra is one of the biggest and most diversified firms. In fact, it is the largest Japanese automotive producer and distributor in Indonesia. It gains significant power from political alliances and institutional networks with federal and local governments. This is not only an important defensive mechanism, but also directs Astra's power toward receptive Indonesian systems and values, including the micropolitical strategy of lobbying government, industries and associations that

promote its interests. Astra's micro-political strategies were mentioned by several interviewees, one of whom stated:

*Some ministers sit in APINDO as executive members. APINDO is able to give advice to the "transition" government, to ministries whose capacities are in investment, labour, transmigration and industrial relations. That is where and how Astra engages and participates in the development of our national employment policy (Toyota IR Director).*

Astra has built a corporate reputation for doing good business for the nation and improving working conditions for the Indonesian people, and credit was consistently given by research participants. According to one group of AOP first-, second- and third-tier employees and union representatives:

*With regard to working conditions under Astra's management, management follows and exceeds national and local government policy requirements; whereas in non-Astra firms, working conditions adhere to the bare minimum of local government requirements.*

Crucially, Astra has a proven record of excellent bargaining with and attraction of foreign investors such as Toyota. It accumulates power and influence from them. Engagement in business partnerships has enabled Astra to build technological knowledge and localise the lean management ideology. As one AOP manager stated:

*Indeed, from Toyota, Honda, Daihatsu, Komatsu, etc., Astra accumulates knowledge and expertise to construct in-house quality control. Astra modifies it so that it will be applicable not only in local manufacturing sites, but also in management, HR and other operations. Hence, I think that is what makes Astra extraordinary.*

Astra's subsidiaries—specifically Toyota, Honda and AOP—have similar business partnerships with the JMNC. Although Astra has gained power at the micro level, the control of resources remains with the JMNC. The use of power is contingent not only on the level of ownership, but also on areas within Astra's management jurisdiction, i.e. HRM and third-tier AOP firms where it can manage employee participation and union roles. Although employees do not welcome how Astra handles HRM with the JMNC, the JMNC is unable to negotiate with Astra because government policy prevents it from becoming involved in managing local HRM-IR.

Technically, Astra has discretion to promote third-tier firms to the first tier and position them more closely with Toyota to gain access and resources. It has the power to consolidate, take over and eventually wholly manage third-tier firms that

have the ability to manage technology transfer and develop human capital. Although Astra’s strategy may conflict with AOP management, as well as Japanese partners, it requires no approval from other actors. Thus, Astra’s power resources and legitimacy uphold its ability to manage local subsidiaries and supply chains. Its HRM policies, practices and performance indicate its interest in establishing control.

### 7.7 Which Model Prevails and Where?

The Japanese HRM model emphasises the importance of direct employee participation (i.e. without unions), internal skills formation and training systems, and high-trust management–labour engagement (e.g. Endo et al., 2015; Almond & Gonzalez Menendez, 2014b; Stewart, 2014; Abo, 2007). However, the Indonesian HRM model is quite different (e.g. Caraway & Ford, 2017; Napathorn & Kuruvilla, 2017). Meardi et al. (2009) suggest another (different) example for comparison but say nothing about Japan and Indonesia. Characteristics of the two models are summarised in Table 7.2.

**Table 7.2: Japanese and Indonesian HRM-IR ideal types**

	<b>Japanese</b>	<b>Indonesian</b>
Employee participation	High, both direct and indirect	Low, direct
Management-employee communication	Indirect, formal, strongly integrative	Direct, informal
Industrial relations	High trust, company-based bargaining	Low trust, politicised
Skills creation	Apprenticeships, in-house	School-based
Teamwork rationale	High: job rotation and comprehensive job training	Medium: less job rotation and comprehensive job training
Working time	Flexible and long hours	Shorter hours + overtime

A key factor in the Indonesian model is that it is sector-specific, shaped by the types of product being manufactured, which links closely with skills formation and training, status, and employee participation (i.e. indirect, employee representatives), but with low trust and commitment (e.g. Juliawan, 2011; Bondarouk et al., 2016; Amengual & Chirot, 2016). For example, the garment sector in Indonesia has much lower participation than the automotive sector (e.g. Ford, 2000, 2013). As Meardi et al. (2009: 495) suggest, there are “product- and labour-market contingencies facing MNCs”. In Toyota Indonesia, where agencies’ role is lower owing to its 95% Japanese ownership, the JMNC has managed to diffuse a high-quality form of the



Japanese lean ideology. Toyota's HR manager confirmed the adoption of Japanisation:

*Throughout our establishment, we have applied kaizen, TPS and lean. We have innovated and improved TPS over time so that we can educate our employees, develop their mindsets and skills for over 10,000 Indonesian employees.*

Another interviewee justified his interest in adopting the lean mindset, Japanese discipline and work ethic with reference to their implications for other subsidiaries' workplaces:

*The Japanese work attitude, character and habit: this type of training requires ongoing commitment, and what we need to emphasise is employees' motivation and commitment to work. I think these have not yet been demonstrated in our Indonesian workers [outside Toyota].*

This management ideology of "lean" has contributed to the successful transplantation of Japanisation to subsidiaries. In view of the level of Japanese ownership, presence and involvement, the dominant business value may derive from Toyota Japan. Toyota Indonesia is not disadvantaged by its 95% Japanese ownership because Astra is interested in maintaining close links between Toyota Indonesia and Toyota Japan and positioning it at the top of the local automotive industry. Consequently, , the Japanese model prevails in Toyota.

Honda Indonesia's 50% ownership stake affords it greater power. Honda Japan's presence was praised, and some interviewees suggested that the Japanese had gradually constructed layers of Japanese HRM "best practice" processes democratically. Despite its different share ownership structure, Honda has similar practice transfer mechanisms to those of Toyota. In the context of subsidiary sources of power at the micro level, Honda Indonesia derives power from its political networks and local expertise. Intra-organisationally, Honda's reputation may bolster its power over Astra. However, there may be tension between the JMNC and Astra's management since they have equal stakes. Thus, both Japanese and Indonesian models dominate in Honda.

The implications for AOP extend across its first-, second- and third-tier supply chains. Strong diffusion processes by the JMNC and business association actors reach even the lower tiers that have no Japanese ownership. This study examined eight AOP subsidiaries with different levels of Japanese ownership and length of presence (see Table 7.1). The first tier has greater access to resources and relies on

direct JMNC transfer, while the second and third tiers derive resources through local AOP management, Astra and business associations. The second and third tiers are also subject to less negotiation, influence and control by the JMNC, Astra and business associations. Therefore, the transfer process in the autoparts supply chain highlights a unique HRM “best practice” diffusion phenomenon, exhibiting different interests, power and tactics.

The views of participants from all three tiers of Toyota, Honda and AOP substantiate the notion that first-tier AOP subsidiaries have managed to apply the Japanese HRM-IR “best practices” model, resulting in more favourable working conditions and ER than in the second and third tiers. AOP subsidiaries with greater Japanese capital have higher levels of Japanisation than firms with no Japanese ownership. The AOP case studies reveal that third-tier firms exhibit less HRM “best practice” and interpret the lean ideology differently. Thus, Japanese HRM “best practice” appears to empower subsidiaries to appreciate the usefulness of adopting Japanisation. This is more prevalent in firms without a direct Japanese management presence.

## **7.8 Discussion and Conclusion**

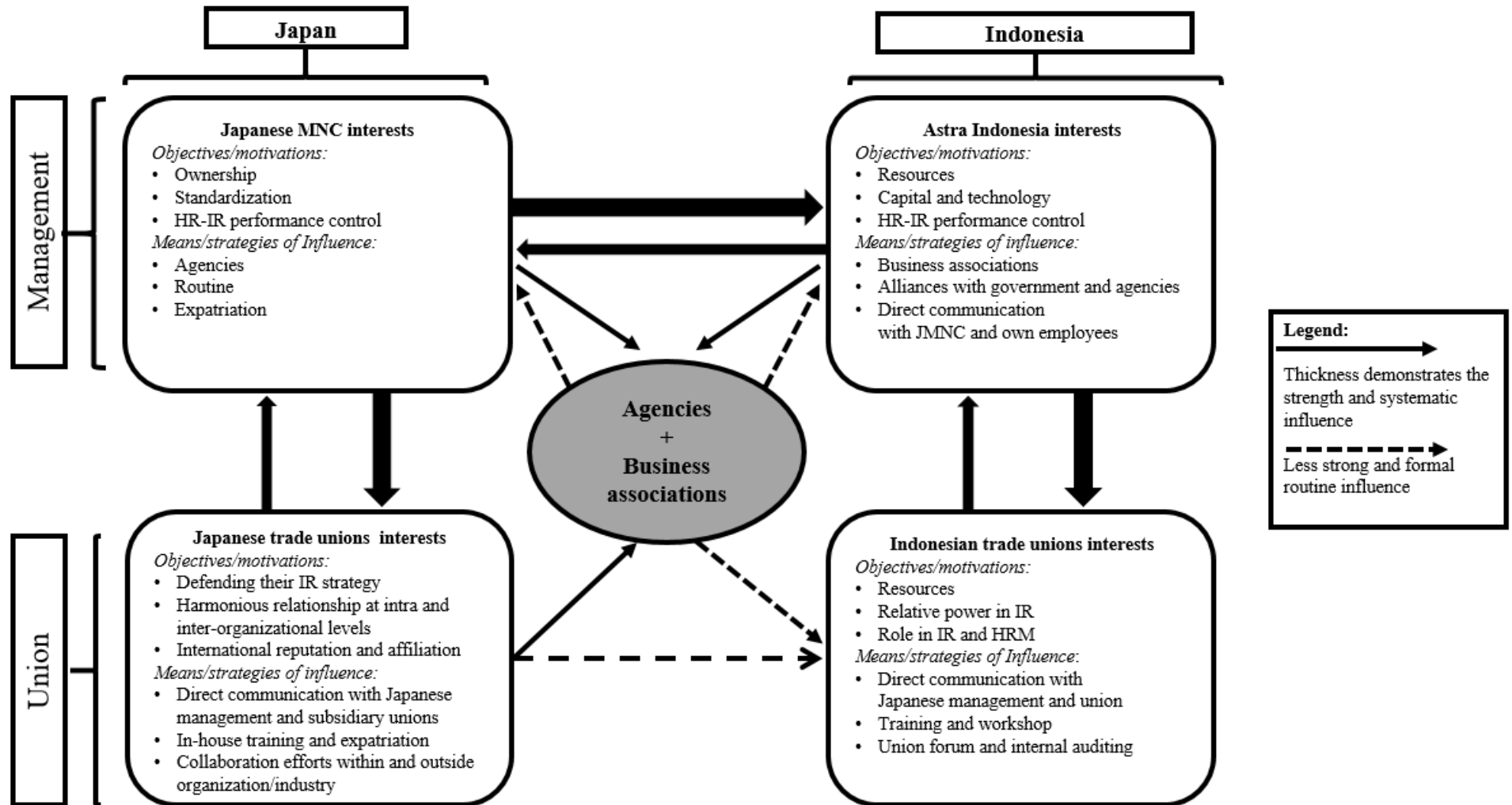
The study presented in this chapter demonstrates that while a macro-political approach is favoured by multinational firms, a micro-political approach tends to be adopted by low-power subsidiaries and local firms. Amid diverse actors’ interests, the power inequality and capitalist employment relations of the HRM-IR “best practices” model, and strategic choices (corporate effects) shaping change—and possibly continuity—occur at the meso level. Actors in both quasi-governmental agencies and business associations moderate conflict and are also a *means* of influencing subsidiaries’ HRM practices. MNCs’ strategies have greater impact on organisations more embedded in their supply chains, while subsidiaries with looser relationships with the parent corporation resist close coordination. As illustrated by Astra, such subsidiaries rely on extensive local networks and the interests of local stakeholders, including unions and local business associations. As a result, interactions occur at the meso level, where quasi-governmental agencies/business associations use the power of ideology to overcome conflict and transplant the HRM “best practice” ideology throughout the MNCs’ EME networks. Since state-sponsored agencies have fewer institutional constraints than JMNC actors, they are

able to inject JMNCs' interest in management control into subsidiaries' workplaces through meso-political tactics. Moreover, although JMNCs only have access through Japanese agencies, the latter strongly support cross-border diffusion of JMNCs' dominant HRM "best practice", regardless of the institutional constraints of the host country.

The analysis of this study extends Ferner et al.'s (2012) paradigm which, while demonstrating that transfers of practice are contingent on constellations of macro- and micro-level power resources, does not address potential conflict at the sub-national (meso) level. The findings indicate that studying the meso level as an important source of power for MNCs is useful in two key ways. First, it demonstrates a new way of viewing the contested HRM "best practice" diffusion process, or an alternative way of analysing the variety of employment systems and management practices (Morris et al., 2018). Second, it centres on dialectical processes between dominant and low-power actors rather than linear, top-down imposition or structured rejection. This study evaluates the strategic choices of Japanese corporate actors experiencing institutional pressures and increasingly utilising dominance effects at the meso level. For example, HIDA and IDE-JETRO are integral to the transfer of dominant HRM-IR "best practices" and are fully supported by Japan's trade and foreign investment, as well as by Official Development Assistance (ODA) policies.

This study centres on the political-economic influences of MNC sources of power. Management, employees, unions and agencies/business associations engage in political strategies to mobilise their diverse interests and use power as a means to (de)legitimise MNC influence and control other actors' practices and behaviours. Importantly, institutional support greatly influences the power capabilities of MNC and agency actors. Subsidiary actors with emerging power resources at meso and micro levels mobilise their defence mechanisms not only to overcome dominant actors, but also to protect their own systems. Although subsidiary actors have some interest in acquiring certain Japanese HRM-IR "best practices" elements, there is little or no trade-off to enable low-power actors to control or (de)legitimise the values and practices of dominant JMNC actors.

Figure 7.1: Managing power and institutional resistance in diffusing HRM-IR “best practices” in an MNC global network



The JMNC's ownership structure and length of operation in the host country influence subsidiaries' diffusion of Japanese business systems management practices. Also, the JMNC's ownership structure affects efforts to manage local HRM, and the length of Japanese presence extends its influence and peculiar power to control local subsidiaries. Figure 7.1 illustrates these sources of power, strength of influence and diverse management and union interests. Although agencies such as HIDA and APINDO may not have a definite agenda, their access to both HQ and subsidiary actors stimulates an intensity of power to change subsidiaries' behaviour, leading them to accept the Japanese lean ideology. Power of meaning exerts a remarkable influence. While management meaning best serves the MNC, agency meaning enables both foreign and local stakeholders to overcome conflict. However, employees and unions may remain sceptical because agencies/business associations may represent the interests of dominant actors, suggesting a new form of management control. Thus, both multinationals and agencies deploy dominant power strategies by removing or circumventing assumptions of HRM "best practice". In the EME context, political alliances develop between institutions, legislative bodies and other actors within and outside the organisation, conditioning emerging sources of power for low-power subsidiary actors. Low-power actors engage in meso-political alliances with local and international agencies to achieve legitimate influence in MNCs' global networks.

These findings reflect Ferner et al.'s (2012: 164) suggestion that "there is little sense of what is at stake for actors in confronting the cognitive, normative and regulatory conditions that arise when cross-border practices are transferred, adopted and executed". This study scrutinises Delbridge et al.'s (2011) SSDC by examining multiple actors' roles in diffusing dominant capitalist business systems to a specific EME context and including the role of agency actors. It also examines multiple levels of analysis, including the meso level (Morris et al., 2018). EME subsidiary actors should not be perceived as "passive" or powerless (Bouquet & Birkinshaw, 2008). The findings suggest that HRM practitioners should consider cross-border management practice transfer and political-economic differences between stakeholders, at both the organisational and meso levels. Since the spread of IHRM practices is context-specific, it is important to understand the diffusion of dominant HRM "best practice" beyond the mainstream Asian EMEs of China and India, as well as how it varies by industry, institution and bilateral national relationship.

## **Chapter 8: How Do Low-Power Actors Gain Influence, Legitimacy and Power in a Global Corporation's Network?**

### **8.1 Introduction**

This chapter explores the micro-political strategies adopted in pursuit of legitimacy, influence and power by a local business group (BG) or conglomerate managing car, motorcycle and autoparts manufacturers in an EME. The primary focus is on two aspects of the roles and mechanisms of the BG regarding legitimation processes, first between the MNC's HQ and local actors in IJV organisations, and second between the JMNC and Indonesian subsidiaries/sub-units. Gaining legitimacy from the HQ enables the BG to exert its influence, while legitimacy from local stakeholders allows it to mobilise local actors' interests to form alliances and strengthen its negotiation strategy with dominant HQ actors. Ultimately, the BG adopts coordinated corporate bargaining strategies and fosters close links with national institutions that shape local labour market institutions and the business environment.

Within the business group literature (e.g. Bhaumik & Driffield, 2010; Douma et al., 2006; Guillen, 2000), it is well established that key reasons for the development of BGs in EMEs are the lack of functioning capital and weak local labour markets. As a result, the existence and roles of BGs are relevant to IHRM. Foreign investors are interested in partnering with local BGs and using internal labour markets with expertise in managing local issues, as they perceive this as a partial cross-border business solution to the missing market problem.

This study examines BGs' strategic responses to the influx of FDI and the lack of local labour market infrastructure, as well as foreign MNCs' exploitation based on a model that sees local markets as peripheral investment havens. Specifically, it investigates the configuration and role of BGs as a vehicle for strengthening low-power actors' voice, power resources and influence in negotiating with dominant MNC actors. Accordingly, this research investigates the strategies of local BGs that have the necessary motivation, interest and power to influence the rules of the national HRM-IR game in the EME setting. Astra is not only a conglomerate well-connected with local institutions but also Southeast Asia's largest "independent" automotive group. It manages the most diversified Indonesian corporations,

employing 218,000 local people.<sup>48</sup> Whitley and Zhang's (2013) observation of a BG with interwoven financial ownership is that "While many small firms did operate independently of each other, large companies and BGs developed broad and deep inter-firm, inter-group and inter-industry ties."

Thus, although it is difficult to define BGs or conglomerates despite extensive literature on the topic (see, for example, Khanna & Yafeh, 2007), this thesis focuses on *why* and *how* local BGs may constitute a *means* through which low-power actors can achieve status in the global MNC network. Astra has been recognised as one of the most prominent and influential Indonesian BGs, particularly because of its powerful political ties (e.g. Khanna & Yafeh, 2007; Dieleman & Widjaja, 2018; Hadiz & Robison, 2013). Additionally, it exemplifies the types of BGs that are proactively shaping the host country's HRM-IR environment with "weak" domestic institutions (e.g. Dieleman & Sachs, 2008; Beamish & Biggart, 2006).

Maclean et al. (2017) report that power relations between actors in contested inter-organisational fields are not entirely one-way. Similarly, it is argued in this chapter that the authoritative power of MNCs should not be seen simply as a top-down, linear process, or as "structurally weighted in favour of the MNC" (Clark & Geppert, 2006: 340). It is also proposed that subsidiary managers have limited power because stand-alone actors do not have effective negotiation strategies and power resources to counteract the HQ's dominance. Thus, local management must form alliances and establish networks with local institutions and employers' and employees' associations to construct institutional support (e.g. Almond, 2011a; Sun et al., 2012). The local conglomerate may play a major role in configuring two dimensions of bargaining strategy—motivations (*ends*) and mechanisms (*means*)—to gain influence in the global MNC network. Subsidiary actors engage in micro-political coalition strategies not only to maximise their bargaining outcomes but, more importantly, to protect local labour market institutions from the hands of foreign actors and break down dominant HQ actors' power. Following Lukes's (2005) notion of power in terms of dominance, and according to Bouquet and Birkinshaw (2008), subsidiaries are viewed as low-power actors with disadvantaged or low-status positions *vis-à-vis* other actors.

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<sup>48</sup> As at December 2017 (<https://www.jardines.com/en/companies/astra.html>, accessed 7 September 2018).

In this chapter, it is argued that advancing local HRM and IR practices while protecting subsidiary management practices and control from foreign actors may be core motivations for the local conglomerate. Although Bouquet and Birkinshaw (2008) make the case that low-power actors are increasingly interested in strengthening their influence in the global MNC network, they fail to explain clearly neither their power resources nor their core intention or motivation for gaining legitimacy. In an EME with “weak” institutions, the ownership structure concentrates power in the hands of a few large and diversified business élite and families (e.g. Almond et al., 2013; Dieleman & Sachs, 2008; La Porta et al., 1999). Moreover, the local conglomerate’s influence in advancing and protecting local systems from foreign controls may result in it becoming an attractive agent. Hence, conflicts of interest exist between dominant MNC actors and local actors. For instance, the conglomerate’s underlying interest is in rectifying shortcomings of the local labour market, since JMNC investment may be limited to making the local market a manufacturing hub with increasingly organised labour.

By focusing on the mechanisms through which local actors and the BG increase influence in the global MNC network, this research contributes to the MNC and IHRM literature by offering two fresh perspectives. First, it reveals how local actors—including the conglomerate, subsidiary management, business associations (e.g. chamber of commerce and employers’ association) and unions—revolutionise adversarial actors’ relationships (e.g. management versus union). Second, it explains how the joint force of these actors determines their level of influence, voice and power. This chapter draws on a multi-case study of automotive manufacturers. The selected case studies have an HQ in Japan and a local parent firm in Indonesia, Astra International, which has strong business élite group management. The automotive manufacturers, with varying tier classifications, foreign ownership levels and workers’ skills formation, demonstrate the micropolitical coalition process at inter- and intra-organisational levels, revealing the extent of institutional diversity in the EME context.

Furthermore, Chapter 8 discusses the motivation for the study and identifies a theoretical gap. Crafting a research question involved reviewing relevant literature on organisational legitimation processes, and conglomerates’ corporate and managerial strategies to promote their capabilities and power. This literature review



is followed by an explanation of the research design, presentation of the findings, discussion and conclusion.

## **8.2 Gaps in Understanding of MNC-Subsidiary Relationships in EMEs**

The MNC literature has sought to explain the existence of BGs in established formal networks and institutions (e.g. Carney et al., 2011). For example, Kostova and Zaheer (1999) refer to them as legitimating actors: local power holders with the capacity for direct negotiations with the HQ. Bouquet and Birkinshaw (2008) suggest that local management's motivation is necessarily aligned with that of the MNC, and that the concept of "voice" stems from local management. By adopting a more explicitly critical functionalist perspective, this study proposes that local management, and even the BG, may have limited power compared with the dominant HQ. Consequently, the BG's bargaining strategy would be less effective if it were unable to gain legitimacy and institutional support from other local actors, namely business associations, subsidiary management and unions. As the central local actor, the BG can mobilise its influence and distribute resources and information to local actors. Local managers have very limited power, and little is known yet about how they elevate their position and form alliances with other local actors to construct power.

