

Institutional influences on HRM in the Asian business environment: the case of Indonesia

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Abstract

Purpose – *The purpose of this paper is to analyse the isomorphism phenomenon in the Indonesian HR field. It also attempts to identify characteristics of a highly isomorphic field which tend to be overlooked in institutional analysis.*

Design/methodology/approach – *The research was conducted within a qualitative, interpretive paradigm. Both primary and secondary data sources were utilized in this study. Primary data were obtained from more than 56 interviews, including informal talks and observations. Two types of interviews were conducted, i.e., face to face, narrative, open-ended interviews with HR professionals, consultants and academics and e-mail interviews with several of the HR professionals who were involved in several HR mailing lists in Indonesia.*

Findings – *HR field in Indonesia shows how institutional influences work, characterized by the diffusion and adoption of human resource practices among foreign multinational and large local companies in Indonesia. HR actors within organizations interact with multiple, and often competing, ideas within complex and overlapping multi-institutional settings and take decisions explained by the characteristics of Indonesian HRM as an isomorphic field.*

Research limitations/implications – *Further research is needed to be conducted in similar isomorphic fields to identify the characteristics and whether or not they confirm the results of this research. Further research into the HR field in Indonesia is also suggested to uncover deep-seated institutional logics and mechanisms that can facilitate or constrain future changes in the field. As a transitional field usually contains different, sometimes conflicting, institutional pressures in influencing the direction of change, a better knowledge of how the conflicting forces work is needed to provide understanding about how to steer a well-informed institutional change.*

Practical implications – *Involvement in the networks of diffusion of ideas can benefit the HR professionals of participating firms. The study suggests an active but critical participation in the networks of HR ideas diffusion to obtain greater benefits. The study has shown the existence of different channels of HR knowledge transfer. HR actors therefore need to decide which channels might be more effective in the knowledge transfer. Because the different sources of ideas may provide conflicting ideas, HR actors may need to be mindful in their participation in the different networks to take advantage of them, rather than being confused by the conflicting forces.*

Originality/value – *This research contributes empirically to studies of isomorphism of HRM practices by providing evidence that connects the micro-organizational and the broader organizational field levels. A significant methodological contribution of this research is the use of observations and the participation in professionally oriented electronic mail-list groups as a method of investigating knowledge diffusion within a field.*

Keywords *Diffusion of HR practices, Indonesian HRM, Institutional influences, Isomorphic field, National institutional context*

Paper type *Research paper*

Introduction

Institutional environment has long been regarded as a key determinant of management practices within organizations (Carney *et al.*, 2009; Scott, 1987, 2008). Organizational

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fields, in particular, are seen to provide behavioural or life scripts for human actors within organizations and therefore facilitate or constrain their actions accordingly (DiMaggio and Powell, 1983). Furthermore Kostova *et al.* (2008, p. 997) argue that:

Fields determine the socially acceptable patterns of organizational structures and actions.

Due to the importance of an organizational field for organizations and their members, analysing the dynamic processes within a field is important in understanding how such fields have influence upon actors within them.

It is well understood in neo-institutionalism literature that isomorphism, a phenomenon of increasing similarity of features among organizations functioning within the same organizational field, comes as a result of multiple interactions of actors within that field in their search for legitimacy (DiMaggio and Powell, 1983). Such interactions are facilitated by different institutional mechanisms within and across organizational fields, also from wider institutional contexts. It is therefore argued here that organizational fields have to be seen as constantly open and connected spaces that allow the transfer of ideas within and across the fields, with the role of actors as carriers of institutionalized ideas and practices. It is further argued here, the connectivities of the multiple actors, ideas and institutions determine the growing similarities between organizations in different institutional contexts, although multiple differences exist within those contexts as well. The flow of knowledge from one field to the other increase the dynamics within organizational fields, as different and often competing ideas do co-exist.

Beside arguing that institutional mechanisms facilitate the flow of knowledge, we acknowledge that institutions may also impede the flow, especially of new ideas (Bjorkman *et al.*, 2007). This institutional mechanism may limit isomorphism taking place more deeply and widely and at the same time allow variations to exist within an institutional field (Lee and Lansbury, 2012). This explains how institutions maintain stability (Campbell, 2004; Guler *et al.*, 2002). Dissimilarity in institutional arrangements manifested for example in national business systems (NBS) usually contribute to tensions (Jackson and Deeg, 2008; Ralston, 2008), a subject that this Special Issue particularly addresses.

Adopting the NBS heuristic framework, this research addresses the phenomenon of growing similarities in the main elements of human resource management systems across companies in Indonesia. This is particularly seen among large firms using similar HR practices developed in more advanced HRM contexts, despite the possible impeding role of national institutional context (Edwards and Rees, 2009). Due to sizable institutional distance between a national context such as Indonesia and developed economy contexts, the phenomenon has usually been overlooked and taken for granted. The main research question is, how can isomorphism be explained in such a setting. In trying to understand the phenomena, pertinent questions are raised about the role played by overseas MNC affiliations in diffusing HR knowledge into the field. In general, MNCs have played a significant role in the Indonesian economy, particularly in the manufacturing sector and have made a stronger contribution to the economic growth, in terms of value added and productivity (Takii and Ramstetter, 2005). Drawing on longitudinal data from 1975-2001, Takii and Ramstetter (2005) demonstrate a large increase in the number of employees and the share of MNCs in total employment of large and medium-sized firms. The same trend was also evident in labour productivity in manufacturing MNCs up to the present day (Horwitz and Budhwar, 2015).

The presence and role of MNCs in Indonesia is indicative of the competitive power of the firms' specific advantages or capabilities which, when transferred successfully to subsidiaries, allow them to outperform local firms, as witnessed in Indonesia (Thite, 2015). As Kobrin (1991, p. 18) has argued, integrated MNCs gain competitive advantage from bargaining strength, the flexibility of an international network, and internal economies of scale, scope and learning which can be leveraged across different international locations.

The transfer of business practices and processes, including elements of HR systems, is therefore central to the functioning of MNCs (Bjorkman *et al.*, 2007; Edwards *et al.*, 2007; Ferner *et al.*, 2001). Depending on business strategy and location, MNC subsidiaries are often required by their headquarters to adopt human resource management policies and practices that have been centrally developed to ensure global integration and efficiency. On the other hand, operating in a foreign environment may reluctantly require MNCs to adapt their HR systems to comply with local rules and regulations, customs and cultures. This has resulted in contingency frameworks been conceptualized around the appropriate balance of global integration versus local responsiveness in terms of both structure and processes (Bartlett and Ghoshal, 1991; Doz *et al.*, 1981).

Besides analysing the isomorphism phenomenon in the Indonesian HR field, this research attempts to identify characteristics of a highly isomorphic field which tend to be overlooked in institutional analysis. In presenting the case of Indonesian HRM as a highly isomorphic field, this article argues that isomorphism often occurs via implicit cognitive mechanisms that are not easily traced. Equally, similarities of structures or actions among actors within the same field or across fields cannot always be directly attributed to isomorphism.

Here it is argued, isomorphism occurs via connectivities of actors, and of knowledge, within the field of HR in that country. Scott's (1994) layered model is used for analysing institutions to connect both the micro-firm and the field levels incorporated, in HRM in the case of Indonesia. As such, evidence needs to be provided to explain isomorphic processes and mechanisms not only at the field level, but also connections between processes and actors within firms and their counterparts at field level. This provides an empirical grounding for a multi-actor-multi-level approach of this research (Makela *et al.*, 2014; Rupidara and McGraw, 2011; Sanders *et al.*, 2014).

It is, however, important to note that the often complex and volatile environments like in Indonesia, impose practical limits on the transfer or unlimited choice of HR practices. Such environments may exercise subtle institutional pressures on organizations to determine what is considered allowable and reasonable.

In presenting empirical findings in response to the research objectives, the article is organized into the following sections. First, a theoretical section discusses institutional analysis, including isomorphism, particularly in the context of multinational companies, and provides a brief description of the general conditions of HR practices in Indonesia. Second, the methodology section explains the approach taken for this study, including how the data collection and analysis were conducted., Third, the research findings on isomorphism in the Indonesian HR field are presented and discussed. Finally, the article draws conclusions and discusses the significance of the findings in the context of broader research in the area.