The coordinated strategy of local business and IR actors may foster institutional support and influence an organisation's legitimation processes. By examining the extent to which local actors may form alliances on a sub-unit or even larger scale, this study extends Ferner et al.'s (2005) observation that each actor has diverse interests and encounters different institutional constraints. In bargaining with a dominant actor recognised as the global player in the industry, an institutionalised, unifying type of strategy may attract the HQ's attention. In particular, an MNC's greater ownership rights may justify activities such as "establishing or closing subsidiaries, hiring and firing subsidiary managers" (Dörrenbächer & Gammelgaard, 2016: 1255). In this study, it is postulated that "lone wolf" bargaining tactics by low-power subsidiary actors may be ineffective against dominant HQ actors. Conversely, forming alliances to unite voices and demonstrate genuine concerns may be more effective in attracting the HQ's attention. In the conventional hierarchy of dominant versus low-power actors, MNCs are able to intimidate subsidiaries by threatening closure and relocation. However, subsidiaries may have some influence owing to

several factors that make the MNC dependent on them, such as the liability of foreignness in the local labour market, and local management expertise in managing the complexity and uniqueness of local institutions. Therefore, local actors are coordinating their efforts to present a united voice that can be interpreted as a strategic means of gaining legitimacy.

### **8.3 Theoretical Setting: Legitimation Process and Power Interactions in an EME**

#### *8.3.1 Low-power actors' objectives in pursuing legitimacy tasks*

Weber (2009) defines legitimacy as “a form of social approval which facilitates the acquisition of power because it determines how social actors are understood and evaluated” (cited in Bouquet & Birkinshaw, 2008: 480), whereas Meyer and Rowan (2015: 50) observe that low-power actors “lack acceptable legitimated accounts of their activities” and “are more vulnerable to claims that they are negligent, irrational or unnecessary”. Therefore, local actors seek to gain legitimacy from individuals in positions of authority, enabling them to exert influence over corporate authoritative power. Substantial credence has been given to the notion that legitimacy regulates the distribution of power in the global MNC environment (Harzing, 2002; Zaheer, 1995). A critical factor explaining local actors' pursuit of legitimacy is recognition that their own local business environment lacks competitiveness or has failed to develop the capacity to influence MNC decisions. In particular, Kostova and Zaheer (1999) note that economic turmoil arising from the 1997 Asian financial recession—along with the political cataclysm following the collapse of the 33-year Soeharto dictatorship—caused local subsidiaries in Indonesia to lose legitimacy with foreign actors. Although this situation promoted the MNC's legitimacy, local firms partnering with the MNC may still have to overcome subsidiaries' disadvantage.

As institutional theorists (e.g. Hybels, 1995; Maurer, 1971) have argued, one factor shaping organisational legitimacy is “the legitimation processes by which the environment builds its perceptions of the organisation” (Kostova & Zaheer, 1999: 66). This concept is relevant to this research in three ways. First, these processes affect an organisation's ability to establish and maintain legitimacy. Second, the organisation's complexity arises from its businesses being built from diverse subsidiaries (and sub-units/supply chains), which may be fragmented (by function/task and location) and have varying levels of interdependence and

independence (e.g. Almond & Gonzales Menendez, 2014a). Third, each subsidiary faces its own challenges in gaining and maintaining legitimacy, and sub-units may muster intra-organisational support for their own legitimacy. Thus, in order to achieve and maintain legitimacy, an organisation must become accepted and approved by multiple organisations/actors in both home- and host-country institutions. Equally, however, a subsidiary's violation of host-country laws and regulations may create serious legitimisation problems for the MNC and other actors. This study examines the process of organisational legitimisation in the context of local, ostensibly "weak" actors in Indonesia within the MNC global network of a dominant Japanese MNC's HQ.

### *8.3.2 Tracing the complexity of local actors' legitimisation process*

Clarification of the legitimacy process is important because the complex and potentially two-way influences between MNC and subsidiaries may create tension, challenging how an organisation obtains and manages legitimacy. Kostova and Zaheer (1999: 73) suggest that "the legitimisation—that is, the process through which legitimacy is achieved—is largely sociopolitical and cognitive in nature". Both the organisation and institutions are involved in a legitimisation process in which the organisation's legitimacy is continuously contested and redefined. In this process, the organisation attempts to make sense of the legitimacy requirements by observing, learning, interpreting, and even influencing these requirements. Testing, exploration and redefinition of the process through ongoing interactions with multiple actors may result in finding some degree of common ground bound by similar objectives.

Kostova and Zaheer (1999) identify two factors that shape the process of legitimisation. First, the *liability of foreignness* (LOF) reflects the MNC's general lack of knowledge, expertise and information when operating in the host-country environment. This study views the LOF as residing in labour market institutions, particularly in terms of systematic host-country and managerial constraints. The institutionalist approach to this problem in the MNC literature describes a process of bargaining between the inward investor and local stakeholders, with local stakeholders being resistant to changes, particularly regarding working practices. Kostova and Zaheer (1999) see this resistance as fundamental to the problem of establishing legitimacy as part of the classic liability of the LOF. They also go

further in claiming that all local firms may lack legitimacy, and thus, almost any non-local firm will immediately be perceived as more legitimate.

Second, Kostova and Zaheer (1999) identify the problem of *legitimacy spillovers*. They argue that the legitimacy of an organisational unit in a particular environment may not be independent of the legitimacy of other organisational entities but may be cognitively related. Legitimacy spillovers may come from various sources both outside and inside the organisation and may occur in different directions. Importantly, both positive and negative spillovers contribute to legitimacy processes. Kostova and Zaheer (1999) cautiously suggest that even if a particular actor is regarded as legitimate, this legitimacy may not necessarily add much weight to the legitimacy of the organisation as a whole. Nonetheless, it is important for organisations with established reputations to maintain their earned legitimacy. Kostova et al. (2008) assert that local management may use legitimacy spillovers by associating their organisation's reputation with other highly respected legitimate organisations. A positive reputation can be used to attract other actors' attention, and potentially to recruit them as allies to support one's own strategic agenda. Similar to the HQ, the local conglomerate management may have extensive organisational experience in dealing with legitimacy processes, a valuable expertise that may be used for effective negotiation. Hence, Kostova and Zaheer's (1999) concept of the legitimisation process may be considered as a primary means of understanding issues and types of institutional support. For a focal actor, the legitimacy process may provide opportunities to construct strategy, and to mobilise a stand-alone organisation or a group of actors.

#### **8.4 The Business Group's Organisational Legitimation Processes: Bottom-Up and Top-Down Approaches**

Subsidiaries' influence is traditionally characterised in relation to their size, type of product and market location. However, this fails to account for subsidiaries' tactics to strengthen their voice. For example, when actors lack resources, how do they coordinate, and with whom do they communicate?

Bouquet and Birkinshaw (2008) depict the variety of subsidiary capabilities and suggest that actors may possess critical resources to enable them to exert some influence. Ferner et al. (2004) further argue that a subsidiary may gain power if it possesses certain resources, a network position, a value-chain mandate or other ways

to capitalise on institutional and market conditions. They suggest that subsidiaries may not be entirely powerless against the MNC. Other studies (e.g. Forsgren, 2017; Andersson et al., 2005) report that subsidiaries must also control specific relationships with authoritative actors and access to information/procedures in order to secure power. Clearly, subsidiaries have diverse characteristics, and the locations and institutions in which they operate and their position in the global MNC network may affect their status in that network.

The current research involves the role of the local BG which acts as the HQ's local partner in managing subsidiaries for two reasons. First, the BG's local management has direct influence and oversees certain management practices because HRM-IR is protected by local investment and HR policies. In addition to direct access to negotiate with the HQ, the BG has more information and resources than stand-alone local actors. Through established networks with local institutions and associations, the BG has greater coordination to control access to scarce local resources. Second, the efficacy of the BG's strategy is nevertheless contingent on its types of resources, networks and expertise. The importance premise here is that the BG may amplify subsidiaries' voice and strategic power to bargain with the HQ.

IB and IR scholars (e.g. Ambos et al., 2010; Bouquet & Birkinshaw, 2008; Ferner et al., 2005; Forsgren et al., 2005) have identified certain aspects of subsidiary actors that may elevate their voices. It is argued in this chapter that when diverse actors with various leverage positions are combined, they can construct networks of mutual support and devise stronger strategies to counterbalance the HQ's dominant power, like worker bees protecting the hive. It is also argued that a stand-alone organisation or actor may fail to gain influence, especially if there is a pivotal local actor with whom the HQ can negotiate directly. The existence of a conglomerate and the roles it plays are important in optimising local actors' voice, influence and coordination, particularly in a cross-border HRM context. However, under such conditions, a question remains regarding how low-power actors can be mobilised to join the BG's legitimation agenda. It is not suggested here that all local actors have the same objectives. The specific interest of this study is on nuances distinguishing between low-power actors with similar interests in gaining legitimate status and dominant HQ actors in the context of dialectical actors' power interactions. A local conglomerate with the objective of advancing the local labour market may reach out to low-power actors to join forces. However, to generate

consensual objectives, the conglomerate must go through a legitimation process with both the foreign MNC's HQ and local stakeholders. Examination of the various legitimation processes proceeds with a discussion of the importance of the BG in establishing legitimacy in both directions, in terms of both established and joint relationships.

In this study, an *established* relationship refers to a situation in which the MNC needs the local BG to overcome its LOF in the context of changing local business systems by partnering with local actors. The BG must thus demonstrate to the HQ that it can manage the subsidiaries and ensure that they support the MNC's business objectives in managing local HR and IR issues. The BG must deliver assurances to the HQ regarding in-house training, management of strikes and picketing, and any other problems affecting global production and international quality standards. According to Dörrenbächer and Gammelgaard (2016), attracting the HQ's attention is a politicised subsidiary initiative, so HQ and subsidiary must engage in some level of relationship. Others have observed that to attract the HQ's attention or exercise a voice, the subsidiary must highlight distinctive external elements, such as the importance of the local market (e.g. Birkinshaw et al., 2006; Cantwell & Mudambi, 2005). Dörrenbächer and Gammelgaard (2016) also observe the high value of image control, for example, by establishing credibility and a reputable track record. Dutton and Ashford (1993) maintain that the most effective way to attract the HQ's attention is through framing an issue to conform to the HQ's preferences. For example, "an initiative to obtain a new mandate can be framed as a human-resource issue". As Cowan (1991) points out, to be effective, the BG's strategy must correspond with the HQ's specific interests, which in this study relate to local HRM- and IR-related matters. Thus, it is postulated in this study that the type of relationship established between the local BG and the MNC's HQ is rooted in the IJV partnership arrangement and is concerned with solving the problem of a dysfunctional local market.

The *joint* relationship between the local BG and local stakeholders includes governmental bodies, institutions and business associations. The key to such relationships is to ensure that the BG (the closest local actor to the HQ) is aligned with other local actors. Additionally, the BG must be able to market the prospective value of joining forces to generate greater influence and better ultimate outcomes than if individual local actors were to negotiate directly with the dominant MNC's

HQ (e.g. Dörrenbächer & Gammelgaard, 2016; Ambos & Birkinshaw, 2010). This practice amplifies local actors' power and voice. Similarly, without local support, the BG may be unable to gain legitimacy or the necessary institutional support to allow direct negotiation with the HQ. Furthermore, the BG may serve as a power broker by breaking down MNC power and strategically investing local actors with power resources, which may also act as an assurance in building local institutional cooperation. However, the BG must simultaneously support foreign investors' interests, as they have ownership stakes in the conglomerate. In juggling foreign, local and its own interests through micropolitical tactics, the BG can distribute power across networks, empowering each local actor, and engaging in a participatory strategy to safeguard local business systems. In this study, Astra, together with local institutions, engineers the national HRM and IR systems. Consequently, the conditions and mechanisms for the BG's legitimation processes may rest on a combination of bottom-up established relationships with the HQ and top-down joint relationships with local stakeholders.

#### *8.4.1 Strategic objectives: Controlling access to critical resources*

In efforts to reduce their dependence on the HQ, local actors engage in economic exchange relationships, the distribution of which relates to their resource dependence. The centrality of resource dependence in controlling critical resources "has been used as a general guiding framework to explain the relationships that MNCs entertain with a myriad of external actors of the organisations" (Bouquet & Birkinshaw, 2008: 482). In Indonesia, which has been selling off resources in exchange for foreign capital, "endowed local vital resources pertaining to the locality can exercise power and influence in their own right" (Maclean et al., 2017: 4). Agencies and associations may be involved in protecting local resources. Nevertheless, non-organisational actors may have their own political agendas that are not necessarily aligned with organisational actors' motivations for diffusing influence (e.g. Ford, 2014; Dahan et al., 2010; Teegen et al., 2004). Since the associations' authoritative power affects the BG's strategy, the conglomerate is likely to need to engage with them; otherwise, it will be in a disadvantageous position if local business associations are not on the same bargaining side. At the same time, the BG must remain mindful of the importance of securing corporate inter-organisational networks through the MNC for three basic reasons: its foreign

ownership structure, the inadequacy of the host country's business environment and infrastructure to support the legitimation processes, and the comparatively lower competitiveness of local institutions compared to their counterparts in countries such as Malaysia and Thailand. Under such conditions, the local BG's influence may remain inward-looking, focusing more on local actors' ends and means. Consequently, its strategies to control the flow of foreign systems and distribute power resources throughout local alliances may be interpreted as a coalition-building tactic. As such, it collaborates to form alliances with local agencies, associations and subsidiaries to protect access to local systems and resources, thus keeping them to some extent out of the hands of foreign investors. This research emphasises that the tactic of controlling critical resources may explain asymmetries in the distribution of influence in organisations supported by local institutions.

#### *8.4.2 Low-power actors engaging in political games: Coalition building*

An emerging IB debate suggests that low-power actors' coalition-building tactics may focus less on controlling critical resources (e.g. Barnett et al., 2000) and more on reducing their dependence on and the distributed influence of the local environment (e.g. Cantwell et al., 2010). This section further elaborates on local actors' engagement in political games (see Section 2.10). The BG forges industry alliances with trade associations and local government in order to shift the IJV's business policy toward increasing manufacturing of value-added products rather than assembling imported autoparts. The objective is to secure HQ investment in research and development to use local natural resources to create innovative products in the host country. This lobbying effort to establish institutional support from local associations allows local actors to control local resources and minimises their dependence on the MNC. Generally, this coalition-building tactic serves local actors' interests in keeping national business institutions out of the hands of foreign MNC actors as far as possible. For instance, the advantage to a local conglomerate with a stake in the autoparts industry is that manufacturing more autoparts in the host country is likely to enhance its ownership, facilitating local management's control of the inflow of knowledge, technology and innovation.

Constructing a local institution that supports local actors' objectives by engaging in political games enables local actors to contest HQ decisions and optimise micropolitical alliances with local institutions (Becker-Ritterspach et al., 2016;



Kennedy, 2007; Kristensen & Zeitlin, 2005). Via this strategy, they can push their agendas through existing networks. Channels may be multi-layered, often created by different actors with diverse interests, or by groups of interested actors capable of establishing their own intra-organisational networks. To illustrate, a conglomerate might lobby the government to establish an official employers' association and then require local businesses to be members of the association (e.g. Sheldon et al., 2016; Thornthwaite & Sheldon, 2012). As Ferner et al. (2005) suggest, highly networked local actors are likely to be relatively empowered. However, Bouquet and Birkinshaw (2008) claim that to make this political strategy work, trade-offs in power are necessary to manage the objectives and means of influence. This is because management has more capital, resources and influence than other subsidiary actors such as employees and unions. As a result, actors in subsidiaries and sub-units must use various means of influence concurrently. The emphasis is also on structural inertia, where power dynamics within an organisation correspond with changes in local institutions and the business environment (Kostova et al., 2008).

This relational power phenomenon can be explored in terms of micropolitical tactics to understand specific coordination efforts by local actors and the BG (Maclean et al., 2017; Vissa et al., 2010). Analysing power interactions and collective actions from a micropolitical perspective may help unravel the complexity of local institutions and the context of actors' alliances with other actors within and outside the organisation, such as coalition building between local actors, institutions and associations (e.g. Becker-Ritterspach et al., 2016). At the micro-institutional level, the conglomerate engages in political coalition building with municipal and provincial authorities and the government to strengthen its lobbying efforts with the federal government. In comparison with associations such as the chamber of commerce and employers' associations, the conglomerate may have stronger networks at municipal and provincial levels through close ties with national institutions (e.g. Dieleman & Sachs, 2008). Moreover, as the biggest employer with the most diversified businesses, the BG is also interested in coalition building with governmental policy makers (e.g. Sheldon, 1999). The BG's political coalitions with federal and provincial governments are appealing to both the HQ and local actors. Although this explains the BG's strategic coordination efforts (Kostova et al., 2008), its coordination with subsidiaries and sub-units remains unclear and does not explain

the “attention attraction” (e.g. Bouquet, 2005) used by the conglomerate to attract potentially adversarial actors, such as unions, to build coalitions.

Micropolitical formations may explain the concept of “bundles of coalition” and mobilise support across organisational boundaries (e.g. Lange & Becker-Ritterspach, 2016; Geppert et al., 2016). BGs’ political motivation to gain legitimacy and influence from other actors may explain their commitment to improving local institutions in order to equip themselves and their supporters with resources. Maclean et al. (2017) argue that a macro-level perspective on MNCs may be insufficient to understand the differentiated contexts within which political struggles play out through diverse actors with various capabilities. An appreciation of the extent of institutional diversity in MNCs demands a fine-grained analysis that complements the broader macro-regional perspective by considering local micropolitical specificities (e.g. Morgan, 2011). Hence, at the micro-level, this study captures the intensity of interactions and influence as being “primarily the result of who interacts with whom” (e.g. Bouquet & Birkinshaw, 2008).

Responding to the collective interests of local management, employees and institutions in the business strategies of dominant power holders is another political power game used by local actors to mobilise their collective voice (e.g. Morgan & Kristensen, 2006). For example, local workers may view apparently benevolent foreign practices as a double-edged sword, or as a Trojan horse through which to implant less welcome practices. Bouquet and Birkinshaw (2008) characterise coalition building as a specific power game carried out through collective action evolving into a complex set of power interactions. The effectiveness of collective power in counteracting a dominant MNC depends on the type rather than the number of “good” alliances, since some may be focal and others less important to the MNC (Eisenhardt & Zbaracki, 1992). For instance, a coalition consisting of a local employer, employees’ association and politicians could be more effective in curtailing HQ practices that impede local values.

The key to successful coalition building rests on actors’ capacity to construct positive relationships. Not only do different actors have wide-ranging interests and objectives but, more importantly, an element of trade-off or exchange is unavoidable. This situation arises because less resourceful actors are more interested in collaborating with more resourceful actors, yet actors who hold more influence are not necessarily interested in coalition building with less influential ones. In this

study, the less influential actors are second- and third-tier subsidiaries that must engage in some form of trade-off. In addition, less powerful actors (i.e. employees and unions) participating in this political coalition-building game must measure their resources and capabilities to achieve certain objectives; otherwise, they may be worse off, and the results may be chaotic (Butler, 2005).

Certain types of representation may also be riskier than having no representation—for example, by employees' associations rather than employers' associations (Ford, 2014; Martínez Lucio & Weston, 1994). Westley et al. (2009) also contend that the larger the game, the greater the resources won through powerful MNC actors. Consequently, actors entering political coalition games must have the capacity to adopt complex strategies and more holistic tactics than simple lobbying or resilience; autonomy-seeking behaviour, in particular, may not be the most effective way. However, political games are nebulous and multifaceted and may be played out with the HQ, local actors and institutions, increasing low-power actors' power, capability and legitimacy. At the very least, coalition-building strategies benefit less resourceful and influential actors by developing their interpersonal relationships with other actors and building their profile and visibility in the MNC's global networks. Examination of the above literature leads to the construction of the following research question (RQ):

*How do local business groups engage with local actors in order to establish their legitimacy with foreign multinationals?*

## **8.5 Data and Methodology**

Following Eisenhardt (1989) and Yin (1994), the qualitative data on which this research is based were drawn from primary data collected from a multiple-case study of the subsidiaries of a JMNC automotive manufacturer operating in Indonesia. The selection of Indonesia as the host country was based on a need to find evidence of a conglomerate, business associations, management subsidiaries and unions coordinating their influence and voices, with the conglomerate taking the initiative in shaping the local labour market. Indonesia has its own labour market policies and practices, strongly supported by local laws that prohibit foreign investors from direct involvement in managing HRM and IR issues. As access to influence and control is limited to local management, local actors are equipped with some influence and capability to manage and protect local values.

The automotive industry also illustrates the evolving influence of Japanese management and production systems, as well as local actors' motivations for engaging in political games (e.g. Blazejewski et al., 2011; Stewart, 2014). The industry has workplaces employing large labour forces and high technological content. It is thus particularly relevant to this study since it exhibits power interactions pertaining to inward investment and local protection (e.g. Irawati & Rutten, 2013; Irawati & Charles, 2010; Barnes, 2017). At the same time, however, these actors are aware that foreign capital may improve the competitiveness of local systems. Japanese automotive plants were investigated in order to elicit actors' attitudes toward blocking, rejecting or accepting changes to working practices.

#### *8.5.1 Data collection*

Data were collected from the first, second and third tiers of JMNC subsidiary manufacturers of cars, motorcycles and autoparts to support an in-depth examination of the mechanisms and outcomes of low-power actors' and the conglomerate's management of subsidiaries in the host country's automotive sector. Data were also collected from business associations, including the chamber of commerce, employers' associations, unions and state-sponsored organisations directly involved in propagating Japanese management practices and overseeing Japanese subsidiaries' HRM and IR practices. These included JETRO, IDE-JETRO, HIDA, KADIN, APINDO and ATC. The selected case-study subsidiaries have an MNC HQ in Japan, and their local parent firms are Astra or Lippo, prominent Indonesian BGs (Carney & Dieleman, 2011).

The legitimisation processes and influencing strategies of the BGs relative to their HQs were derived from responses to questions and observations of the overall organisational setting across sub-units in all tiers and at inter- and intra-organisational levels. In addition to feedback from IR and non-organisational actors, market research experts' views on the host country's business environment were sought. The experts' opinions were significant because they provided background data on the country's political-economic history and the sustainability of current developments. The respondents represented a reasonably diverse sample in terms of their capacity to understand the conglomerates' objectives and coordination strategies to modify or sustain HRM-IR practices. To triangulate the findings, interviews were conducted with business associates, subsidiary management and

unions representing Astra and non-Astra employees. To mitigate potential bias, the researcher conducted copious interviews with individuals from a wide range of hierarchical levels and functional business areas. Details of the selected case studies are given in Table 8.1. The main difference between this study and those presented in Chapters 6 and 7 is that Daihatsu and Yamaha were added to enrich our understanding of the local BGs' mobilisation of local actors (even outside their own organisation) and of the implications of local actors forming alliances with a dominant local BG.

**Table 8.1: Case studies of car, motorcycle and autoparts subsidiaries**

<b>Firm</b>	<b>Japanese ownership</b>	<b>Japanese presence</b>	<b>Manufacturing</b>
Toyota	95%	1971	Cars
Daihatsu	62%	1992	Cars
Honda Motor	50%	1971	Motorcycles
Yamaha Motor	90%	1974	Motorcycles
Musashi	78%	1996	2nd tier autoparts
Denso	75%	1978	1st tier autoparts
Aisin	66%	1995	1st tier autoparts
Federal Nittan	60%	1995	1st tier autoparts
Showa	55%	1980	2nd tier autoparts
Kayaba	50%	1976	2nd tier autoparts
Indokarlo Perkasa	0%	-	3rd tier autoparts
Adiwira Plastik	0%	-	3rd tier autoparts

A multi-site case study was conducted on Astra Automotive Group (AAG), an Indonesian industrial conglomerate with subsidiaries owned, to different extents, by JMNCs. This case distinguishes between three main divisions: Toyota and Daihatsu (cars), Honda (motorcycles) and Astra Auto Parts (AOP, autoparts). In addition to Honda, this research also analysed Yamaha (motorcycles), owned by the Japanese Mitsui Corporation and the Indonesian Lippo Group, to examine the extent and variety of local BGs' diffusion of influence and control in managing subsidiaries. Specifically, the sites were characterised by different levels of influence by the dominant JMNC, a factor associated with varying levels of direct control. As suggested by Blatter and Haverland (2012), this setting facilitated investigation of the mechanism of foreign control and local strategies to: (1) counteract foreign control, (2) trace causal processes, (3) conduct congruence analysis (Burawoy,

1998), and (4) determine how actors participate in political coalition games (e.g. Ferner et al., 2004; Sun et al., 2010).

### 8.5.2 Data analysis

Following the approach pioneered by Eisenhardt (1989), the case study was used to glean findings from multi-level analyses of rich empirical data. The research participants were from various organisations, hierarchical levels and functional business areas. In total, 127 interviews (12 in Astra, 12 in Toyota, five in Daihatsu, 25 in Honda, eight in Yamaha, 35 in AOP and 30 in external organisations) were conducted with 28 Japanese and 99 Indonesian participants. Further data were collected from Indonesian trade unions and from Japanese agencies and semi-independent Indonesian business associations. Interwoven MNC and stakeholder alliances contextualise local actors' coordination tactics to elevate their position in the global MNC network, thus expanding the organisation studies and IHRM literature.

## 8.6 Findings

This section begins with a discussion of the conflicts and critical events defining specific practical problems. It is followed by a discussion of the strategies adopted by Astra (the BG) to gain legitimacy from and influence local business associations, subsidiaries and unions. Also included are the kinds of assurances used by the BG to gain legitimacy from the HQ. To illustrate the extent and effectiveness of Astra's influence and strategy, this section explains how Yamaha, a non-Astra organisation, has sought to join Astra to form an alliance. Synthesising the empirical findings in this way illuminates the bargaining processes and reveals how the BG exerts its influence over both local and HQ actors by coordinating the efforts of local actors. Moreover, the impact of the BG's differing ownership structures of local subsidiaries affects coordination throughout first-, second- and third-tier autoparts subsidiaries. This fact adds to the complexity. Certainly, the overall findings suggest that the process cannot be depicted simply as a top-down, linear or one-way process.

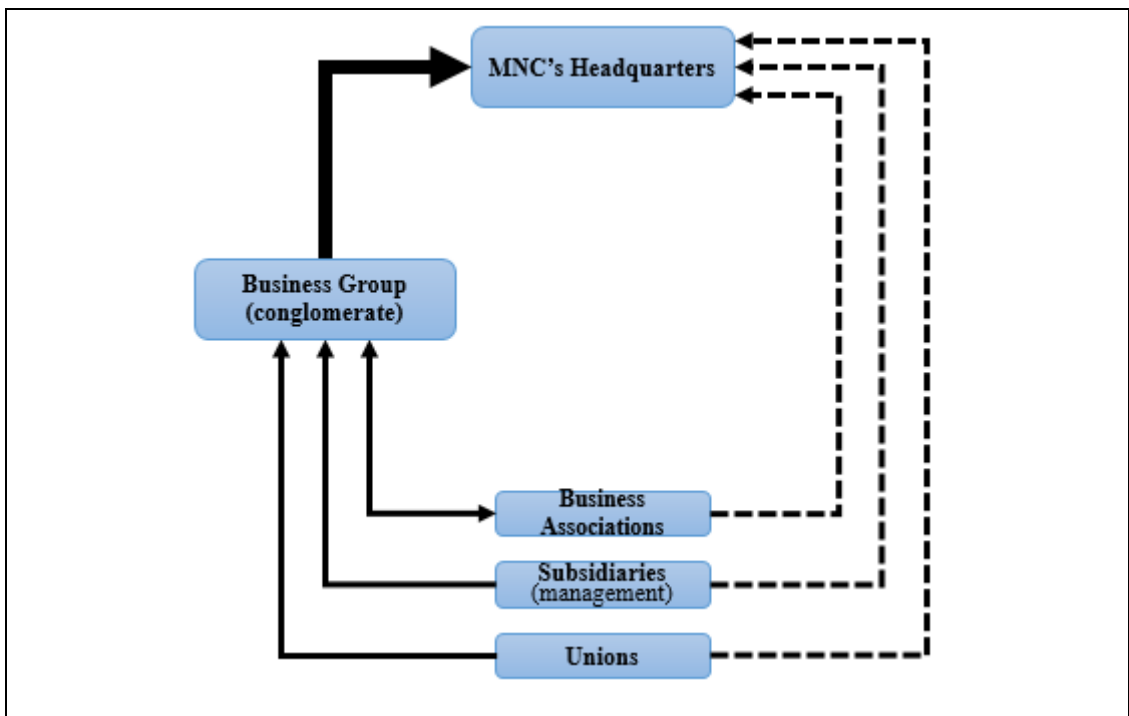
*Actors' conflicts of interest:* The local BG is interested in gaining more ownership, for instance by taking a full stake in subsidiaries or preventing local subsidiaries from engaging in IJV activities, as well as in protecting and proactively influencing local HRM-IR systems. Moreover, both the BG and subsidiary actors are

aware that they have diverse interests and sources of power. However, the BG has the advantage of having greater power than local actors. While subsidiary actors may negotiate with the HQ directly, such strategies have been rather ineffective in meeting their own objectives. Astra has identified the challenges confronting these subsidiaries and has re-formulated its strategy to address subsidiaries' interests. Consequently, the *preferred* strategy for low-power actors may be to form an alliance with a more powerful local actor, i.e. Astra. Another issue experienced by the BG is the need to gain legitimacy from local associations and subsidiary actors to build a strong, united voice to influence the HQ. In other words, Astra needs to be able to justify that its business agenda represents the voices of local management, employees, unions and associations. It should also be noted that the HQ's interest in partnering with the local BG arises from its FOL position, in terms of not being allowed to engage directly in HRM-IR issues. Overall, these different interests suggest that the local BG may be in a better position than both subsidiary actors and the HQ. Being at the centre of this network, Astra may use its power resources to engage in micropolitical tactics with local actors, associates and government.

The findings suggest that three main strategies are employed by the BG to reach out to local actors and strengthen its bargaining power. The first is to mobilise local actors' interests to shape the local labour market institution by protecting national business systems from foreign influence. Local actors see Japanese management practices as gradually replacing human capital with machinery and robotics, which may shrink the labour market, downgrade human skills and limit inflows of advanced knowledge and technology. In exporting Japanese work institutions, the HQ may maintain Indonesia's dependence on the JMNC, in terms of capital, expertise and technology. In contrast, the BG's interest is in maintaining the inflow of Japanese capital and technology to improve Indonesia's competitiveness, enabling it to move away from being a marginal automotive manufacturing and assembling nation to becoming a high value-added automotive manufacturer.

The BG's second strategy is to empower local actors and business associations. It coordinates resources to allow local actors to play their individual roles in safeguarding their organisations' values and objectives for maximum local benefit, and to protect local systems from inappropriate foreign influences that conflict with local practices. It invests political resources in lobbying local government, authorities and business associations. These micropolitical coalition efforts aim to

redefine and modify investment policies, regulations and laws in order to limit the HQ's exports of local resources and increase engagement in post-production activities such as car sales and services. Evidence from the primary and secondary data suggests that, as a result of its lobbying efforts, Astra has been able to invest in APINDO's ATC. Thus, the HRM-IR training agenda is based on Astra's in-house policies and practices and most trainers/facilitators are from Astra. Astra has also earmarked current Astra employees in local associations who contribute to national policy development, as well as former managers who maintain active relationships.<sup>49</sup>



**Figure 8.1: Potential mechanism through which low-power actors gain status and influence in the MNC's global network**

The third strategy is to break down the HQ's power. Given the BG's deficiency of power *vis-à-vis* the HQ, its tactics include blocking the HQ from reaching out and reinforcing its influence over local actors. The BG's notable competitive advantage is its local expertise and understanding of the host country's unique institutional configuration and extensive networks. This unique knowledge affects the scope and strength of its influence over local actors. Figure 8.1 illustrates the mechanism

<sup>49</sup> To avoid conflicts of interest, in some government and enterprise organisations, individuals are prohibited from having more than two managerial or directorial positions. As a result, Astra earmarks key people, allowing them to retire from their current positions in Astra but remain committed to maintaining Astra's philosophy.



through which low-power subsidiary actors gain status and influence in the MNC's global network. Solid lines denote stronger and strategic means, and dashed lines denote "lone wolf" and less effective strategies. This bundle of strategies enables the BG to gain institutional support from local actors. The findings reveal three further micropolitical strategies adopted by the BG that appear to be effective in redefining local institutions and disseminating its systems:

1. The BG builds networks with local industry and supply chains. It has access to scarce resources and autoparts production. Also, it has centralised AOP's position in local automotive value chains, recruiting and buying small local autoparts makers. It conducts internal audits of its existing autoparts makers to maintain and improve production standards. Such internal HRM-IR audits allow Astra to populate its systems. Also, it can either upgrade or downgrade automakers from the internal autoparts tier classifications (tiers 1, 2 and 3) and take over local autoparts firms. This monopolistic approach suggests an intention to control access to local resources and manage local autoparts suppliers.
2. The BG invests in knowledge assets and builds in-house systems to institutionalise the Indonesian alumni networks of overseas trainees. It thus acquires and retains advanced knowledge, capital and technology gained by Indonesian trainees who were trained by experts in Japan. It selects and places the best trainee alumni in influential positions in key associations and institutions (e.g. APINDO, ATC and KADIN) that have authoritative influence in the specific industry and in government. The aim is to generate institutional support and access through the Indonesian training alumni, thereby redefining human capital development. The BG and business associates select and recruit the "cream of the crop" of Indonesian trainees and dispatch them to Japan to acquire Japanese management and production systems skills.
3. The BG exercises veto power. It determines the flow of the HQ's influence by acting as a gatekeeper in determining the appropriateness of foreign practices to local systems and ensuring that these practices do not conflict with the BG's HRM and ER systems. Although the BG understands the importance of foreign skills and capital, it is predominantly interested in protecting local systems. It holds the veto power to either accept or reject foreign practices implemented in Astra's subsidiaries and value chains.

### 8.6.1 Business group's strategies to gain influence and legitimacy from business associates

The findings reveal that the strongest motivation for an interested group to engage in alliances with the BG and support its strategy is to safeguard local systems and labour market institutions. Interviewees reported that “Astra is the champion” in protecting local institutions from foreign interventions. Another notable Astra strategy is to work with APINDO and HIDA to send local actors (especially those opposed to Astra’s business approaches) to Japan, with the objective of reinforcing their commitment and gaining legitimacy. One interviewee reported:

*We invited an AOP union entourage to Toyota Japan to see the automated automobile workforce. It has a very small number of humans, only 6%. Our union fellow was very shocked to witness the work done, controlled and switched to automated production. They shared with their colleagues and raised the concern with [local] management.*

Astra’s vision may generate employee and union interest in initiating, redefining, and even reinforcing their relationships with its management to protect their jobs. This view was shared by a group of Honda and Yamaha interviewees:

*Indonesian employees and union stewards/leaders received extensive training in Japan. One of the messages we received and spread quickly to our colleagues [union members] is that many automotive workplaces in Japan are filled with automation. The robotics have replaced humans.*

As a result, employee and union motivations merge to defend local labour market institutions using Astra’s capabilities and resources. Also, as the biggest local Japanese investment partner and employer, Astra Group is a key conduit for the HQ and HIDA to promote the Japanese model. Astra management builds internal systems that increase employee participation. Access to local workers is essential for the HQ to maintain Japanese-type local employee participation.

Astra’s strategy also attracts local business members of KADIN and APINDO whose interests lie in business expansion and competitive investment. The BG may have gained legitimacy from them, as one APINDO representative reported:

*Investors would like to invest in Indonesia with certain guarantees, for example, the role of subsidiaries. In comparison to advanced industrial countries such as the US and Europe, they do not welcome low-production types of investment that cost more in terms of environmental impact than economic benefit, even by a country such as China.*

Indonesia may be considered as a lower-tier manufacturing hub because its conditions do not meet global production demands. To address concerns raised by interested parties, the BG intervenes and commits to improving the local infrastructure, offering them assurances that not only attract further investments but also lead to more strategic partnerships with foreign investors.

#### *8.6.2 Business group's strategies to gain influence and legitimacy from subsidiaries*

Astra's tactics of reaching out to join forces with local actors are based on its credibility, reputation and commitment to advancing local labour market institutions. Astra's activities to mobilise local actors' commitment to and interest in alliances are evidenced by the fact that Astra-Daihatsu has transformed cars "made in Japan with Japanese technology" into Astra-Daihatsu "of Indonesia": "the Indonesia-specific cars incorporate [Japanese and Indonesian] technologies". In particular, a major accomplishment of Astra's joint venture with Daihatsu Motor Corporation (DMC) Japan is that cars manufactured and designed locally—and marketed both locally and outside Indonesia (its Sigra and Ayla models)—are now sold by the Toyota group. This achievement has important implications in terms of the BG's efforts to gain legitimacy from and influence over local actors.

Since 2017, Astra Daihatsu Motor (ADM) has been recognised as the largest automobile manufacturer in Indonesia (producing 500,000 vehicles annually), which has expanded labour market opportunities and attracted investment in high skills and technology. This 40-year partnership between Astra Indonesia and Daihatsu Japan is a testament to Astra's commitment to shaping the local labour market. As a subsidiary of DMC, Astra began as a car dealer and progressed to manufacturing cars. It was initially the only licensed Daihatsu car dealer, and then in 1985, it began to engage in complete knock down (CKD) assembly operations. Then in 1992, it commenced Daihatsu autoparts production; in 2012, it established a local Daihatsu R&D centre.

Furthermore, Astra's name is placed in manufactured cars before the foreign investor's name, Daihatsu. The Astra-Daihatsu name demonstrates Astra's business achievement in strengthening Indonesian labour market capabilities to move from assembling to manufacturing cars locally. In its other automotive partnerships, the JMNC's name is placed before Astra (e.g. Toyota-Astra and Isuzu-Astra) for car production, and even for 60% of autoparts manufactured by Astra's autoparts group.

The name order of Toyota-Astra suggests that much of the credit still remains with the Japanese investors.

Another of Astra's notable achievements is that motorcycles are manufactured and designed locally. Astra's name also comes first in this case (Astra-Honda Motor). Nevertheless, unlike cars, motorcycle technology, skills and production systems are not recognised as innovative and sustainable. Motorcycle manufacturing may appear inward-looking, limited to the local market, and recognised as a second-tier automotive technology. Hence, Astra-Daihatsu cars' reputation resonates with local actors as Astra effectively influencing global Japanese automotive networks. In addition, Daihatsu Japan is comprised of two global Japanese car automakers: Daihatsu Motor and Toyota Tsusho Corporation. To have any influence in Daihatsu's global automotive networks, Astra must be able to secure legitimate attention from the HQs. As such, conglomerate attraction tactics oriented toward local actors' bargaining negotiations with the HQs allow the conglomerate to amplify its influence and voice. The conglomerate possesses resources, capabilities and expertise to negotiate directly with the HQs, providing it with a stronger bargaining position than stand-alone organisations or actors. Astra's achievements and reputation may thus encourage local actors to join forces with it.

An Indonesian expatriate stationed in DMC Japan suggested that Astra remains an important local partner for DMC, owing to Astra's extensive local network covering after-production and sales. DMC wants some control over manufacturing and is not interested in creating a competitive business environment with Astra. The Japanese BG recognises Astra as a key player in the host country, enabling it to remain competitive and to produce and market its products where they are manufactured. Effective management of resources is crucial. In addition to Daihatsu, the ability of Toyota Motor Manufacturing Indonesia (TMMIN) to overcome local shortages effectively and deliver quality assurance has been noted by TMC Japan. TMC's recognition is important for Astra as a reputable local BG, representing admission to TMC's global network and credibility in the automotive industry in the home country and beyond.<sup>50</sup>

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<sup>50</sup> Some innovative Indonesian products are marketed within ASEAN, e.g. motorcycles and autoparts. Motorcycles may be the main competitive advantage through which to position Indonesia as an important MNC automotive player in ASEAN. Given Indonesia's EME status, JMNCs may remain motivated to allow innovative technology products to be produced in Indonesia because of its lower labour costs and available natural resources.

### *8.6.3 Business group's strategy to reach out to the union*

Adversarial actors such as unions may be most interested in joining forces with the BG because of a notion that the latter can amplify their voice and influence their bargaining with HQs.<sup>51</sup> Although the union may need to reassess its strategy in order to achieve optimal bargaining outcomes with the HQ, compared with bargaining directly with the HQ as a stand-alone union, an alliance with the local BG may offer better outcomes. This demonstrates the union's commitment to partnering with local management and means that its voice does not represent only a particular union. The union-management relationship is particularly important where an HQ is seeking to promote "harmonious" union-management IR.

Unions have the choice to opt out from the BG's coordination of their voices. In this study, four main local unions with various characteristics, resources and interests represent Astra's automotive employees. The diversity of unions can be categorised based on their bargaining characteristics. Fundamentally, a union's bargaining strategy may depend on its resources, networks and capital. For example, an internationally affiliated union representing AOP subsidiaries (e.g. SPMI) may gain support from other internationally affiliated unions (e.g. Japanese autoworkers or metalworkers) and NGOs such as the ILO. Inter-organisational support networks with other unions may improve local union bargaining. In this study, the Indonesian metal international subsidiary union engages in an inter-organisational relationship with the Japanese metal union representing Denso. However, the model of Japanese union coordination with JMNCs suggests that Japanese unions are not necessarily free from the influence of Japanese management. In realising this trade-off arrangement, local unions may seek alliances either with Japanese management (who promote technology and robotic types of labour market) or its own Indonesian management (whose interests are in protecting local labour markets).

Superficially, local unions may show, at best, indirect management influence. Nonetheless, closer investigation of the unions' bargaining coordination suggests that given the type of Japanese union-management coordination, the local unions representing Denso, Aisin and Musashi subsidiaries may not be able to stand entirely alone in raising their voices and bargaining with the respective HQs. Receiving

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<sup>51</sup> The findings do not suggest that ongoing management–union relationships are simple; rather, they illustrate particular actors' interests in gaining legitimate influence from the HQ.

support from Japanese unions may not only strengthen local unions' bargaining power, but Japanese unions may also adopt certain Japanese management agendas and inject them into local unions. Therefore, local unions must determine the most effective bargaining strategy to optimise their bargaining results. However, in playing these micropolitical coalition games, unions may need to focus on their long-term goals and decide whether the BG's commitment to advancing the local labour market fits with the unions' interest in alliances with the BG. For instance, will it serve the unions' voice in the short term, or will amalgamation with local management against foreign management practices amplify union bargaining? The three largest locally organised unions representing AOP employees have diverse interests, resources and bargaining strategies, making it difficult to raise a concerted voice. Astra's business philosophy mobilises subsidiary actors to protect local work, employment and organisation systems. Additionally, its business strategy of advancing the local automotive industry attracts the unions' attention, potentially persuading them to join forces with the BG.

Forming alliances with KADIN and APINDO is another means for unions to gain bargaining resources (i.e. skills advancement), because APINDO is involved in establishing and administering training locally (outside the organisation) and abroad. Network relationships with APINDO may be advantageous by granting access to Japanese resources. As described by motorcycle and autoparts informants, although employees and unions are able to initiate training requests, non-Astra members, i.e. Toyota and Honda, must reach out to unions in Astra. A Yamaha informant claimed that since Astra has more members, it has a stronger relationship with APINDO: "If training is proposed by Astra, it is more likely to be approved." Outside Indonesia, APINDO has strong networks with JETRO and HIDA, and also with the Japanese Trade Union Confederation (RENGO). Management and production training in Japan is arranged largely by these institutions. APINDO's relationships with Japanese institutions are particularly important, as training in Japan is coordinated through APINDO. Trainees reported that they had been able to obtain access to training, resources and opportunities to meet the most influential automotive union leaders in Japan. Another informant stressed the importance of establishing communications with RENGU, as has been attempted by Yamaha unions.

As an illustration of local actors' alliances with other actors to strengthen their influence in the industry, Yamaha employees and unions engage with and seek

support from unions in Astra, such as KSPSI and KSPMI. Astra's labour movement and union agenda serve as a reference for other unions in the automotive sector because, given the number of employees, Astra unions represent the majority of automotive workers in Indonesia. At the national union assembly, they have greater power: a stronger voice and extended networks with local and international institutions. Another example was reported by one Yamaha informant:

*Yamaha [management] follows Honda's strategies, such as requiring workers to love/be proud of its own products. Unlike Honda, Yamaha employees must purchase a Yamaha motorcycle. Honda provides one free motorcycle per year to its employees.*

Astra unions also participate in union training in Japan. For instance, Yamaha union leaders engage in joint training with Astra and Honda, as a Yamaha informant reported:

*The importance of Yamaha unions' alliance with the union in Honda is that Honda has one solid union and close connections with APINDO. Yamaha's employee representatives do not have a network, but Honda has. This is the problem. As a result, we ally with Honda, and to meet our objectives, we share our activities with Honda, seek advice. The main thing Yamaha needs to do is to get approval from Honda.*

Above all, the Yamaha unions' alliances with well-resourced and subsidiary unions in Astra indicates the significant role of Honda's unions. Legitimacy can be gained through networks of local institutions and support from management. In other words, Honda's collective unions may be an effective means for low-power actors to exert influence.

## **8.7 Low-Power Actors' Ends and Means to Gain Influence in the MNC's Global Network**

### *8.7.1 Business groups' and subsidiaries' motivations (ends) to gain influence*

The automotive industry is recognised as one of the host country's top ten sources of GDP. Therefore, automotive associates with high skills and offering types of employment that bring higher wages and better working conditions motivate local actors to develop the automotive industry and protect institutions that are able to support it. Moreover, driven by competition, local actors have various motivations for forming alliances with actors within and outside their own organisations. Especially in the autoparts sector, third-tier suppliers were singled out by other automakers as a second-class type of employment in the automotive sector.

Respondents from Astra, Toyota, Honda, AOP and Yamaha shared the view that autoparts workers should earn lower wages than those in Toyota, Honda and Yamaha. Although autoparts firms have supply-chain classification systems (e.g. first, second and third tiers), autoparts workers reject this classification and believe that AOP workers should earn the same wages as Toyota and Honda workers.