Institutionalism and the analysis of the HRM field of multinational subsidiaries in Indonesia

Understanding an institutional environment, its dynamics, and including its mechanisms, have become a central focus in organizational institutionalism (DiMaggio and Powell, 1991; Greenwood *et al.*, 2002; Scott, 2008). This has included the organizational context where multinational companies are operating in a complex institutional and business environment (Dacin *et al.*, 2002; Kostova *et al.*, 2008). With regard to that particular context, Kostova *et al.* (2008, p. 997) describe a multinational environment as:

[. . .] diverse, nonmonolithic, fragmented, and possibly [contains] conflicting sets of external environment.

With such complexity a multinational context is a particularly fertile and appropriate organizational context to analyse from the institutional perspective (Kostova and Zaheer, 1999). Kostova *et al.* (2008, p. 994) argue that the perspective:

[. . .] provides a rich theoretical foundation for examining a wide range of multiple levels of analysis, which is essential for MNC research.

Researchers have particularly employed institutional theory in explaining MNC HRM aspects at the organizational and subsidiary levels (Bjorkman, 2006; Horwitz and Budhwar, 2015; Paauwe and Boselie, 2003; Rupidara and McGraw, 2011). This article particularly draws on Rupidara and McGraw (2011) who have highlighted the phenomenon of isomorphism in the configuration of multinational subsidiary HR systems. The focus of its analysis is on the phenomenon of isomorphism in the Indonesian HR field in which MNC subsidiaries operate. The current article thus considers that conflicting institutional rationalities exist in the HR field. This stems from both the local environment and from the pressures exercised within and across multinational boundaries, including the pressure termed as “institutional duality” – two distinct sets of isomorphic pressures confronting multinational subsidiaries in maintaining legitimacy within the host country and the MNC (Farndale and Paauwe, 2007; Kostova and Roth, 2002).

In general, the theory considers organizations as being greatly influenced by coercive, cognitive and normative mechanisms of isomorphism within an institutional field (DiMaggio and Powell, 1983; Scott, 2008). Conditioned by such an institutional environment, firms tend to resemble one another in their functions, structures and practices. They are engaged in isomorphism in seeking legitimacy and social acceptance and in coping with uncertainty (Björkman, 2006; DiMaggio and Powell, 1983; Jackson and Schuler, 1999). The conformity to the institutional setting provides a powerful explanation of how organizations become more alike, in contrast with rational expectations that predict differentiation (DiMaggio and Powell, 1983; Kostova and Roth, 2002; Meyer and Rowan, 1977; Rupidara and McGraw, 2011).

Due to the coexistence of conflicting rationalities within the MNC subsidiaries context, studies have found differing directions of isomorphism. Some show that conformity of HR practices with national environments occur as a result of institutional forces such as local legislation, tradition and expectation (Farndale and Paauwe, 2007; Hannon *et al.*, 1995; Rozenzweig and Nohria, 1994). Others have revealed a tendency of converging HR practices towards globalized models from countries such as the USA (Ferner *et al.*, 2001; Pudelko and Harzing, 2007). Research has also highlighted the effects of country of origin (Harzing and Noorderhaven, 2008). Most of the research, however, confirms the mix of influences. With regard to influences from the different multinational countries of origin, research shows that to some extent MNCs play a role in the globalization of HR “best” practices or at least in the transfer of the home-country or headquarter models into the subsidiaries’ environment. This implies that MNCs can stimulate changes within the local institutional fields due to the ownership of perceived superior capabilities compared with local firms (Kobrin, 1991; Rugman and Sukpanich, 2006; Takii and Ramstetter, 2005). In countries with a strong presence of overseas MNCs, local firms come under pressure to adopt new ways of managing, and adopt innovations introduced by MNCs to secure their survival in a more competitive environment.

The co-existence of multiple rationalities implies that many institutional actors as carriers of knowledge and practices may have influences over MNC subsidiaries. Adopting simple dichotomous characterizations of headquarters–subsidiary dependent relations is not enough in depicting the situation (Rosenzweig and Nohria, 1994; Taylor *et al.*, 1996). Irrespective of the influence from home country institutional contexts, it is argued that other sources may have influence on MNC subsidiaries in constructing their HRM practices, as MNCs themselves become more differentiated and complex in form (Kostova and Zaheer, 1999). With their multiple interconnected lines of businesses, MNCs commonly encounter different institutional forces which increase the complexity of choosing their cross-border strategies and operational practices. Appropriately balancing the different forces therefore is a ubiquitous challenge for all MNCs (Deephouse, 1999; Kostova and Roth, 2002). As

identified in this research, the phenomenon of isomorphism across firms, including MNC subsidiaries, within the Indonesian HR field, can also be investigated by examining the characteristics of complex and overlapping multi-institutional influences.