This divergence of interests is an issue for local actors' achievement of effective influence within AOP intra-organisationally and with the JMNC inter-organisationally. Collective bargaining by Astra unions in the automotive group has considerable implications for local automotive firms and may determine sectoral wage bargaining. This strengthens the ranking of influential actors associated with reputable organisations, in that cars and motorcycles receive a higher rank than autoparts. However, respondents from automakers such as Toyota, Honda and Yamaha reported that autoparts play an important role in their production, and Astra identified autoparts suppliers as a scarce resource in its supply chain. Diverse interests were also identified at the intra-organisational level. In AOP, which consists of 38 suppliers, actors have considerably differing interests, not just between management and unions, but also amongst managers themselves. As an illustration, third-tier AOP subsidiaries' management favours employees joining subsidiary unions because their organised labour coordination enables them to negotiate as a single voice.<sup>52</sup>

As previously discussed, Astra has considerable interest in promoting its philosophy and vision to all its subsidiaries, and to local associations such as KADIN and APINDO. As organisations commit to adopting its philosophy, Astra increases its leverage to manage, and eventually control, the management practices of those adopting its system. This can be seen as a strategy to mobilise local management to protect the systems in which Astra has invested and on which it has been built. One informant reported that the Japanese *kaizen* approach is stronger than Astra's *Catur Dharma*, particularly in Toyota. However, Astra has shifted its focus from Toyota to Honda, with greater focus being given to protecting AOP. An HR

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<sup>52</sup> It was reported that non-affiliated or "yellow" unions lack resources and power compared with affiliated unions. Employee and union research participants suggested that, as part of their union movement solidarity, affiliated unions have helped the "yellow" unions. There appears to be some cynicism, because affiliated unions have an impact on IR at the organisational level. Internal or "yellow" unions suggest greater cooperation and shared understanding with management. This is a classically disputed IR argument. Importantly, non-affiliated trade unions lack the capability and resources with which to bargain. Affiliated unions evidently empower non-affiliated trade unions.



manager of a third-tier firm explained how Astra is taking over local autoparts makers:

*IKP [Indokarlo] was established as a small family business. When it started to grow, IKP needed capital. Then Astra came with a great opportunity. When Astra took over, it fixed a certain aspect of the organisation, for example, the system of employment and production lines that meet ISO standards.*

Yet, because of its business model, local autoparts makers are hesitant to join Astra or let it take over. A third-tier manager suggested: “Astra remains a for-profit organisation. It has a set of profit targets. If Astra identifies that the organisation is no longer profitable...it will be released. That is the capitalist system of Astra!” Nevertheless, Astra’s political and institutional networks are undoubtedly stronger than those of local automotive groups. Toyota, Honda and Denso Autopart Japan, with which Astra has established IJV partnerships, are globally respected automotive firms in their respective automotive sectors. Having them within Astra’s business networks signals Astra’s admission to the ranks of global autoparts players.

Participants from local management, employers’ associations, employees and unions reported that Astra values the Japanese technology and employment system as being appropriate and much needed to build Indonesia’s automotive industry. However, it has become imperative for the BG to become less dependent on foreign capital and expertise, and to emphasise the importance of protecting local institutions from foreign MNC dominance. Furthermore, Japanese and Indonesian research participants expressed their view that local resources have not been managed well and that considerable investment is required to improve human capital as well as the business infrastructure.

Another identifiable motivation for local actors to form alliances with the BG is a sense of workplace protection in terms of job retention and competitive skills. Training experiences in Japan were reported by research participants to be a double-edged sword. Although they had learnt skills from the very best to master the latest technologies, technology had eventually diminished their jobs and replaced them with robots. Indonesian trainees identified that the JMNC is interested in implementing automation in their workplaces in Indonesia, whereas the BG is interested in creating job markets and developing local human resources. According to other Indonesian management, employee, APINDO and union informants, it is

necessary to form alliances with local actors owing to a fear of shrinking employment opportunities and replacement of human skills by robots.

#### *8.7.2 Business groups' and subsidiaries' means (strategies) to gain influence in the MNC's global network*

The findings of this study suggest that the BG's mobilisation of local actors' interests (ends) is an effective means for low-power actors to gain status and influence. For example, Astra claims that protecting local systems and improving the nation's labour market institutions impacts profoundly on local actors, particularly since most Indonesian job seekers still lack higher education, skills and training qualifications to operate high-tech machinery as workplaces replace humans with robots. Moreover, Astra is committed to seeking foreign investors who are also motivated to participate in developing and fostering local employment, for example, by limiting the role of foreign expatriates, transferring more knowledge to local managers, and localising Japanese systems. Both Japanese and Indonesian research participants agreed that Astra prioritises foreign investors that can demonstrate a business agenda to improve and participate in developing local human capital. Astra's reputation supports this claim. Toyota Astra has the capability because of its proven commitment and its status as one of the largest employers of local workers. Thus, respondents described Astra's role as a strong Japanese partner and a local firm. Having a localised management strategy as a tool to improve local systems produces positive results that enable subsidiaries to gain influence in the automotive network. This view was supported by Toyota and Astra management participants:

*We [Astra] aim to regulate the type of foreign investor entering Indonesia. For example, Toyota must have a strategy for how to build human resources in Indonesia. Toyota needs to promote the mentality and skills of local workers. Toyota Indonesia has 10,000 local employees, with only 60 Japanese expatriates. All the line management roles are occupied by local managers. The role of the Japanese expatriate is to facilitate communication with Toyota HQ.*

This shows the extent to which Toyota Astra achieves greater legitimacy from TMC. It also exemplifies the BG's effective strategy and its influence and allocation of resources throughout its subsidiaries. Toyota is able to negotiate directly with TMC because the latter has built a regional base that allows subsidiaries to make inputs at the regional business level, which is the local market for the product. Toyota Astra also sees this platform as an important strategy to allow subsidiaries'

voices to be heard at the regional level in the host country. However, it is strongly committed to developing the local automotive industry and reducing its dependence on foreign investors and interventions. A TMC representative described how the conglomerate has gained legitimacy with Japanese automotive firms:

*Having Toyota, Honda and Denso as Astra business partners constitutes a degree of influence. Astra is admitted to being a part of influential Japanese automotive firms. In the host context, Astra has gained a reputation as an important local organisation that can engage with global automotive multinational firms. From the home country's hierarchical point of view, Toyota, Honda and Denso's positions are at the top of the Japanese automotive industry.*

This view suggests that Astra's role and networks with international and local institutions qualify it as an élite local partner. Its attention-attraction tactics attract the leaders of JMNCs in the global automotive industry. Above all, Astra's accomplishments may convince local actors to give serious consideration to supporting its business strategy to develop local human capital and the local economy. One of its proudest achievements, offering evidence that the conglomerate has gained legitimacy from Toyota and Daihatsu, was stated as follows:

*In the past two years, our local car manufacturers, Daihatsu and Toyota have utilised 86% of our in-house autoparts manufacturing. As a result, Daihatsu Japan has permitted us to include and put the name of Astra first, e.g. Astra Daihatsu Aila, Astra Toyota Agia. Previously it was, for example, Toyota Xenia. Why? This is because our Toyota and Daihatsu employees design the cars. Furthermore, some of these local products have been exported to the Philippines and Middle Eastern markets.*

This achievement is politicised by the conglomerate, strengthening its strategy of mobilising the interests of local actors to gain legitimacy and institutional support.

### *8.7.3 Business groups' capacity to manage local issues as an assurance for the HQ*

Astra's initiative taking and effective handling of local issues appear to be its most effective means of acquiring legitimacy from the HQ. For example, in wage differentiation between actors in cars, motorcycles and autoparts, Astra handles the issue successfully. This promotes its credibility and capability to manage local issues which are valued by the HQ. The biggest challenge is that Indonesia is still failing to keep up with demand for autoparts production. For example, with its three largest Indonesian plants running at full capacity, Toyota is still unable to meet local production demands. Respondents from Astra, Toyota Japan and Indonesia

recognised this issue and suggested that, in addition to a weak infrastructure and increased regulations, a rise in strikes and picketing has also been to blame for this inability to increase production and compete with competitors in neighbouring countries. This situation may have motivated the BG to intervene to improve and oversee the autoparts supply chain and to reassure the HQ that it can handle these issues. An HR/IR Toyota director described the importance of autoparts: “Seventy percent of Toyota production depends on autoparts suppliers. If the suppliers collapse, it will have an impact on Toyota, and even on global production.” Therefore, Toyota has a strong commitment to building a sustainable production relationship. Toyota has identified that IR is one of the main issues that disrupts production and employee productivity. The main challenge arises from non-Astra autoparts suppliers. These suppliers have neither compatible HR/IR systems nor qualified HRM personnel in their organisations, and Astra’s HR audit team has also found that some local SME automakers do not even have HR management in their operations. As a result, Astra has intervened and become involved in HR/IR matters, as well as introducing systems to these non-Astra subsidiary autoparts suppliers. This strategy spreads Astra’s systems beyond its own autoparts subsidiaries, which is an advantage for the BG.

Management participants acknowledged that a good IR system cannot be built solely through employee and union participation; management commitment and participation are also required. For instance, Toyota has an HR development supplier forum through which Toyota-Astra management directly educates, supports and continuously monitors the development of suppliers’ HR/IR practices. If a local automaker’s management does not have a clear understanding of HR, it will not function effectively. Another Toyota-Astra IR manager suggested the importance of identifying issues, establishing an organisational strategy and upholding an image as a compliant organisation:

*We [Astra] are keen to improve the quality of our IR so that we can influence others as well. This is because we can and have the ability to influence others. If we do not comply with the laws, it will have an ugly effect, and “outsiders” may influence our employees. We have improved cooperation, communication and transparency with unions. Indeed, this is not easy.*

A lack of host-country infrastructure makes it difficult to meet global production demands, but in-house systems may be an effective means for local actors to overcome this issue. Using in-house systems as a solution demonstrates local actors’

commitment and capability to gain influence in the MNC network. For example, research participants, including some from Yamaha, Mitsui, JETRO and HIDA, reported that Astra has invested in and constructed an HRM-IR communications scheme that facilitates employee-employer engagement, as well as a complaints mechanism, and that IR concerns include Indonesian and Japanese management practices. Astra's in-house systems satisfy the HQ's requirements because Astra has adopted and internalised certain aspects of the TPS. Having TPS in the local organisation signals subsidiaries' adaptability and capability to maintain Japanese quality management and production standards. Applying and localising TPS provides an assurance that the conglomerate is maintaining Japanese standards.

Interviews with Japanese MNCs, expatriates and agencies indicate that Astra gains legitimacy first because it is the home of the top Indonesian Toyota Japan trainees. Second, supported by its networks, Astra has the capability and resources to select the best management, employees and unions, and to convince Japanese partners to invest in training for locals in Japan and Indonesia. Astra's management has sole responsibility for managing HRM, such as employee participation schemes, job rotation and promotions at the intra-organisational level. Furthermore, Astra has the capacity to nominate (i.e. appoint) its own members to organisations that are closely involved in its business and investment policies and management practices. Secondary data obtained from JETRO, HIDA, KADIN and APINDO suggest that former Japanese (Indonesian) trainees have gained directorships and ministerial positions throughout the host country's institutions and government. Primary data also seem to corroborate this trend:

*It is no secret that former KADIN and APINDO executive members have ministerial positions at the federal and provincial levels, and a few remain as honourable chairmen in APINDO whilst serving in the ministerial cabinet. This shows that both KADIN and APINDO undeniably have strong political networks and the power that comes with it.*

Thus, Astra manages human resources that spread certain Japanese ideologies throughout local institutions. As a Toyota Japan training alumnus reported:

*Astra has a similar management approach to TMC; the focus is on the process. The key is managing and developing human capital. Technological applications and product development are a part of the process, but human resources are primary. That is how TMC manages its global businesses, one of the strongest approaches, and enables TMC to become a global player.*

A Toyota HR director reiterated how TMC has become a global firm and how Astra has worked toward that mission. Astra develops in-house HR/IR systems, underlining its development of human capital, infrastructure and mechanisms to promote local Indonesian HR. For 47 years, this policy has been the foundation of Toyota's operations in Indonesia for 47 years. Astra's practices may have profound implications for JMNCs operating in EMEs. In maintaining its business philosophy of "to be an asset to the nation" and to achieve its vision of being less dependent on foreign establishments, the findings of this study suggest that Astra's strategy has been to reduce the number of Japanese expatriates and increase the number of Indonesian Toyota trainees throughout its subsidiaries.

Another informant reported that "the role of Astra is very strong in Aisin; Astra is keeping as many managerial posts for Indonesians as possible and reducing the amount of Japanese". In addition, existing labour laws prohibit appointments of foreign expatriates to positions dealing with HRM-IR, which restricts the number of foreign workers. This may be an example of controlling as well as protecting local institutions. In allocating resources throughout local actors, Astra may also serve as an information broker, filtering flows of information. As a broker, it gathers substantial knowledge of actors' interests and how to exploit them. Importantly, its involvement and role in policy development were confirmed by 100 research participants, and Astra and Toyota management described how TMC-Astra and Astra are able to "input to the government about foreign investors' characteristics. As Japanese trainees, without hesitation, Astra management recommends Japanese MNCs based on their knowledge and first-hand experience of working with and being trained by a Japanese firm." Of relevance here is that while Toyota Indonesia may have become an *information* broker for TMC, Astra has become a *power* broker. Astra has legitimate influence in positioning its ideology as central to host-country institutions. A respondent provided evidence in this respect:

*In the process of making any federal regulation changes, we [Toyota-Astra] are involved. First, if we see that the government lacks knowledge and practical skills, as the largest employer investing in R&D, we can supply information to the government based on research that we conduct. Valuable information is gathered from Toyota Japan. Our advantage is that, as a local partner, we get the information first. With such information, we can approach the government and get involved in making laws, for example, on outsourcing. In addition, we arrange and sponsor members of the government and ministerial cabinet to go to Japan to understand the implications of Japanese laws in practice.*

#### 8.7.4 Business groups' tactics to attract competitors to join forces

Another conglomerate strategy widely noted by both the HQ and local competitors (i.e. Yamaha, Suzuki, Lippo of Indonesia and Mitsui of Japan) is to control access to local resources and networks. Yamaha and Mitsui informants reported that Astra's ambition is to be the largest autoparts supplier in the nation:

*The autoparts market is saturated by Astra and there is no sign of Astra slowing down; evidently, Astra has intensified its investment by taking over, alliancing and buying small and medium-sized local autoparts makers.*

As a result, Yamaha Motor Corporation (YMC) Japan and Yamaha informants claimed that:

*Yamaha does not even bother to compete with AOP. Not only is this due to market size, but AOP also dominates, almost monopolises, established networks in the local autoparts and raw materials sectors. AOP products have continuously replaced exported autoparts; more parts are made in AOP Indonesia. Astra has diversified its business, covering mining, energy and construction, and has held large government contracts.*

Astra's competitive advantage lies in its systematic networks with local suppliers, industries and institutions, and most notably its close relationships with local government at federal, provincial and municipal levels. Its business model and its *Catur Dharma* business philosophy—"to be an asset to the nation"—has enabled it to gain influence from local actors. Importantly, it has invested in and is committed to promoting this strategy and, as observations in the course of this study suggest, *Catur Dharma* resonates for the majority of Japanese, Indonesian and non-Astra research participants. Astra's vision appears to mobilise and codify local actors' motivations, and its business strategy promotes and serves local actors' best interests. In relation to Yamaha's motorcycle manufacturing, a YMC representative reported: "Yamaha's market share is 25%, Honda's is 75%, Mitsui invests in second-tier motorcycle spare-parts (i.e. materials for autoparts)." In contrast to Honda, which employs 25,000 workers, Yamaha employs 10,000 Indonesian workers. Astra has a competitive advantage as the biggest motorcycle employer, and unions representing Honda employees also outnumber their Yamaha counterparts.

Since 1989, there have been seven unions in Yamaha, and the two largest ones tend to take opposing views on the labour protection agenda and strategy. For example, KSPMI is known as radical and has gained more members (63%), whereas KSPSI is the oldest union, formed under Soeharto's regime. Yamaha's Indonesian

management, as well as employees and unions themselves, reported that having seven unions, including two subsidiary unions with disparate union agendas, demonstrates the diversity of actors' interests. The informants also suggested that employees are best represented by one united union in an organisation, and that having seven unions demonstrates the divided labour agenda that seemed to be polarised by union leaders' interests, rather than representing employees' voices. These divided interests may translate into actors' different motivations. This situation is a problem for Yamaha. Compared with Astra, informants from Yamaha and YMC suggested that Lippo lacks the capability and resources to negotiate with YMC. Yamaha management and unions also acknowledged that Yamaha is not yet in a good position to negotiate with the Japanese directly. However, the informants suggested that Honda, supported by Astra, has certain capabilities and resources to negotiate with Honda Motor Corporation (HMC) Japan. As an example, since the conglomerate has received support from local industry, Yamaha's management is interested in an alliance with Astra's management. Similarly, Yamaha unions have joined with Honda motorcycle unions to intensify Yamaha's union voice. Thus, Yamaha's management and unions are both interested in alliancing with Astra because, overall, the Astra group has the strategy to negotiate with the HQ.

The major advantage of the BG may be that a large proportion of Yamaha autoparts is supplied by AOP. Furthermore, post-production, Honda saturates the local market with dealerships and service networks throughout the country. Informants repeatedly reported on Astra's relationships with government. Whereas Astra has a strategic business model, Yamaha may not have achieved legitimacy from local partners and has limited negotiating capabilities. Astra has gained legitimacy in the MNC's value chain in Indonesia and in wider Southeast Asian markets. It is clearly motivated to monopolise the motorcycle and autoparts sectors. A Yamaha informant acknowledged that Astra's effective strategy and localised, built-in HRM system is the type of organisation that Yamaha needs:

*I understand Astra has a lot of networks, like Toyota, Honda, Komatsu, other industries as well. Astra is able to recruit and retain the best local university graduates. Astra selects the best recruits, puts them in a high position within the automotive group, such as Toyota and Honda. We [Yamaha] are rotating personnel within a group. That is a big difference.*

Therefore, it is clear that Astra derives its mobilisation influence from its national and international reputation, extending, building and maintaining local



networks and close relationships with government. Institutionally, Astra has support from industry and some unions.

## **8.8 Discussion and Conclusion**

In applying Bouquet and Birkinshaw's (2008) concept of low-power actors strategising their *ends* and *means* of influence to re-formulate the balance of power, this study evaluates the coordination strategies of actors in first-, second- and third-tier automotive firms sponsored by the Astra International Automotive Group. The Astra BG demonstrates strong micropolitical engagement with local institutions and associations to prevent the MNC from wielding further influence and dominance over the local automotive market, production and human capital. Astra also invests in autoparts manufacturers, viewing autoparts as a scarce resource in car and motorcycle production.

Importantly, AAG sees autoparts as the future of the local automotive industry, enabling it to gain status and expertise as a global competence network. This supports its efforts to end Southeast Asia's "manufacturing hub" status, to create high-skilled jobs and prevent the local market from being a peripheral assembler nation competing with neighbouring countries (namely Malaysia and Thailand). Over the past two decades, Astra has been managing AOP both internally, for example, by partnering with or buying small local autoparts makers and changing their foreign-local ownership structure, and externally, by lobbying government and industry in an effort to constrain local institutions from expanding influence. Hence, in local organisations lower in the supply chain, low-power actors are more likely to be interested in playing risky political games. This study provides examples of Yamaha's alliances with Honda as well as autoparts suppliers' admission to the lower tier of the automotive network. Although local actors are able to negotiate directly with the HQ, alliances with the well-connected, well-resourced and politically informed conglomerate produce more effective bargaining outcomes.

The cases in this study reveal that the BG uses both bottom-up (established) and top-down (joint) tactics to gain legitimacy and influence. Moreover, the setting of this study extends IHRM scholarship on how local actors coordinate to raise their voices and influence. This may revolutionise actors' "adversarial" relations between management and unions to create greater bargaining power against the dominant HQ. Nuances on the views of low-power actors (Bouquet & Birkinshaw, 2008), local

actor/organisation legitimation processes (Kostova & Zaheer, 1999) and micropolitical practices (Maclean et al., 2017; Becker-Ritterspach et al., 2016) have been examined in the EME setting. This chapter has addressed the notion of the local BG, business associations, subsidiaries and unions forming a coalition to engage in strategic attention-seeking tactics and determine the nation's long-term goals, such as safeguarding national business systems and reducing foreign dependency.

Overall, the findings of this study refine recent MNC literature (Maclean et al., 2017; Becker-Ritterspach et al., 2016; Dörrenbächer & Gammelgaard, 2016; Geppert et al., 2016; Whitford & Zirpoli, 2016; Lukes, 2005) by examining the applicability of micropolitical games to an EME setting. According to the findings, micropolitical coalitions among local actors are the preferred approach to the bargaining process and appear to be effective. This confirms Bouquet and Birkinshaw's (2008: 492) claim that low-power actors' methods of influence (i.e. "entering political games") in an EME setting are micropolitical coalitions to mobilise diverse actors' interests and form a representative voice to counteract the MNC HQ's dominance. Also, this collaborative strategy is shaped by allocations of resources, knowledge and expertise between the BG and three types of local actor (business associations, subsidiary management and unions), and between the conglomerate and the MNC's HQ.

The current research goes beyond the subsidiaries' ability to resist the HQ's practices and the concept of power from the individual manager's perspective. Instead, it shows that the collective of local actors, interest groups and unions as a joint force of low-power actors counterbalances the dominant MNC actor. Both the conglomerate and local stakeholders play various roles that break down the dominant actor's power, redistribute mandates and protect local systems. Astra engages in micropolitical strategies enabling it to promote a vision of protecting national business systems and shaping the labour market for the interests of local actors. As a power broker, the BG configures its tactics through its subsidiaries, segregating each subsidiary on the basis of a tiered classification system. Through political networks, Astra also serves as an information broker between the MNC's HQ and local actors. Its ultimate goal is to gain legitimacy and to influence both local actors and the HQ, enabling it to position itself within local and international automotive networks.

Applying Bouquet and Birkinshaw's (2008) seminal work, this study demonstrates that low-power actors in an EME setting use micropolitical strategies to gain legitimacy and influence in an MNC network. Furthermore, the study

illustrates that foreign ownership structure, dominant HQ power and influence are somewhat contingent on host-country institutions and strategic political games. Local actors are able to leverage local networks and expertise to position themselves strategically in order to achieve legitimacy, control resource dependencies and gain influence within the global MNC network. In pursuing the *ends* and *means* of influence in MNC networks, local actors distribute, collaborate with and initiate joint relationships.

Qualitatively, this study has applied a multi-level research logic at inter- and intra-organisational levels to examine actors' micropolitical tactics to strategically strengthen low-power actors' voice. Each local actor adopts a different configuration to manage its own *ends* and *means*, contingent on local business institutions, institutional support and conglomerate commitment. Most existing studies on cross-border HRM concentrate on MNCs' cross-border management practices in advanced industrial countries (e.g. Meyer et al., 2011), although some studies have extended their coverage to mainstream EME settings such as China and India (e.g. Chacar & Vissa, 2005; Bamber et al., 2016). However, as Meyer and Peng (2016: 4) contend, EMEs exhibit far greater variation and frequency of institutional change, and many aspects of how institutions affect MNCs' operations remain under-explored. Bamber et al. (2016) and Cooke and Kim (2017) suggest that the IHRM research agenda must be broadened to engage with potentially conflicting institutions at different levels and with different actors, in order to understand the implications and mechanisms of IHRM practices. Specific to this study, organisation studies and IB scholars (e.g. Clark & Geppert, 2011; Dörrenbächer & Gammelgaard, 2011; Schotter & Beamish, 2011) maintain that current theory and empirical evidence do not yet adequately explain the role of other subsidiary management actors, such as unions and interest groups, in coordinating collective interests. Furthermore, while some scholars focus on the autonomy of a particular actor (i.e. management) to centralise its role, others focus on the antagonistic objectives of other actors, such as management versus unions (e.g. Almond & Gonzalez Menendez, 2014a; Gammelgaard et al., 2012; Marsden & Laumann, 1977). In general, the literature sees actors' interactions as a product of resistance, and relationships as a form of reconciliation to gain influence.

In an attempt to respond to gaps in the literature, this thesis makes three major contributions to IHRM, IR and IB research. First, its analysis of alliance strategies

leading to autonomy-seeking behaviour adds new strands to research on the evolution of low-power actors' strategy coordination, moving beyond a simplistic model of HQ power and subsidiary resistance, or low-power actors seeking to gain "attention". It has been suggested that "prior research recognises that subsidiary managers have the potential to take initiative" to maximise the autonomy of the subsidiary (e.g. Ferner et al., 2004; Andersson et al., 2007). This study's finding that the voices of subsidiaries may stem from organised employees and unions, supported by management and local systems, reduces the relevance of an antagonistic view of union-management relationships. Consistent with findings by Almond and Gonzales Menendez (2014a), locally organised employees and unions are not passive or silenced by dominant actors' power. This study also extends Bouquet and Birkinshaw's (2008) finding that subsidiaries are reforming their "attention attraction" types of strategy into more impactful ways of negotiating with the HQ.

Moreover, this study offers a specific example of non-focal (i.e. Tier 3) organisations and unions, where an integrated union-management voice may mobilise their voice to achieve influence at intra- and inter-organisational levels. Second, the analysis reveals that the BG's evolving role is shaped in the organisation's best interests. Even so, to gain institutional support, it must align its motivation with other actors and business associations. In an EME setting, a business strategy that promotes the protection of local labour market institutions appears to be an effective tactic. It is thus important to recognise that injecting an interest in political games may adversely affect the processes of legitimacy, relationships and reconciliation. The third and most significant contribution is this study's exploration of coordination strategies that affect local actors' bargaining and the types of alliance that they construct to gain influence in MNCs' global networks. This analysis provides an insight into MNCs' cross-border power configurations and levels of influence. In general, this research contributes to the MNC and IHRM literature by expanding our understanding of how BG involvement affects actors' capabilities, motivations and roles, as well as interactions that facilitate control and influence the cross-border transfer of dominant HRM "best practice". Each local actor adopts a different configuration to manage its own *ends* and *means*, contingent on local business institutions, institutional support and BG commitment.

## **Chapter 9: Lessons from the Empirical Analysis**

### **9.1 Introduction**

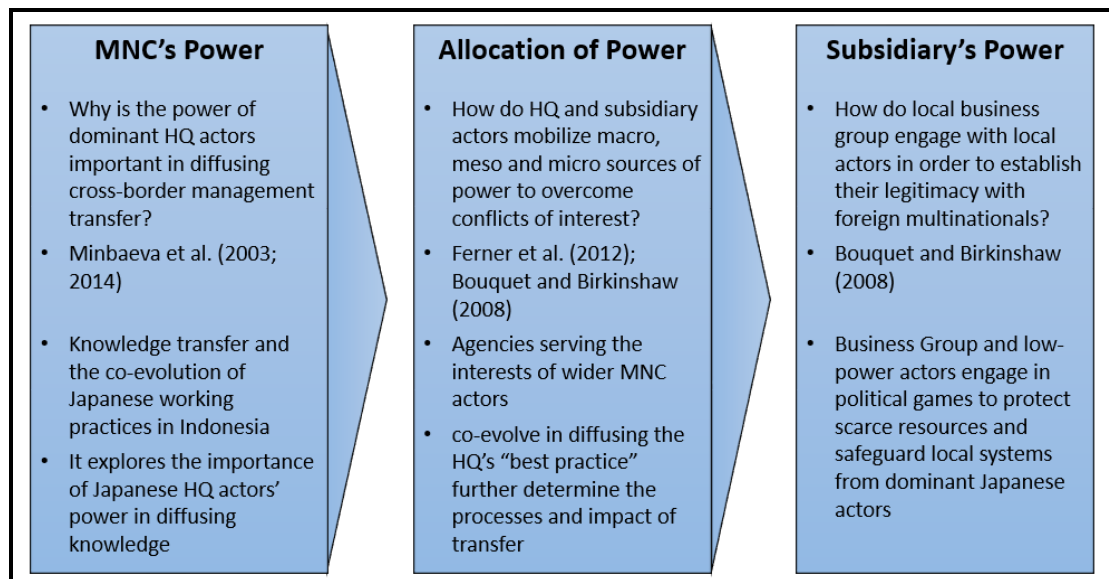
By applying the concepts of dominant Japanese work, employment and organisational practices and policies to Japanese subsidiaries operating in an EME, this thesis has presented empirical explorations of diverse actors' power resources, interests and strategies influencing the cross-border transfer processes of HRM "best practice". The three main empirical chapters have each extended particular concepts of theory, constructed research questions (RQs), and explored their congruence by analysing a multi-site case study to encapsulate the generalisability of MNC strategies. Chapter 6 has explored the importance of Japanese HQ actors' power in diffusing knowledge, and Chapter 7 has examined the balance of HQ-subsidary power allocations and types of power resources. Finally, Chapter 8 has investigated the strategies adopted by low-power actors.

The analysis covers Japanese-Indonesian automotive firms that manufacture cars, motorcycles and autoparts. It is noteworthy that the three case studies vary markedly with respect to their HRM-IR practices. This large-scale qualitative study, comprising 127 interviews, study groups and observations in participants' workplaces in Japan and Indonesia, has shed new light on HQ actors' strategies for controlling foreign subsidiaries' performance and subsidiary actors' power to protect local systems and strategies to gain legitimate status in the MNC's global networks. Triangulation has been achieved by collecting primary data from key stakeholders, business associations and non-organisational actors.

The study identifies distinct foreign and local management control that affects HRM-IR practices and policies in all three automotive manufacturing sectors: cars, motorcycles and autoparts. The degree of foreign ownership, influence and length of presence significantly determine the knowledge flow, organisational learning systems and adoption of foreign practices. For example, Toyota Indonesia cars and first-tier autoparts suppliers, which have higher Japanese stakes and stronger Japanese influence, provide clear evidence of the adoption and implementation of Japanese HRM-IR practices. By contrast, a higher degree of local ownership and strong local management control in second- and third-tier autoparts suppliers indicate less integration of foreign management systems. In this case of Honda Indonesia motorcycles, both foreign and local management have equal capital and

length of presence and lack fully integrated foreign and local management systems. Also, Honda experiences dynamic foreign-local management control. These three cases exemplify actors' power resources, capacity and interactions. Hence, in scrutinising the concepts of Minbaeva et al. (2003), Ferner et al. (2012) and Bouquet and Birkinshaw (2008) in the context of JMNCs operating in an EME setting, this research illustrates strong links between the micropolitics of foreign and local actors and the diverse power structure and actors, particularly at micro and meso levels. Moreover, the study reveals conditions under which actors increasingly and strategically utilise power to shape cross-national transfers.

The presentation of the empirical findings has shown the importance of Japanese HQ strategy and HRM-IR "best practices" in diffusing Japanese management and production systems (Chapter 6). It has also shown the impact of interactions between HQ and subsidiary actors' power on transfer (Chapter 7) and the strategies adopted by low-power subsidiary actors and the local conglomerate to mobilise the *means* and *ends* of local actors in their attempt to protect local labour market institutions from foreign interventions (Chapter 8). The plot of Chapters 6, 7 and 8 is summarised in Figure 9.1.



**Figure 9.1: Plot of Chapters 6, 7 and 8**

This thesis has aimed to empirically operationalise MNC challenges and issues in configuring cross-border management transfers. Furthermore, it has applied IHRM, IR and IB concepts to an under-studied EME context. Its theoretical reasoning is based on Ferner et al.'s (2012: 164) emphasis that "There is little sense of what is at stake for actors in confronting the cognitive, normative and regulatory

conditions that arise when cross-border practices are transferred, adopted and executed.”

In adopting a regulative constraint perspective, this research has identified important power resources at macro and micro levels that facilitate transfer processes and circumvent conflicts of interest. Accordingly, this research is actor-centred, incorporating actors’ power capacities, interests, motivation and means of diffusing, acquiring or accepting certain dominant HRM-IR “best practices” to fill a knowledge gap in the MNC literature. This thesis has investigated diverse actors’ interests and how actors deal with systematic challenges, reconstructing their strategies and redefining their motivations to reach their goals. It has also considered country-of-origin and host-country institutional effects to investigate actors’ power: why they increasingly exercise it and how power interacts with organisational capacity.

In this specific case, the thesis postulates that the non-organisational actor (i.e. a quasi-government agency such as HIDA) plays an important role at meso institutional level. The importance of a meso institution is the intermediate level between the nation (macro) and the organisation (micro). HIDA plays a prominent role in shaping both the mechanisms and outcomes of cross-border transfer. It is directly involved in diffusing Japanese HQ management and production systems, mitigating and intervening in the institutional resistance of the host country to acquire foreign practices. The underlining point here is that the quasi-government agency is funded by both the home country government and HQ, and it operates in the host-country under ODA (whereas the Japanese HQ operates under FDI). These two different types of actors operate under distinct local regulatory regimes. Quasi-government agencies operate under the auspices of ODA policy; as such, they can operate without local private sectors/enterprises. As a result, the quasi-government agency’s institutional setting affords it more flexibility in managing the host-country’s lack of human capital development investment and greater HRM-IR involvement practices (and to some extent policy development).

As this thesis indicates, in spreading and transplanting Japanese HQ management and production ideology, HIDA reached out to the non-Japanese subsidiaries (e.g. small medium enterprises spread out in provinces, local municipal cities and villages) in transforming local business systems. This illustrates that the Japanese-coordinated type of enterprise is an important part of a cross-border business strategy in managing local institutional resistance. In other words, the

Japanese-coordinated type of enterprise is instrumental in a cross-border business strategy in terms of managing local institutional resistance, i.e. regulations and management. Thus, the thesis findings have refined Whitley's (1999) argument on how "highly" collaborative networking between firms and the state plays out in an EME setting, and what constitutes the "highly coordinated" configuration that differentiates Japan from other CMEs such as Germany (e.g. Fainshmidt et al., 2018).

In scrutinising Ferner et al.'s (2012) regulative constraint perspective, this research postulates new strategies adopted by both HQ and subsidiary actors. Furthermore, it identifies the importance of power resources at multiple levels (particularly micro and meso) that may influence the mechanisms and outcomes of the transfer process. It also reveals that actors may strategically utilise specific power resources to circumvent conflicts of interest to facilitate transfer. Another key finding is that foreign MNC actors configure their strategies to bypass institutions and constrain managerial practices.

The following discussion delineates the theoretical framing, issues and contributions to the literature of Chapters 6, 7 and 8. It concludes by highlighting the key contributions of the thesis to the existing literature and its managerial relevance and by making recommendations for future studies.

## **9.2 Theoretical Framing: Chapters 6, 7 and 8**

This study has sought to understand not only the HQ's systematic circumvention of the host country's institutions, but also local managerial constraints that protect local business systems and limit foreign management from managing subsidiaries' HRM. A peculiar host-country condition prevents HQ involvement in local HRM practices. However, HQ actors find ways of influencing, standardising and changing subsidiaries' HRM norms, policies and practices. In exploring the power resources of MNC actors across Japanese automotive subsidiaries operating in an EME, this study analyses the whys and hows of (1) foreign actors' strategies for controlling foreign subsidiaries' performance, (2) local actors' power to protect local systems, and (3) local actors' strategies to gain legitimacy and influence in the MNC's global networks. The key theoretical frameworks of this thesis are those of Minbaeva et al. (2003), Ferner et al. (2012) and Bouquet and Birkinshaw (2008), as summarised below:



**Table 9.1: Theoretical framing**

<b>Theory</b>	<b>Human Resource Management</b>	<b>Industrial Relations</b>	<b>International Business</b>
Authors	Minbaeva et al. (2003)	Ferner et al. (2012)	Bouquet and Birkinshaw (2008)
Topic	MNC knowledge transfer, subsidiary absorptive capacity, and HRM	Power, institutions and the cross-national transfer of IR practices in MNCs	Low-power actors' motivations and strategies to gain legitimate influence
Implications for the thesis	Offers multiple methods to conceptualise and operationalise the adoption of Japanese management practices. Examines the effects of applying specific HRM practices (i.e. employees' ability and motivation) on the degree of absorptive capacity.	Methodologically and conceptually explores the difficulty of operationalising actors' power capabilities and empirically assessing different levels of capacity in relation to three types of corporate power.	Conceptualises and explores local actors' ends and means to gain status in global MNC networks, when low-power subsidiaries find ways to gain more power.

The difference between the IR and IB frameworks is that Ferner et al. (2012) focus on three power resources at three different institutional levels, whereas Bouquet and Birkinshaw (2008) focus on firms' *ends* and *means*. This thesis argues that firms use power according to their interests and strategies. Toyota, Honda and AOP have different interests that may be particularly important because they are in different sectors and positions in the automotive industry. For example, while Toyota appreciates and adopts Japanese ways, Honda and AOP do not prioritise their adoption.

In the EME context, political alliances develop between institutions, legislative bodies and other actors within and outside the organisation, conditioning emerging sources of power for low-power subsidiary actors. Low-power actors engage in micro- and meso-political alliances with local and international agencies to achieve legitimate influence in MNCs' global networks. Power interactions occur at the meso level, where quasi-governmental agencies and business associations use the power of management ideology to overcome conflict and transplant the HRM-IR "best practices" ideology throughout MNCs' EME networks. Since state-sponsored

agencies have fewer institutional constraints than do JMNC actors, they are able to inject JMNCs' interest in management control into subsidiaries' workplaces through meso-political tactics. Moreover, although JMNCs only have access through Japanese agencies, the latter strongly support cross-border diffusion of JMNCs' dominant HRM-IR "best practices", regardless of the institutional constraints of the host country. Agency actors such as HIDA, JETRO and APINDO emphasise the power of management ideology to circumvent conflict.

AOP subsidiaries adopt complex objectives and strategies to gain status. Astra Group's management is able to break down MNC power and empower local management and employees by supplying sources of power to garner influence. Its organisational tools include micro- and meso-political influences. The distribution of power varies between organisations. In some places (e.g. Toyota Indonesia), managers have considerable power to stop Japanese transfer. For instance, while some local subsidiaries (e.g. Honda Motorcycle Indonesia) retain power and manage employees as they did for 50 years under Soeharto, others (e.g. AOP third-tier subsidiaries) do not have the same power as Toyota and Honda because of insufficient skills, training, understanding or infrastructure to support work organisation systems that will promote productivity and bargaining competencies. Therefore, these local subsidiaries are vulnerable to the influence and control of dominant actors such as the HQ and Astra. This situation raises questions about the impact of subsidiaries with some degree of power and how they find ways to augment their power.

A key feature of the analysis is identifying conflicts of interest between HQ and subsidiary actors. Power is an important issue in investigating causal mechanisms of cross-border transfer because of the differing interests between HQ and subsidiary management in managing HRM-IR specifically. This analysis has been applied to the three empirical chapters to examine how actors gain and use power, and to what extent. The analytical analysis can be summarised as follows:

- *Macro*: The macro level relates to home- and host-country institutions and sources of power. The growing local market, export tariffs and geographical location (and even the underdeveloped infrastructure) may promote subsidiaries' power, for example, by making it easier to produce and assemble cars in Indonesia than to ship them in from abroad. A similar analysis is applied in all

three cases because the focus is on home- and host-country institutions and national business systems.

- *Meso*: The meso level examines how quasi-government agencies coordinate with local business associations with a stronghold of local government, policy makers and business groups. It explores conflicts of interest that may not be evident at the macro level and investigates the formation of actors' means in the three case studies.
- *Micro*: Managers' interests and capacity are fundamental; the analysis reveals clear differences between the three cases, ranging from strong to weak. Local HR managers and the business group may disagree with the Japanese HQ's HRM-IR policies and practices, and managerial constraints are supported by local and national HRM-IR legislation. Thus, subsidiary managers have the advantage of being able to impede dominant HRM-IR "best practices", as well as the capacity to manage their own HRM-IR issues. Accordingly, the focus of micro-level analysis is on important characteristics, types and modes of power exercised by the HQ and subsidiary management in general.<sup>53</sup>

The motivation and impact of FDI is relevant to the studies presented in all three chapters because it is identified as a crucial issue for the three corporate power dimensions. It involves efficiency issues that underscore the reality that without power, foreign MNCs may be unable to do business in the host country—and without knowledge, skills and technology, local subsidiaries may be unable to manufacture automotive products.

### **9.3 MNC Power in Diffusing HRM Dominant Practice**

Minbaeva et al.'s (2014) retrospective paper points to a paucity of research on the various HRM practices used to develop absorptive capacity and facilitate cross-border knowledge transfer. Moreover, IR and IB scholars (e.g. Ferner et al., 2004; Meyer et al., 2009) recognise various compelling means of organisational control, motivation and capability-coordinating knowledge processes across EMEs. Whilst the extant literature deals broadly with MNC strategy, Chapter 6 has adopted a more nuanced, contextualised approach to provide a fuller appreciation of the complexities

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<sup>53</sup> This analysis does not focus on the level of unions' power, as such analysis would be likely to focus on different workforces, cultures and organisational levels, rather than on power.

of MNC management, employee and union interests, dynamic sources of power and organisational learning.

In applying Minbaeva et al.'s (2003) framework, Chapter 6 has demonstrated the significance of JMNC's HRM practices for employees' ability and motivation to learn, as well as the capacity to influence subsidiaries to adopt and internalise JMNC's HRM-IR "best practices" transfer. Furthermore, this study has examined the importance of organisational learning and HRM-IR practices and has shown the co-evolution of the MNC and local rivals in the EME setting. The central research question of Chapter 6 relates to understanding how Japanese HRM-IR "best practice" is translated into EME management practices.

Chapter 6 highlights the intended HRM practices that are pertinent to knowledge recipients, particularly where the host country's labour market institutions are at a developing stage, and hence prone to the influence of foreign MNCs. However, differences in how management and unions process the importance of HRM-IR dominant "best practices" cause conflicts of interest, influencing the mechanisms and outcomes of transfer at inter- and intra-organisational levels. Whereas local employees and unions are more receptive to how the foreign ideology might empower them (e.g. Mellahi et al., 2013), local management is more selective in its adoption of foreign management ideology. Local management has some influence in managing the inflow of foreign knowledge. At the same time, foreign knowledge may also serve as a source of competition for local actors. Evidently, the intra-organisational behaviour of first-, second- and third-tier AOP firms exemplifies how upper-tier firms monopolise access to sources of knowledge, whilst lower-tier firms engage with agencies to bypass intra-organisational hurdles. Consequently, local actors' absorption of foreign practices into their own work environments advances the evolution of forms of Japanisation applicable to host-country institutions.

The setting of the nine case studies of joint ventures in the automotive industry has aimed to deepen theoretical understanding of the relationship between investment and absorptive capacity. Of the nine cases, two third-tier firms (Indokarlo Perkasa and Adiwira Plastik) are directly managed by the local firm, Astra, with no IJV. These cases provided useful control cases and comparisons to examine what happens in situations where there is no Japanese investment: whether these non-Japanese firms are still receptive to transfer, and through which channels. Setting out the issue in this way has facilitated investigation of organisational mechanisms that

influence inward knowledge transfer, inter- and intra-organisational knowledge networks and inter-human interfaces. Also, the analysis of Chapter 6 shows that a higher level of foreign capital entails a higher degree of control in managing flows of knowledge and bypassing local institutional constraints and managerial practices. Thus, the JMNC continues to use its power to diffuse its dominant HRM-IR “best practices”. More generally, knowledge transfer between the HQ and foreign subsidiaries of MNCs may be more complex and uneven in newly industrialised countries as a consequence of variations in absorptive capacity. Through the lenses of organisational learning and IHRM, Chapter 6 has explored how MNCs engage in cross-border knowledge transfer and how certain HRM practices can promote absorptive capacity in an EME. Overall, the findings reveal different outcomes related to different *intended* HRM practices, which are associated with different investment modes and knowledge access. The direct presence of and control by a Japanese HQ affect the forms and efficacy of cross-border knowledge transfer. With direct presence, home-country HRM practices are crucial drivers of absorptive capacity and co-evolution (e.g. Toyota and Honda Indonesia). However, with less direct presence, reliance on quasi-government agencies is more important in mediating and supporting knowledge transfer (e.g. JMNC indirect influence through HIDA so that third-tier firms can adopt Japanisation).

Arguably, the adoption of Japanese-type HRM-IR “best practices” for employees’ participation promotes organisational learning and has a wider impact on the host country’s labour market institutions, yet Chapter 6 has illustrated that Japanisation may quickly become a source of competition. In particular, first-tier autoparts firms may seek to monopolise access to Japanese knowledge and capital, while second- and third-tier firms may compete to acquire knowledge resources. Such inter- and intra-organisational competition is a proxy for Japanese influence. Thus, in seeking to facilitate knowledge transfer between inward investors and local firms, both the HQ and the non-organisational actors that serve as knowledge transfer mediators (e.g. HIDA and APINDO/ATC) require a more thorough understanding of the nature of cross-border stakeholders and subsidiary networks, as co-evolution may quickly become a source of competition that may further complicate cross-border transfer. Equally important, the HQ must take into account internal knowledge transfer processes in facilitating knowledge transfer to its foreign subsidiaries whilst limiting its dissemination to rival firms. The main finding of

Chapter 6 is that inter-human relations constitute a significant characteristic of absorptive capacity in an EME setting, as they serve as a conduit for knowledge transfer.

#### **9.4 Actors' Power Resources, Interests and Motivations in Shaping Cross-Border Transfer**

In integrating Ferner et al.'s (2012) and Bouquet and Birkinshaw's (2008) concepts, Chapter 7 has postulated sources, types and locations of power. HQ and subsidiary actors draw power from macro and micro levels; however, the meso-level strategy of MNC actors and agencies postulates a strategy for which neither HQ nor subsidiary actors have the required capacity. The main focus of Chapter 7 is on understanding different actors' interests and objectives to determine their strategy and impact on power interactions and capacities. Institutional (home- and host-country) effects, actors' power and power interactions (e.g. Lange & Becker-Ritterspach, 2016) have been assimilated to answer the research question and provide a more comprehensive analysis of the causal mechanisms of cross-border transfer in an EME context.

The key findings of Chapter 7 suggest that, although micro-level relations between HQ and subsidiary management may appear consensual, Japanese and Indonesian actors engage heavily in political power games through micro- and meso-institutions to leverage their societal and corporate dominance and to influence definitions of HRM-IR "best practices". In the EME context, political alliances develop between institutions, legislative bodies and other actors within and outside the organisation, conditioning emerging sources of power for subsidiary actors. The HQ also engages in meso-political alliances with local and Japanese agencies to diffuse foreign HRM-IR "best practices" transfer within the institutionally constrained host-country setting.

As Chapter 7 has identified, the power of management ideology interactions occurs at the meso level, where quasi-governmental agencies reach out to use this power to overcome conflict and transplant the HQ management ideology. The power of management ideology not only diffuses global management practices, but is also a tactic for the HQ to maintain its control, underpinning its ability to tackle diverse subsidiary actors' interests, motivations and understandings. However, the HQ's direct involvement in HRM-IR subsidiary issues is limited, constrained by local regulations, management practices and norms/attitudes. Accordingly, Chapter 7 has

demonstrated the important role of state-sponsored agencies (rather than FDI or IJV) that operate in the host country based on ODA policy to facilitate the Japanese HQ's management ideology.