The impact on HRM in overseas MNC subsidiaries operating in Indonesia illustrate the interplay of changing institutional forces and highlights the utility of the theoretical framework of organizational institutionalism. Indonesia is regarded as a transitional environment with major changes taking place in its broad institutional context. This changing environment may bring about more adaptability and provide possibilities for MNCs to have some room for manoeuvring, in introducing HRM practices from the home or third countries into their host country subsidiaries. Therefore, beside the pressures on MNCs, and also local firms, to comply with local institutional frameworks in Indonesia, this article also argues that MNCs can powerfully stimulate change by diffusing HRM knowledge of overseas origin back into the Indonesian institutional context. To clarify the role of MNCs as diffusers of advanced HRM practices into the Indonesian institutional context, information regarding HR practices at local firms is presented to provide a reference point in relation to the adoption of foreign-origin practices of local companies.

Human resource managers within firms can be viewed as key actors who connect firms to the complex networks of actors and new knowledge. HR managers are interpreters of the multiple and sometimes contradictory pressures acting upon them and respond with decisions that reflect an appropriate balance between firms and their environments. This has led the study to also focus on HR managers' interactions in professional networks where they seek advice and knowledge from their peers, for example, on employment regulation, solving specific problems and best practice.

Methodology

Multiple qualitative methods were used in this research, when studying recent developments in the Indonesian HRM field and particularly focusing on how the field influences HRM practices at firm level (Fielding and Fielding, 2008). Both primary and secondary data sources were utilized in this study. Primary data were obtained from 56 interviews, including informal talks (see Table I below). Two types of interviews were conducted. First, face to face, narrative, open-ended interviews with 47 HRM/IR actors were undertaken (Czarniawska, 2004; Elliott, 2005; Flick, 2006; Jovchelovitch and Bauer, 2000; Riessman, 2008). Second, informal talks were undertaken with nine HRM professionals at break hours during research in the case studies.

Participants involved in the first type of interview were professionals, consultants and academics in the respective field of HRM and industrial relations. Forty-seven individuals were interviewed about relevant phenomena of developments in the Indonesian HRM/IR

Table I Interviews scheme

<i>Types of interviews</i>	<i>Types of studies</i>	<i>Group of interviewees</i>	<i>No. of interviewees</i>
In-depth narrative interviews	Main case studies	InMonebank	9
		CoCement	8
		CoInsure	6
		CoTobacco	11
	Sub-total		34
	Supporting	HR Consultants	4
		HR Academics	2
IR People		7	
Sub-total		13	
Sub-total			47
Informal talks			9
Total			56

based on their personal experiences and understanding. From that number, interviews with 34 practitioners from four case studies were focused around the development of HR systems within their firms and also on relevant challenges within their industry. To cover the general trends in the Indonesian HR field, interviews were conducted with four HR consultants who were employed by large consulting firms, of which two are affiliated with MNCs. They were chosen because of their involvement in consulting projects with three of the four case organizations that were involved in this study. Interviews with these consultants were aimed at developing an understanding of the transfer of HRM knowledge, particularly knowledge transfer between consulting firms and their clients' firms as suppliers of new knowledge. Conversations with two prominent HR academics from two highly regarded schools of management in Jakarta were added to understand the HRM trends in Indonesia. The academics had been involved in many consulting projects with firms and public organizations in Indonesia, and in other relevant activities in the diffusions of HR ideas, while the interviews with the IR people were to understand changes in the regulatory frameworks and general labour relations conditions in Indonesia that would imply changes within firms and organizations. All informants are purposefully selected.

Primary data were also collected through online participatory observations from eight electronic mailing list groups of Indonesian HR practitioners (Hewson and Laurent, 2008). The data from the mailing lists consist of information, knowledge exchanges and asynchronous dialogues over various topics, such as labour relations issues and the strategic role of HRM in organizations, between the members. The mailing lists are among the biggest groups of HR professional in Indonesia based on membership size. Table II below provides information about the relevant mailing lists.