The presence of agencies in the host country is particularly relevant to this type of research, as it has been shown that quasi-government agencies may act as arm's-length bodies of foreign governments and MNCs where local institutions prohibit their direct involvement in subsidiaries' management practices. Through ODA policy, agencies such as HIDA experience fewer institutional constraints than do JMNC actors. Japanese quasi-governmental agencies do not require local partners to operate within the systematic constraints of host institutions. Importantly, the analysis of Chapter 7 emphasises how HIDA is able to inject the JMNC's management ideology into subsidiaries' management and workplaces through meso-political tactics. Quasi-governmental agencies' *modus operandi* in transferring, populating and transplanting dominant Japanese management practices to Japanese and non-Japanese affiliates in the host country exemplifies a coordinated capitalist approach in an EME setting. Chapter 7 has also identified the importance of semi-independent business association' roles in MNC global networks, directly facilitating, influencing and shaping contested cross-border transfer phenomena.

### **9.5 Subsidiary Actors' Motivations and Strategies to Gain Status in the Global MNC Network**

In applying Bouquet and Birkinshaw's (2008) framework to an EME setting, Chapter 8 has analysed the alliance strategies of the local BG to mobilise local actors' motivations to protect scarce resources and local systems from foreign MNC actors. This study has refined Bouquet and Birkinshaw's (2008) concept of the causal mechanisms through which low-power actors gain influence and negotiate with dominant actors. As a local management partner of the MNC, the Astra business conglomerate has the capacity to negotiate directly with the dominant Japanese MNC's HQ actors. In particular, with a paucity of functioning capital and the JMNC's liability of foreignness in the host country's labour markets, Astra BG's existence and role allow the foreign MNC to engage more effectively in business. As Chapter 8 has indicated, such relationships are a condition for the HQ to conduct legitimate negotiations with the local BG. However, the foreign investor also has capital ownership in the local conglomerate. For example, Jardine Cycle and

Carriage owns over 50% of Astra International group.<sup>54</sup> Thus, the local BG must carefully balance the interests of the foreign investor, i.e. the MNC, while remaining committed to managing the “independent” local firm. With stronger networks, resources and close links with local associations, the conglomerate is able to strengthen local actors’ power and voice to improve negotiations with the HQ. Nevertheless, to gain legitimate influence with the HQ, the conglomerate must gain legitimacy from local actors by demonstrating a concern for local actors’ issues.

The relevance of Bouquet and Birkinshaw’s (2008) work to this study lies in the mechanisms used by low-power subsidiary actors to gain legitimacy and use power to pursue their interest in protecting local business systems, i.e. HRM-IR practices and policies, and their status in the global MNC network. The contribution of Chapter 8 to the MNC literature is to extend the focus, from how subsidiaries gain attention from dominant HQ actors to how they gain legitimate status in the global corporation’s network. The study has emphasised low-power subsidiary actors’ motivations for gaining status in global MNC networks. It has examined a local BG’s use of alliance strategies to mobilise local actors’ interests and hence shape the local labour market institution. The more explicit critical functionalist perspective of this study is that local management (e.g. Honda, Yamaha and AOP) and even the BG have limited power compared with the HQ. Consequently, the BG’s bargaining strategy would be less effective without institutional support from other local actors, namely Toyota, Honda, AOP subsidiaries’ management, unions and local business associations. The local BG has the capacity to influence and distribute resources and information to local actors. Thus, Chapter 8 has focused on exploring how local BGs engage with local actors in order to establish their legitimacy with foreign multinationals.

Across first-, second- and third-tier automotive supply chain organisations, low-power actors engage in a trade-off strategy with the local BG to gain power and use hidden power to overcome dominant actors’ control and influence. The local BGs’ close ties with the local government, policy makers and other businesses provide local expertise and access to the market, thereby serving as a source of power. Local institutions are a vehicle through which low-power subsidiaries derive power and a

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<sup>54</sup> Source: <https://www.jardines.com/en/companies/companies.html> and <https://www.jardines.com/assets/files/NewsAndEvents/corporate-press-releases/jardine-strategic/p180227.pdf> (accessed 4 September 2018).



means to achieve legitimate influence and centrality. EME conditions may drive the emergence of peculiar sources of power for local actors. Chapter 8 has demonstrated that micro-political alliances between local BGs and other actors serve as a *means* for low-power actors in supply chain organisations to break down dominant actors' power and gain legitimate influence.

A key finding from the interviews conducted for this study is that a stand-alone low-power actor may be less effective in dealing with the dominant HQ directly. The more efficient process for low-power actors to achieve legitimacy is through micro-political coalitions with local institutions, employers' and employees' associations. Additionally, this study has illustrated that in *a specific context*, adversarial actors such as unions and management may form coalitions to strengthen their power against the intervention of dominant actors' control and to protect national business systems. As a consequence, in an EME, subsidiaries may not be totally powerless against dominant MNC actors. Local actors do have a source of power that they are increasingly willing to use to elevate their status and influence in the MNC's networks, whereas dominant MNC actors are only partially able to control and leverage key actors critical to their competitiveness in host-country environments. Andersson et al. (2007) posit that power is constantly contested by the various actors, channels and organisations/sub-organisations that constitute the MNC. However, it is still unclear how subsidiary managers manage the different organisations and the variety of legitimacy processes affecting forms of subsidiary power.

Building on Chapters 6 and 7, the main contribution of Chapter 8 is its analysis of the mechanisms affecting low-power subsidiary actors (management, employees and employer associations) and the types of power resource they use to gain legitimate status in the MNC global network. This provides a fuller understanding of the HQ's power configuration and degree of management control over work, employment and organisation. In general, Chapter 8 contributes to the MNC literature by analysing the impact of business group involvement on the shifting power of actors' roles, as well as interactions that facilitate flows of influence.

## **9.6 Conclusion: Contributions of the Thesis to the Literature**

The main contribution of this thesis is its application of the concept of cross-border management transfers to an under-studied EME context. The focus is institutions,

power and conflict related to the transfer of Japanese HRM practices to EME of Indonesia. Many studies on the international transfer of HRM practices, and qualitative studies on Japanese management and production systems in particular, have applied theories based on cases in Western countries. Yet, relatively fewer studies have applied theories founded on cases in the Asian business system context. However, actors' power relations between home and host countries related to the transfer of HRM-IR practices in the Asian context differ greatly from those in the Western context.

This thesis contributes to IHRM, IR and IB scholarship in three ways. First, Chapter 7 integrates two seminal works on IR and IB to demonstrate the application of Ferner et al.'s (2012) and Bouquet and Birkinshaw's (2008) studies to an EME setting. It suggests that both concepts can be integrated into a coherent framework because they further our understanding of the nuances of subsidiary actors' power, interests and strategies against dominant actors. Second, the thesis identifies important meso-level factors through an empirical exploration of the role of employee networks and representatives, and it exemplifies the types of power and strategies adopted by government agencies in cross-border transfer processes. It also examines the issue of meso-level layering in the context of Japanese MNCs. In so doing, the thesis extends Almond's (2011b) and Morris et al.'s (2018) works on the sub-national (meso-level) embeddedness of IHRM. Third, the thesis analyses the increasingly important interrelationship between MNC cross-border business activity and sociopolitical economic development of the host country (e.g. Cantwell et al., 2010). It has depicted MNC competence in creating an evolutionary approach to the diffusion process and a structural solution to address the complexity and uncertainty associated with the expanding role of EMEs in the global economy.

Moreover, the research design is structured to examine macro, meso and micro processes and the standardisation of Japanisation practices in a selection of Japanese and Indonesian joint ventures. The thesis adopts a multi-site case study approach to analyse critical incidents related to the normalisation role of intermediate institutions and the nature of relations between HQ actors and those at the local level in JMNCs in Indonesia. The data on which the thesis draws are novel and useful in exploring diverse actors' interests, motivations and sources of power across automotive manufacturers, and organisational capacities. Furthermore, the two phases of data collection in Japan and Indonesia provide direct observations of the Japanese HRM-

IR practices at the global training centre (i.e. HIDA Japan), HQ and local sites (e.g. workplaces, management and union training centres). This method enables the author to operationalise the concepts of Lukes' (1975) three-power corporate dimensions to understand the impact of MNCs' activities on cross-border transfer mechanisms (conflict, tension, and sense of dynamisms) between HQ-subsidary actors (e.g. Witt, 2018; Witt & Redding 2013; Fainshmidt et al., 2018). In addition, this method allows the comparison of data collected from different tiers of autoparts supply chain to explore diverse strategies in selecting as well as gaining access to learning Japanese HRM-IR "best practices". It can be argued that the meso level has both conditioning institutions and actors. Through this method, we can see differences between the power resources in micro- and meso-institutional settings and actors' strategy that make Japanese HRM-IR "best practices" more acceptable to the local institution.

### **9.7 The generalisability and limitations of the findings**

This thesis suggests that wider institutional actors outside the firm, subsidiary and workplace level provide important conditioning influences for the assimilation of dominant HRM-IR practices, namely business associations and quasi-government agencies (operating under bilateral policy, i.e. ODA). In particular, the meso processes can connect institutional changes, both at home and in the host country, as well as wider institutional and structural changes in business systems. In so doing, this research expands understanding of the impact of JMNCs' strategic configurations at macro, meso and micro institutional levels, and of subsidiary actors' power to exert legitimate influence in global corporate networks. It sheds light on challenges facing JMNCs in managing foreign subsidiaries, arising from institutional constraints (e.g. Doellgast & Marsden, 2018; Surdu et al., 2018), IHRM practices, and influence in Southeast Asian EMEs where many countries have strategic management interests (e.g. Cooke & Kim, 2017; Witt, 2018).

This thesis contributes to international HRM scholarship by broadening the debate on EMEs beyond mainstream studies of China and India. This contribution has implications that can be generalised for other EMEs, in particular in Southeast Asia (SEA) context and will add new dimensions to our knowledge of cross-border HRM-IR practices, actors' power interactions and resources in diverse institutional settings. Scholars have argued that Indonesia, Malaysia and Thailand, described as

EMEs (Johnson et al., 2000), share similar business systems and are the three largest Japanese FDI recipients in ASEAN since the 1970s (Witt, 2018; Fainshmidt et al., 2018; Witt & Redding, 2013). Witt (2013) offers institutional similarities/differences of Indonesia, Malaysia and Thailand as shows in table 9.7.1 below:

**Table 9.7.1: Summary of institutional similarities and differences**

Category	Indonesia	Malaysia	Thailand
Education and skills formation	Weak	Weak	Weak
Employment relations	Short, with weak unions	Short, with weak unions	Short, with weak unions
Finance	Bank-led, state guidance and relationship	Bank-led, state guidance and relationship	Bank-led, state guidance and relationship
Inter-firm networks	Conglomerates/BGs and strong government ties	Conglomerates/BGs and strong government ties	Conglomerates/BGs and strong government ties
Internal dynamics	Top-down decision-making and little delegation	Top-down decision-making and little delegation	Top-down decision-making and little delegation
Ownership and governance	Family and state	Family and state	Family and state
<i>Social capital</i>	Interpersonal	<i>Some institutionalised</i>	Interpersonal
State role	Predatory	Predatory	Predatory

Source: adapted from Witt (2018) Management in Southeast Asia: A Business Systems Perspective, pp. 9-10

The 1997 Asian and 2007 global financial crises had profound impacts on the advanced (e.g. Japan) and emerging economies (e.g. Indonesia, Malaysia and Thailand) business systems (Johnson et al., 2000).<sup>55</sup> For example, Indonesia may no longer see Japan's declining economy as a desirable model and/or sustainable system. On the other hand, the growing prominence of the EME of Indonesia in SEA illustrates the success of host countries' business systems in not only managing but also improving the economy of Indonesia amid world-wide recessions. Equally important, China's flourishing 21st-century economy has redefined SEA's geopolitical-economic environment. Since 2007, Japan has been attracted to this region's EMEs and their growing middle class. Facing rapidly escalating competition from China, Japan has intensified its SEA investment strategies. Consequently, emerging market economies of SEA (including Indonesia) have

<sup>55</sup> Johnson et al. (2000) further argue that the 1997-1998 Asian financial crisis affected other 26 EMEs.

become markets for their own innovative products and services, but with a lack of human capital development investment. The relationship between Japan and Indonesia encompasses diverse sociopolitical, economic and business systems. Indonesia is dynamic. Its business institutions, which were previously perceived as “weak”, are rapidly developing and increasingly important in the world economy. Nevertheless, we do not yet fully understand the implications of Asia and intra-Asia business relations and their roles in global supply chains, manufacturing and services.

The main contribution of this thesis to IB scholarship is its application of the concept of cross-border management transfers to an under-studied EME context. The focus is institutions, power and conflict related to the transfer of Japanese HRM-IR practices to EME of Indonesia. Indonesia has become a strategically significant and powerful player in the global economy for the Japan, U.S. and Europe, even for other EMEs such China and India. To comprehend the dynamic opportunities and challenges of Indonesia, academics, industry and policy makers need to understand the unique sociopolitical economic institutions of Asia and the complexity of intra-Asian business relationships. EMEs of SEA continue to be a region of strong research interest both in relation to the sociopolitical economic development of the region and intra-Asia business relations as well as competition in gaining knowledge and capital investments. Nonetheless, to date, there has been limited research, with few comparative perspectives, on the dynamics of Asian capitalism undergoing dramatic sociopolitical and economic changes.

Furthermore, while much of the existing literature focuses on Toyota and other car manufacturers, this thesis offers a more dynamic and comprehensive picture of an automotive MNC’s cross-border practices, management control and their outcomes in the host country (e.g. Jürgens & Krzywdzinski, 2016; Pulignano, 2002). Human capital is a vital factor in analysing interrelationships between features of a country’s institutional and firm characteristics and identifying the impact of MNC strategies and coordination. As the spread of globally recognised HRM-IR practices is context-specific (e.g. Minbaeva, 2016; Mellahi et al., 2013), it is important to understand the diffusion of dominant Japanese HRM-IR “best practices” beyond the mainstream Asian EMEs of China and India, and how it varies by industry, institution and bilateral national relationship.

By examining specific types of Japanese HRM-IR “best practices” that facilitate inward knowledge transfer, the thesis identifies multiple actors’ roles in diffusing dominant capitalist business systems to an EME context, including the previously ignored role of agency and business association actors’ involvement, roles and strategies influencing the transfer processes and outcomes. Second, it integrates nuances of Ferner et al.’s (2012) and Bouquet and Birkinshaw’s (2008) studies and analyses actors’ power, interests and strategies at three levels of institutional analysis. The impact of actors’ conflict resides at the meso level, and subsidiary actors should not be perceived as “passive” or powerless, since political alliances and lobbies are apparent in the “weak” institutions of Indonesian subsidiaries (e.g. Mellahi & Collings, 2010). Moreover, the analysis of the mechanisms affecting low-power actors in general is not limited to the manufacturing-hub nations in the SEA context; it also includes peripheral economies within the EU member states, such as Poland, Portugal and Estonia, and the types of power resource they use to mobilise and gain legitimate status in the global MNC network. Hence, this thesis makes two empirical contributions. It synthesises the theory of MNCs in general and produces new knowledge on home and host countries in the development of Indonesian HRM-IR.

*Managerial implications:* Given institutional changes in home- and host-country institutions and issues affecting the operation of MNCs, management practices and the international business environment, Japanese and Indonesian managers must appreciate the importance of conducting business more sustainably in EMEs. The managerial challenges include employee skills formation and delegation in the regulatory uncertainty and rapid changes context that are likely to impinge on managerial decision-making and actions, i.e. whom to trust, with whom to partner and how to maintain relationships. Certain types of cross-border alliances can improve strategic alliances such as government-to-government, as well as people-to-people (small businesses) because for instance, the involvement of quasi government agencies. Dominant management practices may not always be the “best practices” for others. Understanding the socioeconomic and policy conditions of the host country may assist foreign management in developing the best ways to participate in the host country’s labour practices and policy development. Similarly, according to Cooke (2013, cited in Cooke & Kim, 2017: 424), “local managers have skills and attention to the safe operation of the business, but little HRM and IR competence or

interest”, while Rupidara and McGraw (2010, cited in Cooke & Kim, 2017: 424) observe that “in Indonesia, the IR capacity is very immature at both institutional and workplace levels”.

Indonesia’s attractiveness and vulnerability as an EME should not blindfold Indonesian actors themselves. It is prudent for local actors and associations to think strategically about how the impact of FDI might sustainably serve national interests, socioeconomically and environmentally. Indonesian actors must be committed to improving the country’s human resources, business infrastructure and working conditions. It is equally important for practitioners and policy makers to engage with researchers and scholars in the field to gain insights that may help in the development of management and national labour policies. Opening access to researchers to conduct further studies might have a positive impact on organisational and national policy developments.

Moreover, it is useful to understand the roles of quasi-government agencies, NGOs, think tank organisations and other types of not-for-profit agencies operating under ODA to promote sustainable work, employment and organisation practices in various forms of business, such as garment making, manufacturing and agriculture. Management, labour unions and business associations might partner with such agencies.

In clarifying the findings of this thesis, there are certain salient limitations. First, this thesis does not represent MNC practices in all EMEs. This study suggests that future research might involve further comparative studies in other EME settings that share similar business systems (section 9.8 discusses future study in understanding Asian capitalism in three Asian tiger economies: Indonesia, Malaysia and Thailand). Indonesia, Malaysia and Thailand remain as the global manufacturing hubs, and FDI still plays an important role in revolutionalising local industries (in particular Japanese automotive) with strong government interests to protect local markets from foreign corporate exploitations/practices. Thus far, the developmental states of these EMEs of SEA are somewhat within similar institutional frameworks, as Japanese power has historically existed in these EMEs in approximately the same time period, i.e. the 1940s (Witt, 2018; Fainshmidt et al., 2018). A second limitation is that the analysis cannot be generalised in terms of the impact of the cross-border transfer processes, mechanism and outputs to all EMEs contexts, since different business

systems result in different processes and mechanisms. Also, they affect different actors.

The applicability of the findings may *not* pertain to other EMEs such as Turkey and Mexico because their institutional frameworks differ from those of EMEs in SEA. Geographically, Turkey and Mexico are close to their biggest markets: the EU and USA respectively. Since 1959, Turkey has aspired to join the European Economic Community. The EU-Turkey customs union was established in 1995, elevating Turkey's status as a full membership candidate of the EU. As a result, Turkey has harmonised its investment policies and competes with other EU member states (Erdal and Tatoglu, 2002). Kaymak and Bektas (2008) argue that Turkey is characterised as having a weak external (legal and regulatory) but strong internal market control of the family business influence. Mexico is the 3<sup>rd</sup> largest global trading partner of the U.S. and a member of NAFTA since 1994. Mexican corporations are required to follow US accounting standard practices and corporate governance (Siegel, 2009). Further, Mexico's cross-border alliances, bank-led are different from those of SEA. The FDI regulations do not require a local partner, as foreign investors can have whole ownership and no industry limitations in terms of where they can invest. In terms of regulations, this market liberalisation differs markedly from the Indonesian international business environment. All in all, Turkey and Mexico are large and emerging market-based economies with strong adoption of western-style governance (convergence western practices) (e.g. Siegel, 2009; Kaymak & Bektas, 2008), whereas Asian capitalism is evident in Indonesia and other parts of SEA (e.g. Claessens et al., 2000; Johnson et al., 2000).

Nevertheless, the findings of this thesis may potentially apply to those EMEs, as some aspects of this thesis reflect a developmental state (e.g. developing, emerging, advanced). As Siegel (2009) has pointed out, EMEs share common institutional features, namely weak legal institutions and strong family controlled businesses and business groups. Further, scholars have argued that the core nuance of large firm business practices in one EME may have broad applicability to others (e.g. Siegel, 2009; Johnson et al., 2000; Khanan & Palepu, 2000). Third, the institutions of the home and host country are very different. In the case of South Korea, the business group, *chebol*, institutionally and historically has played significant roles in advancing local business systems (e.g. Chang, 2003) in comparison to the less prominent role of business groups in Indonesia that increasingly influence the



national business system. The employer associations of APINDO may have stronger and limited influence on the labour market institutions. In addition, the analysis is also based on a weaker role of the state. Indonesia might be an example of a meso institution, particularly in comparison to China and India, which are not only bigger but also have stronger government control and represent many of the patterns of power interaction at the macro level. Therefore, the findings of this study would not be applicable to China (i.e. strong state control and communist system) or India (i.e. the largest democracy in the world). Furthermore, actors' power relations are different because China and India are less dependent on FDI than is Indonesia. Finally, this study focuses on the automotive industry and large scale businesses. However, the author acknowledges that different industries, sectors, sizes (small and medium), and non-Japanese affiliates (e.g. Korean, Chinese, German and American) have different business systems and actors' relationships. In addition, since this study does not look at the outcomes of the transfer in terms of productivity, future research may need to look at this aspect. In terms of the reliability of the data gathered, it must be recognised that the data are valid for the period in which they were gathered, while conditions in business systems may change over time. Hence it would be appropriate to conduct similar studies in the future to understand the changes and overcome some contradictions in the primary data that has been gathered thus far. The findings explain the mechanisms of cross-border management practice transfer and the impacts of forcing practices in the specific understudied EME setting of Indonesia.

### **9.8 Directions for Future Study**

Building on this thesis, future research might involve further comparative studies of the diffusion mechanisms, implications and implementation of dominant HRM-IR "best practices" in other EME settings in Southeast Asia (e.g. Mellahi et al., 2013). In particular, one might explore different national business systems (e.g. Almond et al., 2003), and particularly the converging HRM practices of a JMNC in Malaysia, Indonesia and Thailand, which Pudelko and Harzing (2008) describe as a golden triangle for MNCs. Another avenue for future research is an examination of differences in the systems and an exploration of how local institutions and actors attract foreign MNCs while protecting local labour market institutions and systems that may foster local identity and competitiveness.

Through the lens of Asian business systems, comparative research might look at Japan's advanced business systems against those of Southeast Asia's so-called tiger economies, Indonesia, Malaysia and Thailand. Pursuing a longitudinal qualitative study would enable investigation of how different models of capitalism affect work, employment and organisation, and particularly the causal mechanisms of cross-border management practices. MNC actors' interactions and power capacities in diverse sociopolitical and economic institutions remain important characteristics of Southeast Asia. The institutional diversity of this region warrants further in-depth comparative studies to test existing theories of institutional variation.

This thesis indicates that the 1997 Asian and 2007 global financial crises profoundly affected Japanese and Indonesian business systems. It is equally significant that China's flourishing 21st-century economy has redefined Southeast Asia's IB environment (e.g. Cooke & Kim, 2017; Jürgens & Krzywdzinski, 2016). Since 2007, attracted to Southeast Asia's EMEs and their growing middle class, and facing rapidly escalating competition from China, Japan has intensified its investment strategies in this region. Consequently, Indonesia, Malaysia and Thailand have become major manufacturing hubs, as well as markets for their own innovative products and services, but with "punitive employment relations regimes" (Ford, 2014: 423). Witt and Redding (2013) and Walter and Zhang (2012) identify Asian business systems as a theoretical framework for understanding the impact of institutional diversity on cross-border transfer which can be applied to more nuanced and complex typologies of comparative capitalism in Asian EMEs. Allen (2014) suggests the presence of more than one business system within a national business system. Considering this multidimensionality, coupled with rapid and diverse institutional changes, rather than "clustering" institutional comparisons, future research should offer more fine-grained institutional analyses (e.g. political-economic history and reforms, IHRM infrastructure, and investment outlook) to explore the applicability of Whitley's (1992) national business system to the context of the 21st century's emerging Southeast Asian business systems. Mainstream studies "lack a comprehensive and detailed overview of the institutional features of Asian economies" (Witt & Redding, 2013: 266). Furthermore, Fainshmidt et al. (2016) and Whitley and Zhang (2016) observe major differences between advanced Asian and emerging Southeast Asian institutional systems with regard to knowledge and human capital formation and labour market organisation. These variations in

coordination raise the question of how far Japanese MNCs can induce convergence in Southeast Asian business systems through the example of HRM-IR cross-border practices.

Asian capitalism is emerging, transitional, and maturing at different rates. Thus, to date, there is no comprehensive understanding of the implications of institutional diversity for work, employment and organisation studies. For example, Japanese automotive MNCs carry out their highest added value (first-tier) autoparts manufacturing in Thailand, with high added value (second-tier) in Malaysia and lower added value (third-tier) production and assembly in Indonesia. As a result, these countries are competing to produce higher value-added autoparts, which will attract greater foreign investment, technology and skills and have a substantial impact on the local economy and human capital development. As Cooke and Kim (2017: 15) observe, Indonesia, Malaysia and Thailand “are actively collaborating as well as competing with one another, pursuing largely similar models of economic growth”.

The extent to which Japanese subsidiaries create large, high-skilled job markets can be tested empirically in three HRM areas: knowledge and human capital, employee participation, and lean management practices and TQM. Moreover, rather than focusing only on first-tier subsidiaries, deepening understanding of the implications, mechanisms and structures of cross-border Japanese business systems requires in-depth comparison of differences in first-, second- and third-tier autoparts manufacturers in Thailand, Malaysia and Indonesia (e.g. Wood et al., 2016; Khan et al., 2015). As indicated by the large-scale study of Japan and Indonesia presented in this thesis, there is potential for Japanese business systems to be adopted, modified or rejected by all three tiers, not only on the production line but also in management offices, with the greatest diversity in autoparts manufacturers (Tier 3).

Future research could also focus on Japanese automotive affiliates in car, motorcycle and autoparts supply chains in Indonesia, Malaysia and Thailand. Such a perspective would enable comparison of institutional arrangements and provide a more comprehensive understanding of key characteristics of business systems in the context of the host countries, a conceptualisation of the different business systems applied in the host countries, and an exploration of the impact of these differences on the host countries’ HRM-IR practices (e.g. Mellahi et al., 2013). In addition to the three main IR actors, the data should cover business groups (conglomerates),

employers' associations, and quasi-governmental agencies and NGOs. Oligarchical business groups remain influential in the ownership and corporate governance structures of these countries, especially where local government remains weak (e.g. Fainshmidt et al., 2016; Ford, 2014; Almond, 2011a; Dieleman & Sachs, 2008).

While numerous studies have been conducted, the existing Asian business systems literature does not yet offer a comprehensive analysis of Asia's advanced and emerging forms of market economy, business systems structures, and strategic linkages between MNCs and host countries. In particular, international value chains (e.g. Thailand produces higher value-added autoparts and exports to Indonesian assembling plants), coordination of labour-intensive manufacturing (e.g. Indonesian migrant workers in Malaysia; Cambodian and Myanmar migrant workers in Thailand), and competitive export-oriented production in these regions may affect MNCs' policy development and practices. Moreover, political and economic coordination in Southeast Asia has changed considerably, but "weak" institutions remain conducive to the influence of powerful actors such as MNCs and business groups. Intensified "globalisation" appears to have had a significant impact on the role of human capital and coordination of labour market institutions in Japan and Southeast Asia. Finally, Southeast Asia's EMEs, in which many countries including the UK/EU, Russia, China and India have strategic investments, are competing for strategic influence in this region.

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# Appendices

## Appendix A: Interview Guides for the Semi-structured Interviews

### *Interview questions for Japanese expatriates with experience and knowledge of local HRM-IR*

These interview questions serve as a guide for the interviewer to engage in a discussion with the interviewee. Please note that any participant can choose *not* to answer any question if he/she feels uncomfortable and/or has *no* related knowledge.

Participation in this research is voluntary and participants will be free to withdraw from the research at any time with no consequence to themselves. In order to maintain professional integrity, the interviewer is bound by the University of Warwick's Research Code of Practice.

The confidentiality of information and the anonymity of all participants is guaranteed. Participants' names, positions and organizations will be anonymised, and any identifying details will be kept separate from the information provided by participants.

#### 1) Background of the participant:

- Can you tell me how long you have been working in [insert organisation name] Indonesia, and in what capacity?
- Have you been trained in Japan (or outside Indonesia) administered by [insert organisation name here] Japan or other associations?
  - How long was the training and what did it entail?
- Throughout working in [insert organisation name], what have been the main types of training that you have facilitated or participated in?
  - Do you think this training was important, why or why not?
- How would you describe working in [insert organisation name] Indonesia with a Japanese presence?
- Can you share your views to describe the difference between [insert organisation name] Japan's and Indonesia's working conditions and learning environment?

#### 2) Questions pertaining to HR practices:

- What is your perspective on the HR practices and policies of [insert organisation name] in Indonesia?
- Do you have any knowledge of the local HR practices/policies adopted from [insert organisation name] Japan?
- What kind of [insert organisation name] Japanese HR practices are applicable to [insert organisation name] Indonesia?
  - Can you give me some examples?

- In the past five years, can you describe the degree of [insert organisation name] Japanese HR practices diffused to/adopted by (directly/in directly) [insert organisation name] Indonesia?
- Can you explain the process of transfer/adoption of Japanese management and production practices?
- Can you share your views on your Indonesian colleagues' skills and experience in adopting Japanese practices?
- Can you share your experience of working with Japanese expatriates working in Indonesia's working environment and with Indonesian colleagues/workers?
- In comparison to your Japanese colleagues, can you describe the work ethic and discipline of your fellow Indonesian colleagues?
  - Can you talk about any differences between those Indonesian colleagues who gained training in or spent time in Japan and those colleagues who did not?
- Can you describe some experiences in which you had difficulty implementing Japanese HR practices/policies at [insert organisation name] Indonesia?
- Can you share with me the type of Japanese best practices [insert organisation name] Indonesia has adopted the most, e.g. TQM, JIT/Lean, 5S?
  - Can some of these skills be applicable to the management (not just on the production line)?

### 3) Questions pertaining to industrial relations practices:

- Do you have any knowledge, views or experience regarding industrial relations of [insert organisation name] in Japan, in Indonesia?
  - Can you share your views on it?
- In what capacity have you been involved in the industrial relations practices/policies in [insert organisation name] Indonesia and in Japan?
- What do you understand about the union at [insert organisation name] Japan and/or Indonesia?
  - Can you describe it and any differences between the unions in the two countries?
- Can you describe your understanding of labour unions in Indonesia?
  - How about unions in [insert organisation name] Indonesia?

#### *Interview questions for Japanese expatriate participants*

These interview questions serve as a guide for the interviewer to engage in a discussion with the interviewee. Please note that any participant can choose *not* to answer a question if he/she feels uncomfortable and or has *no* related knowledge.

Participation in this research is voluntary and participants will be free to withdraw from the research at any time with no consequence to themselves. In order to maintain professional integrity, the interviewer is bound by the University of Warwick's Research Code of Practice.

The confidentiality of information and the anonymity of all participants is guaranteed. Participants' names, positions and organizations will be anonymised, and any identifying details will be kept separate from the information provided by participants.

1) Professional background of the participant:

- Can you tell me how long you have been working with [insert name of the organisation] Indonesia and in what capacity?
- Have you received training in Japan (or outside Indonesia) administered by [insert name of the organisation] Japan?
  - How long was the training and did you take part in facilitating the training?
- What type of training have you attended?
  - What was the purpose of the training and did you find it useful?
- Can you describe your experience working in [insert name of the organisation] Indonesia?
- Can you describe the different working conditions between [insert name of the organisation] Japan and Indonesia?

2) Japanese management and production systems in the host country

- What do you understand about the transfer of Japanese management and production practice from Japan to Indonesia?
- Do you have experience in the transfer processes?
  - Can you describe the inflow of Japanese knowledge skills and practices to Indonesia?
- Would you agree that the degree of Japanisation declines as it reaches the lower tier of the supply chain?
  - What forms of Japanisation has taken place? Can you give me some specific examples?
- Can you explain the inflow of Japanese technology transfer or skills and knowledge transfer (or both)?
  - What has been the significance of and/or the limits of this transfer?
- Having gained training and experienced outside Indonesia, what did you find unique about [insert name of the organisation] Indonesia?
- Can you briefly explain your perceptions of your Indonesian colleagues' skills and experiences and understanding of Japanisation?
- In comparison with your Japanese colleagues, how do you find the work ethic and discipline of your Indonesian colleagues?
- How long will you be in [insert name of the organisation] Indonesia, and after your assignment is completed, will you be assigned to work at other [insert name of the organisation] (outside Japan, within ASEAN)?
- Can you describe some experiences you have gained working in [insert name of the organisation] Indonesia?
- Can you explain the type of Japanese best practices that [insert name of the organisation] Indonesia has adopted the most, e.g. TQM, 5S, etc.?

- Can some of these skills be used for non-technical tasks, e.g. organisation or leadership?

### *Interview questions for Japanese agency participants*

The purpose of this interview is to examine the implementation of Japanese management and production systems practised by Japanese firms that operate in Indonesia's automotive sector. The nature of the interview is open-ended. It is designed to glean the views, knowledge and experiences of the Japanese agency employees who are directly involved in training the Japanese expatriates dispatched to the host countries and trainees from the Japanese subsidiaries operating in Indonesia.

According to the results of the first phase data collection, the researcher has observed that there is a link between Japanese agencies and Japanese firms in diffusing Japanese management and production systems (i.e. Japanisation) to Indonesia. However, there are some degrees of variation in implementing Japanisation, such as training and development, improved working conditions, including 5S, *kanban*, *kaizen*, employee-employer communication.

Therefore, this set of interview questions aims to understand the following:

1. What are the roles of Japanese agencies (e.g. IDE-JETRO, HIDA) in promoting the Japanese management system and working practices in Indonesia?
2. How do you go about facilitating Japanisation in specific Japanese corporations in Indonesia?
3. How have the Japanese agencies helped Japanese firms (and Japanese FDI policy) to conduct business in Indonesia successfully?
4. What are the barriers of implementing Japanisation in Indonesia?
5. What are the variations in implementing Japanisation in Indonesia?

The interview will start with the general background and general experience of the participant. The questions are designed to elicit data on each respondent's current position held, duration of working with a Japanese agency, responsibility and capability. The researcher will then engage in an in-depth discussion about the participant's role in working on a project in Indonesia.

It is important to note that as a researcher, I am bound by the University of Warwick research ethics. The name of the person and organisation will remain anonymous and

the collected data are safely and privately stored. Interview data are used solely for the specific research purposes of this thesis. Below are some preliminary interview questions.

1) Background of the participant:

- How long have you been working with [insert organisation name]?
  - What is your current position, and how long have you held this position?
  - Could you briefly describe your role and responsibilities?
- Do you have knowledge and/or experience of human resources management related roles such as managing people, labour policies, employment relations (in Japan or Indonesia)?

2) Organisation interests in investing in Indonesia:

- Can you share your understanding on the competitiveness of the Indonesian market?
- What are the favourable and unfavourable factors of investing in Indonesia?
- In comparison to other ASEAN countries, what makes Indonesia stand out in investing, doing business?
- What do you understand about Indonesia's emerging market economy outlook?
- Is there a specific department/office of your organisation that oversees trade, investment and business in Indonesia?

3) Business management practice and policy:

- Can you describe some important aspects of management practice and policy, namely HRM, labour policies and employment relations?
- Can you share the interests and roles of Japanese investment organisations (such as JETRO) and government agencies (such as HIDA, IDE-JETRO) in sharing Japanese management and production systems with the Indonesian subsidiary?
  - Is your organisation interested in expanding the training program beyond local organisations with investment from the Japanese firms?
- Can you describe how your firm oversee Indonesian HRM practices and labour policies?
- Can you describe some examples of your organisation's programs or policies to promote the objectives of your organisation regarding "harmonious" employment/industrial relations?
- What do you understand about the Indonesian HRM and IR practices (as well as the policies)?
- Can you share what have been the main issues for your organisation to partner with local organisation in promoting Japanisation?

*Interview questions for Japanese investment organisations in Indonesia*

The following questions are designed to examine the roles and policy implementations of the Japanese agencies/institutions such as [insert organisation

name], in facilitating Japanese investment firms conducting business abroad, such as in Indonesia and other ASEAN member states. Please note that these questions can be adjusted in the merit agreement between the participant and researcher. Some of the questions are interrelated, and therefore, participants may refer to previous questions when answering a particular question. When and if participants deem certain questions *inapplicable* or *inappropriate*, they are at liberty to leave the question unanswered.

Please describe your answer as specifically as possible, please feel free to ask for any clarification or follow up questions.

1) Background of the participant and general experience:

- How long have you been working with [insert organisation name]?
- What is your current position and how long have you remained in this position?
- Could you briefly describe your roles and responsibilities?
- Do you have knowledge and/or experience of trade and investment in Indonesia or in the ASEAN context?
- Have you applied similar knowledge/experience to assist firms that have engaged in business in Indonesia? And in any ASEAN member states?

2) Questions pertaining to the organisation and its roles:

- Could you describe the roles of your organisation in supporting investment in Indonesia?
  - In the past five years, what have been your firm's major investments in Indonesia?
- Can you tell me why your organisation maintains a substantial role in supporting and promoting the development of Japanese firms abroad, i.e. in Indonesia?
- Can you briefly describe how your organisation oversees planning and negotiating between Japan and Indonesia (e.g. what measures, protocols and approaches)?
- What is the objective of your organisation in undertaking trade and investment with consideration of the industrial relations environment and socioeconomic impact on the host country, e.g. Indonesia?
- Can you describe Indonesia's economic conditions and business environments which have been seen by [insert organisation name] to have *favourable* impacts on promoting trade and investment for the past three to five years?
  - Have you seen/experienced the difference between three to five years?
  - Can you give some examples?
- If you can make comparisons between the economic conditions of Japan and Indonesia, in what ways can these two countries gain mutual benefits?
- In comparison to other ASEAN member states, how are current business and political risks in Indonesia different?
  - Given your explanation, what have been the main objective of Japanese firms doing business in Indonesia?

- And how does the Japanese agency help establish business relations with local firms?
- How does the Indonesian emerging market economy outlook favourably support Japanese investment in Indonesia?
- Can you describe how your organisation oversees the Indonesian business environment and labour market institutions?
  - Does [insert organisation name] have a collaborative project aimed at creating synergy between Japan and Indonesia?
  - Can you give me an example?
- Can you name a few important lessons your organisation has learned from Indonesia's dynamic business environment?
- Can you identify some aspects in which Indonesia has learned from Japanese management and production systems, and/or the Japanese business environment?
- Does your organisation have any interest in promoting and facilitating the inflow of Japanese knowledge, skills, technology and investment to Indonesian business?
  - If so, can you give an example?
- Can you briefly explain how your organisation became interested in assisting in forming Japanese-type skills and training for the Indonesian businesses?
  - If so, can you give an example?
- Can you provide some examples of how [insert organisation name] staff enhance their expertise in facilitating trade and investment in Indonesia, e.g. training, job rotation, deployment, etc.?
- Can you describe how your organisation takes appropriate measures to adjust to the changes of the business environment of Indonesia, in particular in the context of:
  - Human capital/skill development, and how?
  - Industrial relations, and how?
  - Labour/employment policies, and how?
  - Would any of above factors be considered as the risk factors?
- Can you tell me what have been the main factors contributing to the Japanese business risks in the past five years?
- And what possible business risks do you foresee over the next five years, in particular, with a newly elected president and cabinet?

*Interview questions for Japanese research participants in general*

These interview questions serve as a guide for the interviewer to engage in a discussion with the interviewee. Please note that any participant can choose *not* to answer a question if he/she feels uncomfortable and or has *no* related knowledge.

Participation in this research is voluntary and participants will be free to withdraw from the research at any time with no consequence to themselves. In order to maintain professional integrity, the interviewer is bound by the University of Warwick's Research Code of Practice.

The confidentiality of information and the anonymity of all participants is guaranteed. Participants' names, positions and organizations will be anonymised, and any identifying details will be kept separate from the information provided by participants.

1) Background of the participant:

- How long have you been working with [insert organisation name]? What is your current position, and how long have you had this position?
  - Could you briefly describe your role and responsibilities?
- Do you have knowledge and/or experience of human resources management related roles such as managing people, labour policies, employment relations (in Japan or Indonesia)?

2) Organisation's interests in investing in Indonesia:

- Can you share your understanding of the competitiveness of Indonesian market?
- What are the favourable and unfavourable factors of investing in Indonesia?
- In comparison to other ASEAN countries, what made Indonesia stand out as a country to invest in or do business with?
- How do you perceive Indonesia's emerging market economy outlook?
- Is there a specific department/office of your organisation that oversees trade, investment and business in Indonesia?

3) Business management practice and policy:

- Can you describe some important aspects of management practice and policy, namely HRM, labour policies and employment relations?
- Can you share the interests and roles of Japanese investment organisations (such as JETRO) and government agencies (such as HIDA, IDE-JETRO) in sharing Japanese management and production systems with the Indonesian subsidiary?
  - Does your organisation have any interest in expanding the training program beyond the local organisation with investment from Japanese firms?
- Can you describe how your firm oversees Indonesian HRM practices and labour policies?
- Can you describe some examples, programs or policies of your organisations to promote "harmonious" employment/industrial relations?
- What do you understand about the Indonesian HRM and IR practices (as well as the policies)?
- Can you share what have been the main issues for your organisation in partnering with local organisations in promoting Japanisation?

*Interview questions for Astra HR, IR and union research participants*



These interview questions serve as a guide for the interviewer to engage in a discussion with the interviewee. Please note that any participant can choose *not* to answer the question if he/she feels uncomfortable and or has *no* related knowledge.

Participation in this research is voluntary and participants will be free to withdraw from the research at any time with no consequence to themselves. In order to maintain professional integrity, the interviewer is bound by the University of Warwick's Research Code of Practice.

The confidentiality of information and the anonymity of all participants is guaranteed. Participants' names, positions and organizations will be anonymised, and any identifying details will be kept separate from the information provided by participants.

1) Professional background of the research participant:

- Can you tell me how long you have been working with Astra and in what capacity?
- Prior to joining Astra, where did you work and in what capacity?
- Have you gained some professional training in Japan (or outside Indonesia)?
- If you have, in which area of training?

2) Questions pertaining to Astra management:

- How would you describe the management style of Astra?
- What have been the foundations of Astra management's approach and practice?
- How did those management systems come about and/or become adopted?
- What are the distinguishing features of the management and practice of Astra in comparison to other organisations in Indonesia?
- To support Astra's philosophy, mission and vision: "*Catur Dharma*", can you describe your roles and responsibilities in promoting it?

3) Questions pertaining to Japanese management and production systems:

- What do you understand of 5S, lean management and production systems, *kaizen* and the like?
  - Are you aware of it?
- What is your view on 5S (*Seiri, Seiton, Seiso, Seiketsu and Shitake*), TQM, *kaizen*, and other types of Japanisation being implemented in Astra?
  - Can you give some examples?
- Is there any element of Japanisation that can be applied to the local HR or IR context?
  - If so, can you give some examples?
- Can you describe how the nuances of Japanisation can be useful for Astra management practices and policy development?

- Can you share your views on the constraints/issues you have experienced in implementing 5S, lean production and the like?
  - What have been the constraints and/or continuing issues in implementing/disseminating elements of Japanisation?
- Do employees (management and workers) have the opportunity to learn Toyotaism in Japan?
  - How about outside Indonesia (e.g. Thailand training centre)?
  - Have the Indonesian trainees gained sufficient knowledge and resources to implement what they have learned in Japan (or overseas)?
- Can you explain how the foreign management practices and policies, business objectives and interests can influence Astra's management?

4) Questions pertaining to management operations in relation to human capital development:

- Compared with other organisations in Indonesia, what would you say is distinct or unique about Astra management strategy in promoting human capital development?
- Can you explain the importance of the "People Roadmap" which is described as the human capital development platform of Astra?
- Could you highlight the implications of the Astra Management System (AMS) for the human capital development framework in Astra?
- Astra Learning Center provides Astra Management Development Institute (AMDI). Can you describe the difference between HRODP and HRMDP?
  - Is HRODP/HRMDP influenced by Japanese management systems, and if so how?
- Is it possible to say that 5S or Toyotaism influences Astra's management practices?
  - If so, how?
- What type of learning environment has Astra employed?
  - How has Astra engaged in learning Toyotaism, 5S, Lean and the like?

5) Questions pertaining to employment/industrial relations:

- Can you describe Astra's industrial relations?
- Can you describe the management-employee communication channels available in Astra?
- Can you describe the industrial relations setting in Astra, i.e. bipartite bargaining and communication?
- Can you share some of your views on how Astra promotes employee participation?
- Can you explain how the Astra Engagement-Based HRM approach influences the company's industrial relations?
- How is the freedom of employee organisations and collective bargaining realized?
- Which channels of employee communication does Astra use?
- Can you share your views on how has Astra has engaged in industrial actions or strikes?
  - What are the roles of HR and IR in engaging management-employee relations?

- How is the freedom to organise and engage in collective bargaining realised?
- Organisation and local news reports suggest that Astra has fulfilled all of the “normative” principles as stated at the bargaining table. Above and beyond national labour regulations, how would they influence other unions outside Astra?
- In what capacity can Astra make a difference in the development of Indonesia’s industrial relations?
- What is your view on union representation among the current cabinet members?
- Astra has a number of business networks and supply chains. Data suggest that the lower the position in the supply chain, the less harmonious the industrial relation is. How do you view that finding?
- Can you share your views on having the union leaders gain training overseas?
  - Would it help the overall management-employee relations?
  - Would it improve union organisation and leadership?
- What do you understand of Japanese industrial relations?
- Do you have some knowledge about *shunto*?
  - What is your view on Japanese “harmonious” industrial relations?
  - What has Astra learnt about Japanese management-employee relations?

*Interview questions for Indonesian business association*

These interview questions serve as a guide for the interviewer to engage in a discussion with the interviewee. Please note that any participant can choose *not* to answer a question if he/she feels uncomfortable and or has *no* related knowledge.

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The confidentiality of information and the anonymity of all participants is guaranteed. Participants’ names, positions and organizations will be anonymised, and any identifying details will be kept separate from the information provided by participants.

Overview of the business association, e.g. APINDO

1) Structure of the organization:

- What are the organization’s objectives?
- How has APINDO delivered its objectives?
- Over the past five years, what have been the changes or measures APINDO has taken?
- Legally, what can APINDO do to promote Indonesia’s industrial relations?

- Formally, what approach/strategy has APINDO followed?
- Why/how has APINDO played an important role as an employers' organization in Indonesian industrial relations (IR)?