Further evidence to understand knowledge circulating within the Indonesian HRM field was acquired through secondary sources such as HR and general business magazines, national newspapers and other internet resources. Relevant reports or statistics were also acquired through, for example, the website of the National Investment Coordination Board (www.bkpm.or.id), and the National Statistical Bureau (Biro Pusat Statistik, henceforth BPS).

Data were analysed qualitatively within an interpretivist paradigm (Berger and Luckmann, 1967; Burrell and Morgan, 1979; Gioia and Pitre, 1990; Minichiello *et al.*, 1995). The analysis was conducted progressively as data accumulated, with a more systematic analysis completed as data collection was concluded. Subjectivity and reflexivity were considered important, and the appraisal and particularly the use of subjective interpretations of both the researcher and the participants were nevertheless treated with appropriate care and objectivity where possible (Alvesson and Skoldberg, 2009; Russell and Kelly, 2002).

Research findings and analysis: the isomorphic field of HRM in Indonesia

Mimicking behaviours across firms

As alluded to previously, HRM in Indonesia is in a transitional and to some extent fragmented stage. It can still be described as generally administrative in nature in most

Table II A sample of HR professionals e-mailing lists from Indonesian organizations

No.	Group name	Date of establishment	Membership (as 15/02/16)	Average no. of monthly messages
1	SDM list	26 August 1998	2,754	160
2	Diskusi HRD forum	22 March 2004	21,635	1,010
3	HRD power	11 August 2004	9,946	398
4	HRI	25 March 2006	347	79
5	HRM club	22 March 2007	18,241	514
6	HR-club	28 March 2007	3,599	91
7	Konsultasi HR	11 August 2007	11,759	265
8	Forum training HRD	18 July 2008	1,214	12

business entities operating in Indonesia, which are mostly small firms. For example, there was a dominance of legal and administrative issues in the communication between HR professionals in the different e-mailing communities observed in this research. Despite the dominant administrative nature of personnel management, data also show that HRM practices particularly in big companies are moving towards a more facilitating or, in some cases, more strategic role. The result of the 2007 HR Excellence survey, conducted by SWA magazine in collaboration with Human Resource Indonesia (HRI) and the Institute of Management of University of Indonesia (LMUI), for example, provides evidence that approximately 87 per cent of HR managers of more than 300 top-ranked companies who participated in the survey reported that they were performing a strategic role. Three MNC participants in our research also showed a tendency towards a successful on-going transition towards strategic HRM. Linking the former administrative approach to the new characteristics of strategic HRM, a former HR manager who is now an HR consultant stated in an e-mail interview:

Most of us have just left the administrative role. The progress has however been relatively slow due to the labour intensive orientation of firms, people's competency has not yet had the focus and therefore the HRM is just standard.

In such a transitional period, external reference points are important. Business firms in Indonesia are eager to seek the "best practice" models and are paying increased attention to conceptual trends that appear mostly in current business literature. Concepts such as talent or human capital management, competency or performance-based HRM, knowledge management and mass customization of HR practices are among the most popular topics identified by the firms. There is also a growing focus on these topics in wider groups as more companies intend to become high performing firms or simply having more professional HRM practices in their institutions. Both the fieldwork case studies and observations from the HR professional mailing lists provide further evidence in support of this trend. For example, the link to external reference points is indicated in a critical point from one of the academics:

If I am allowed to criticize, the big firms sometimes they are [. . .] uhm [. . .] too much [. . .] uhm [. . .] overseas minded.

The interviewee pointed out the phenomenon of mimicking the management fads and fashions within the Indonesian HRM field. HR practices in Indonesia, particularly in big firms, are considered greatly influenced by popular models or ideas from more developed countries, particularly the USA. However, with regard to the mimicking behaviour, some participants further pointed out a problem of miss-understanding and lack of the full knowledge, when firms adopt ideas from external environment. The data from this research showed that companies often work with different consulting firms to garner ideas on different parts of HRM systems. Adopting different elements from different sources inevitably confront the HR actors in those firms with the possibility of mismatch within the systems.