## 2) Board members and membership

- What is the composition of the board and non-board members?
- Who are the key figures of APINDO?
- Are APINDO's members exclusively for local Indonesians?
- Who can join APINDO?
- Who are the target members of APINDO?
- Are employee and employees' representatives able to join APINDO?
- Can HR and non-HR practitioners join APINDO?
- Can they (employee, employee's representative and HR) get involved in the APINDO's board?
- What is the capacity of exclusive and non-exclusive members to support APINDO's objectives?
- What are the benefits of joining APINDO?
- In general, how does APINDO recruit its members?
  - How can these members join APINDO?

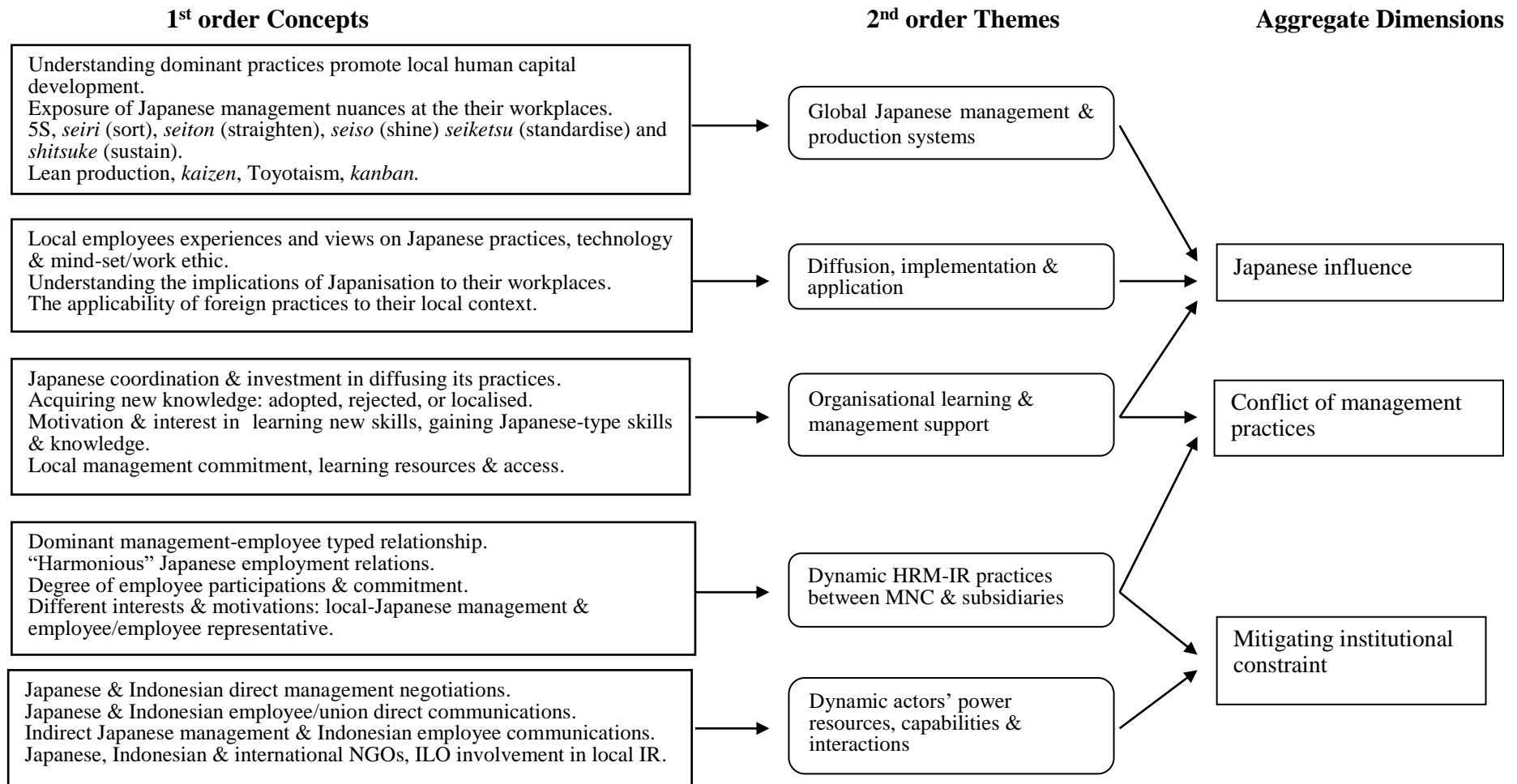
## 3) Activity, plan and strategy

- How does APINDO operate, e.g. financial support, networks and programmes?
- Who are APINDO's international partners?
- What is the value of partnering with local and international organizations?
- How does APINDO promote its programme and strategy locally and internationally?
- What are APINDO's tripartite strategy and agenda?
- Can you describe the structure of the Indonesian tripartite?
- How does APINDO deliver its commitment as a part of this tripartite?
- In what capacity are these partners involved in APINDO/ATC (APINDO Training Centre) activities?

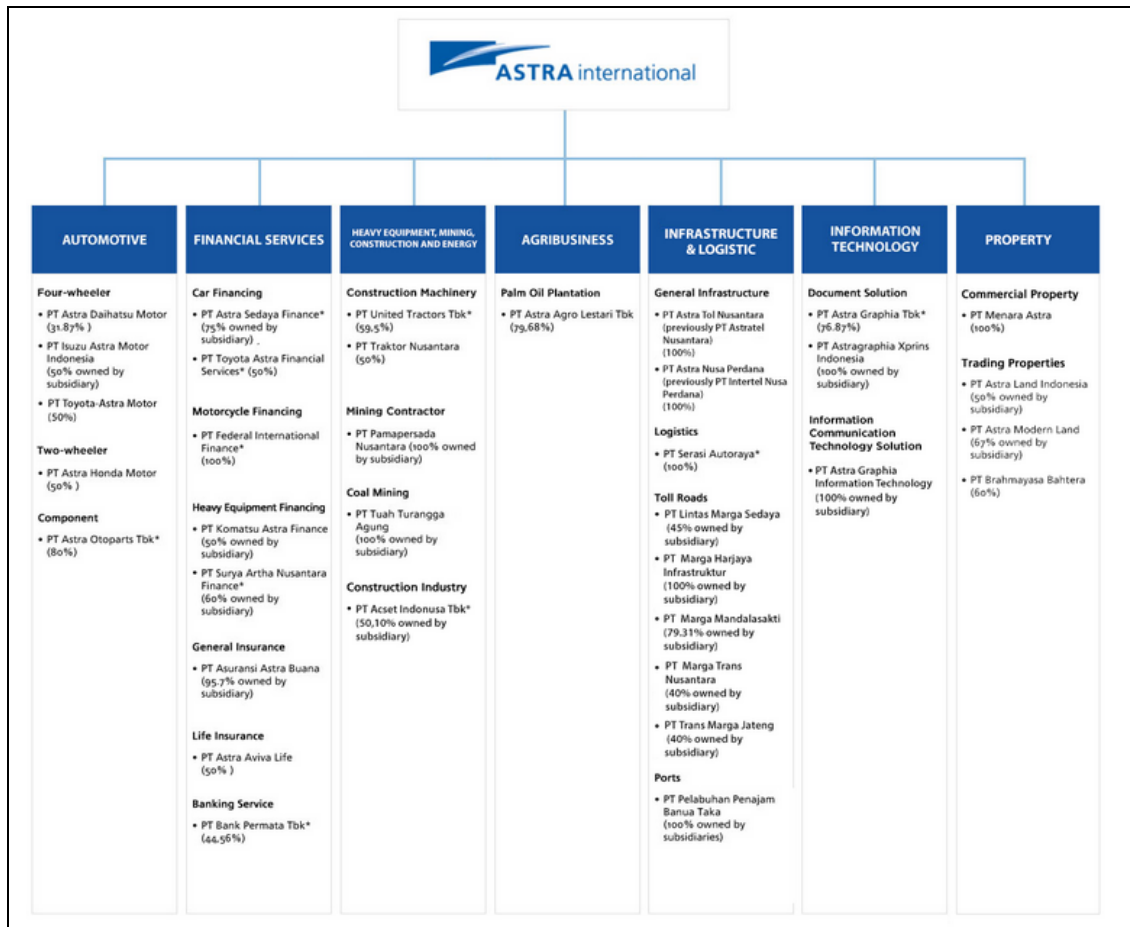
## 4) APINDO Training Centre

- What does ATC do?
- What are the objectives of ATC?
- How can ATC fulfil /deliver its commitment?
- How can ATC support APINDO's objectives?
- How does ATC finance its organization and programme?

## Appendix B: Data Structure



## Appendix C: Astra Group Company Structure



Source: <https://www.astra.co.id/About-Astra/Astra-Group-Structure> (accessed 9 September 2018).

Note: This figure lists only Astra's core companies based on products and services.

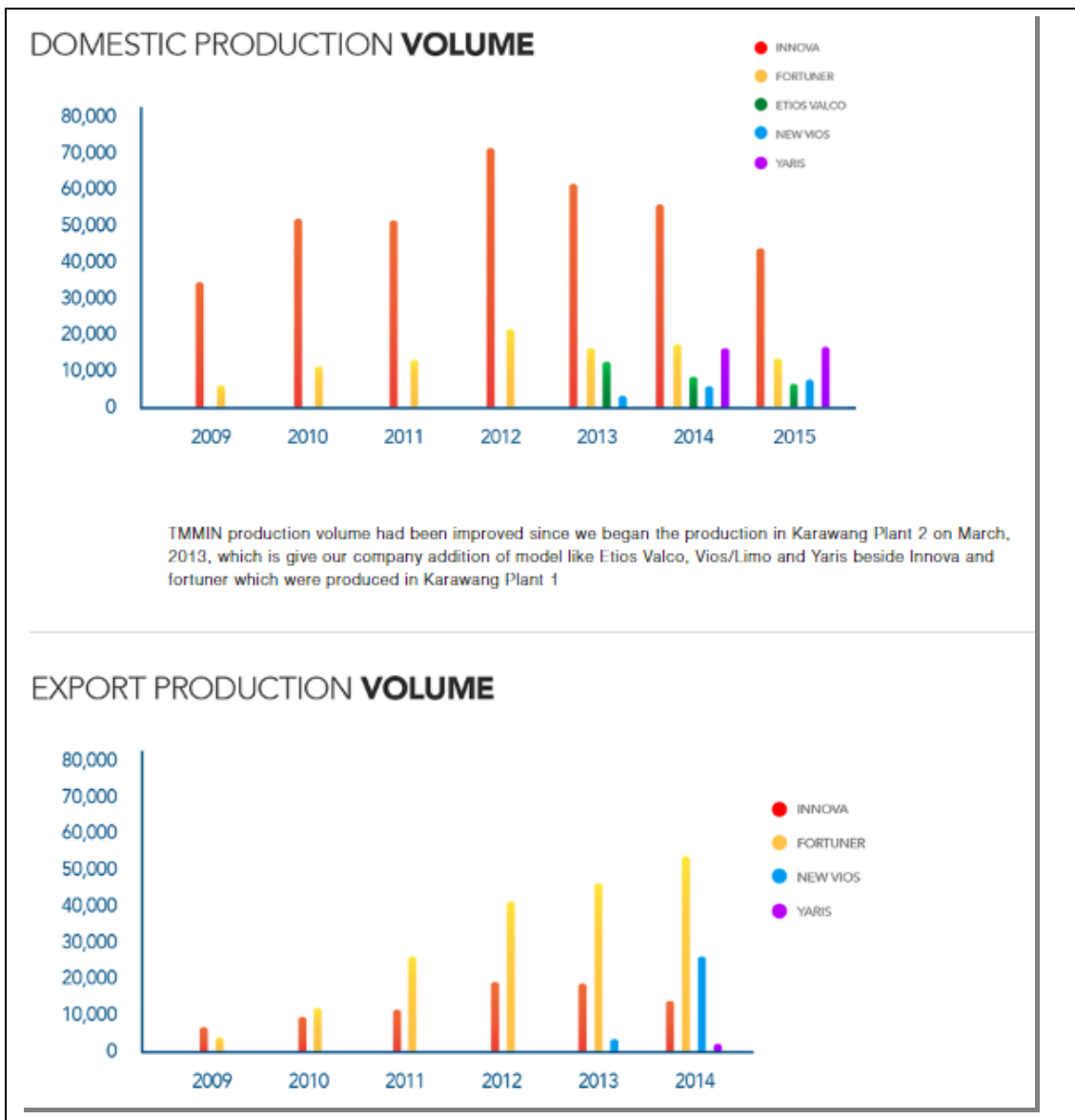
**Appendix D: TMIIN Export Destinations**



Source: adapted from <http://www.toyotaindonesiamanufacturing.co.id/manufacturing/product/vehicle> (accessed 10 September 2018).

Note: TMMIN exports five different types of car, 1TR and 2TR engines, component parts, and dies and jigs to 14 countries.

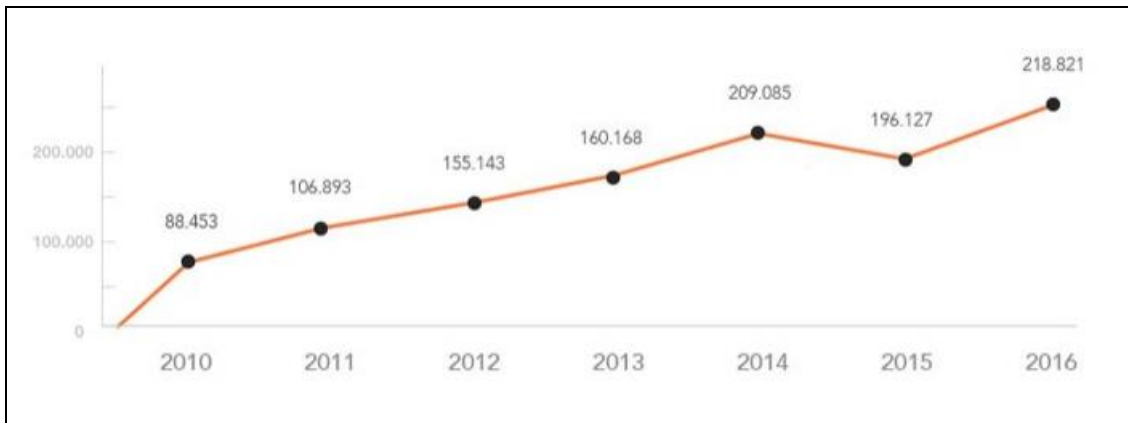
## Appendix E: TMMIN Domestic and Export Production Volumes



Source: adapted from <http://www.toyotaindonesiamanufacturing.co.id/manufacturing/product/vehicle> (accessed 1 September 2016)

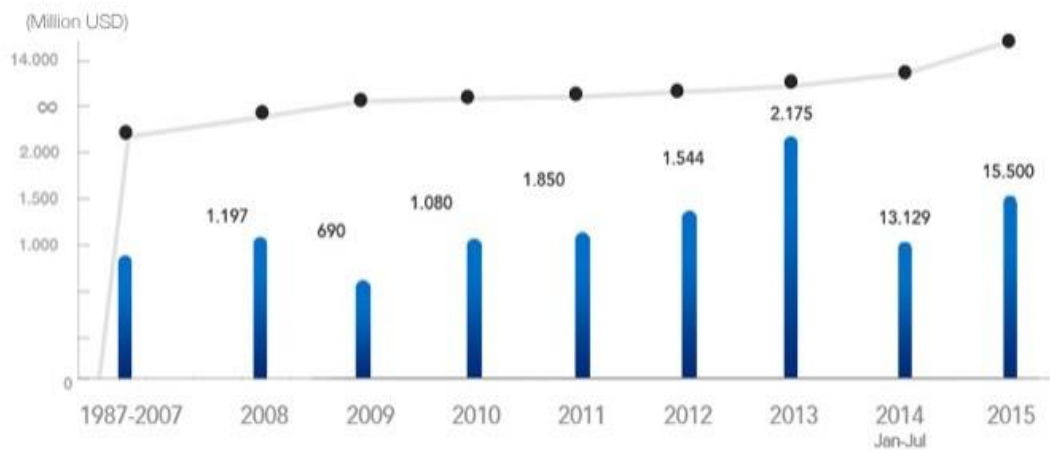
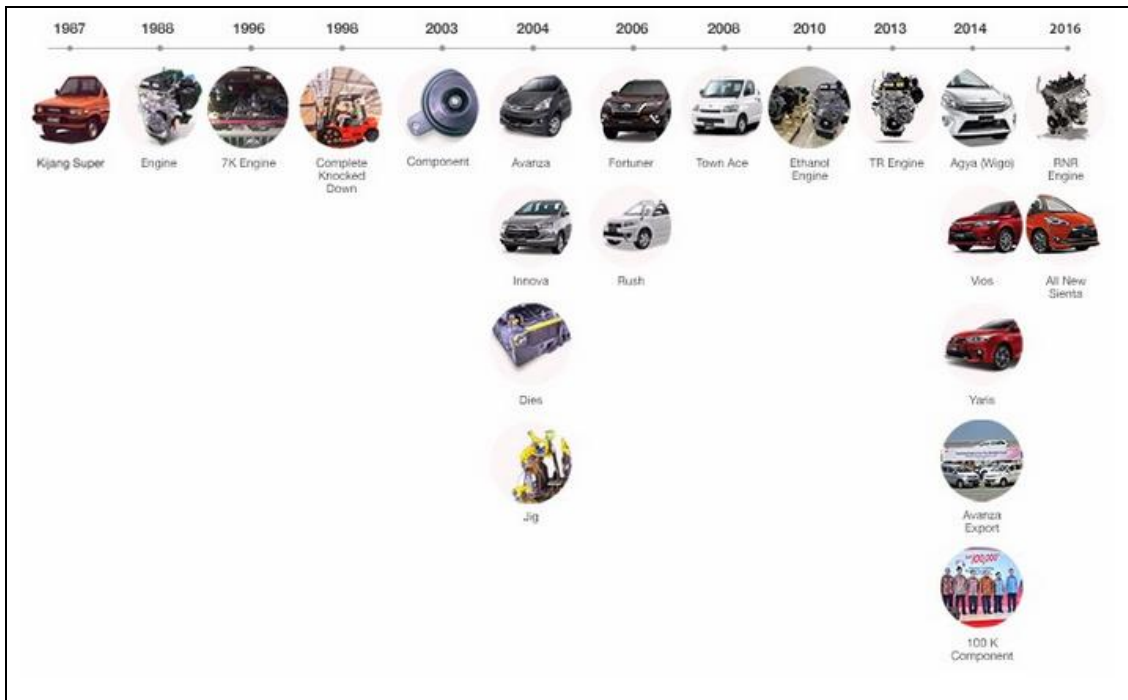


## Appendix F: TMMIN Export Production and Composition



Source: <http://www.toyotaindonesiamanufacturing.co.id/fact-and-figure/production> (accessed 10 September 2018)

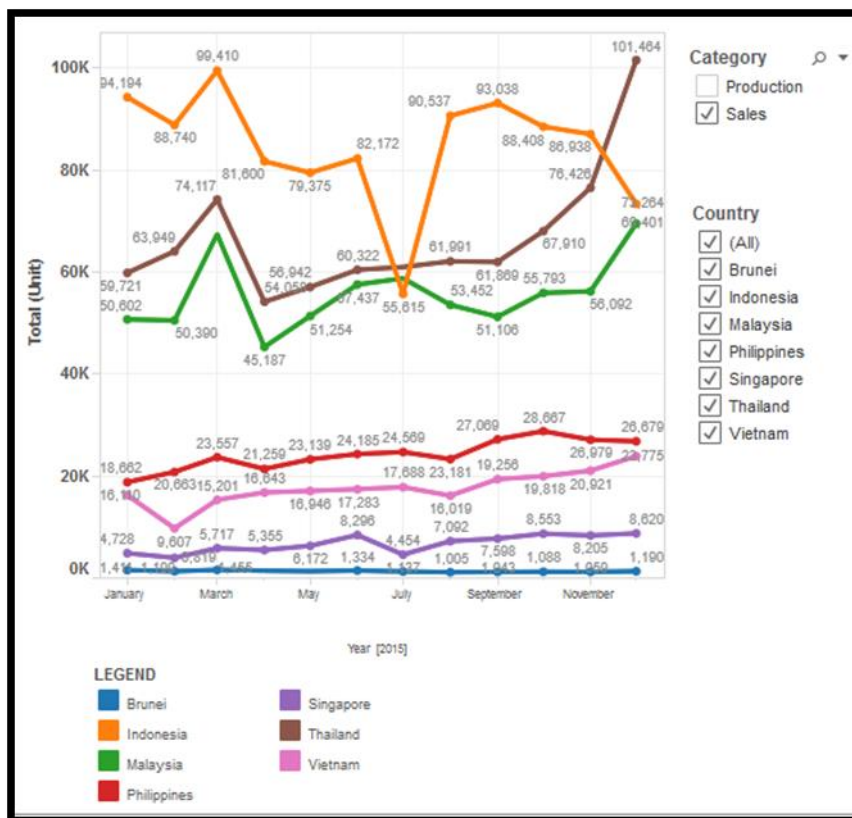
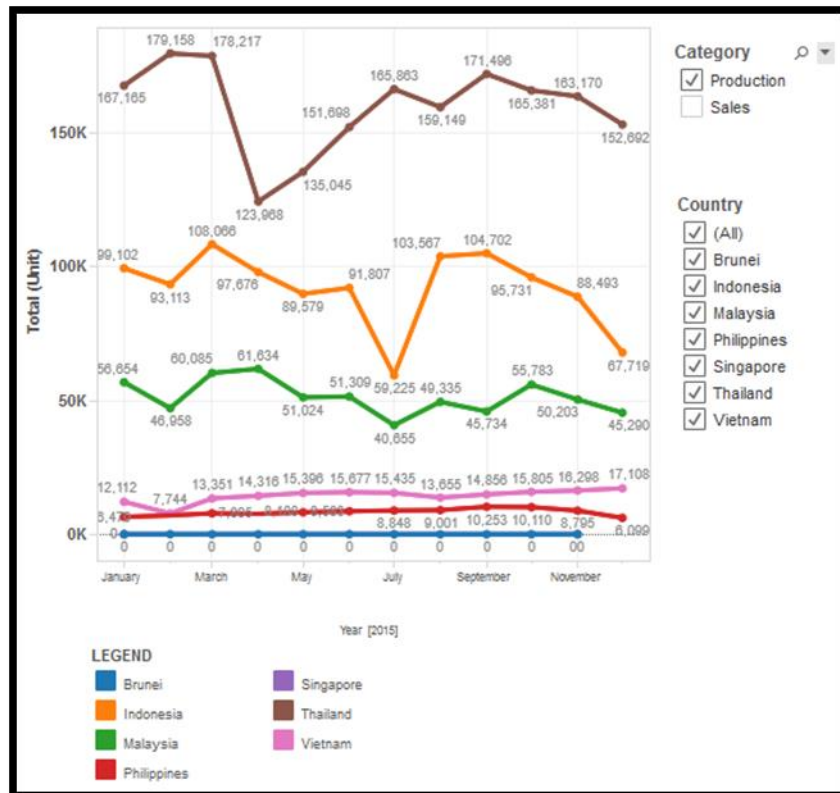
## Appendix G: Toyota Indonesia's Production Timeline and Export Performance



### Cumulative Exports

Source: <http://www.toyotaindonesiamanufacturing.co.id/fact-and-figure/production> (accessed 10 September 2018)

## Appendix H: Automobile Production and Sales in ASEAN, 2015



Sources: OICA and GAIKINDO