With regard to the problem of integrated HRM systems, interviewees tended to consider that MNCs were generally better than their local counterparts because they had inherited well-established systems adopted from the parent firms (although this was not always the case), with only little contextualization for the Indonesian setting. Empirical data confirmed the belief that multinational subsidiaries tend to outperform their local counterparts. Companies such as PT. Unilever, PT, Astra International, PT, TNT Indonesia, PT. Bank Niaga, Bank NISP and PT. Indosat are examples of well-performing MNC subsidiaries (SWA, 24 (03) September 2008; www.portalhr.com). The case studies data also provide evidence of the status of some MNCs as leading firms in Indonesia. They are generally well-known for their advanced managerial practices, as well as in HRM. The majority of the

interviewees confirmed that some of the HR policies and practices in MNC subsidiaries were transferred from their headquarters.

Furthermore, the degree of resemblance between the subsidiary's HRM to the systems of the headquarters is different from one multinational to the other. On one hand, the case study of CoTobacco in this research suggests a model where a large amount of knowledge was transferred from the headquarters. On the other hand, in the case of Colnsure and CoCement, the headquarters lack significant influence in the development of the subsidiaries' HRM systems. Thus, subsidiaries are sometimes required to access sources other than those from the headquarters, within the host environment. This indicates that although internal institutional isomorphic pressures can occur within many MNCs, local pressures from the host environmental context of, for example, Indonesia exist alongside, and sometimes act as a substitute.

Within the dynamic relationship between MNCs and different institutional sources of knowledge, it is important to note that a number of the aforementioned companies, such as Astra International and CoTobacco, were originally domestic firms. These companies were already strong performers in their businesses and later attracted foreign counterparts for collaborations or acquisitions. Astra, for instance, was founded by an Indonesian–Chinese entrepreneur who introduced strong management principles and constantly developed the systems which led to the firm's high performance and reputation. Astra is considered a pioneer of modern Indonesian management (Habir and Larasati, 1999). Throughout its development, Astra has built strong affiliations and partnerships with global automotive companies such as Toyota, Honda and BMW, and also electronics giants such as Samsung and General Electrics. These collaborations have significantly influenced Astra's management systems, including its HRM systems, as Astra adopted and adapted knowledge from its partners (Sutiyono, 2007).

Even though most of the multinational subsidiaries of affiliated firms are judged to have outperformed their local counterparts, not all of them have reached that stage. Some are lagging behind in imparting more advanced HRM practices. This applies for some, but not limited to, Asian companies operating in labour-intensive manufacturing. These companies appear simply to have taken advantage of the minimum standard labour conditions to reduce their manufacturing costs. Some of these companies have even fallen below such standards which has stimulated workers' protests and strikes. An example of this occurred in a Korean garment manufacturer (www.okezone.com, May 1, 7, and 8, 2008; www.kspi.or.id/buruh-indonesia-menuntut-korea-selatan-membebaskan-tokoh-buruh-han-sang-gyun.html).

However, some local firms were able to transform themselves by conforming to globalized standards or models and are now well regarded for better HRM practices. For example, state-owned enterprises (SOEs) or other public organizations such as Telkom, BNI, BRI or InMonebank the comparison case in this research case studies, successfully went through severe pressure to increase their performance by adopting better HR practices when they were privatized. Another example is Mustika Ratu that has successfully transformed itself from a traditional family-business into a professional firm (www.portalhr.com).

Nevertheless, not all initiatives within the firms have been consistently implemented, especially in SOEs. At Telkom, for instance, it was reported that although there were some significant improvements in its HRM practices, some conventional practices were still maintained (Sutiyono, 2007). For example, Telkom in continuing to use individual salary scales as a basis for calculating annual group bonus payment, was criticized for failing to distinguish between individual performers despite claiming that its remuneration was linked to individual performance (Sutiyono, 2007). This study also found that a predominant existing ingrained management culture can sometimes hinder the implementation of newly adopted ideas. In the CoCement case, data showed that although the company had

adopted advanced HR knowledge from a consulting firm, the implementation of the new knowledge required them to adjust them to the dominant culture of the firm.

Nonetheless, it appears that there was a strong desire from local companies to learn from their multinational counterparts. For example, Unilever Indonesia has been a “model firm” for many companies because its managerial practices, including in HRM, were considered among the best in Indonesia. Interestingly, responding to the claim, Unilever’s HR Director stated that the company is also open to learning from what other companies have developed. Peer learning across firms and organizations has now become more of a common vehicle for improving HRM practices.

Isomorphic pressures from regulative institutional domains

Despite the aforementioned mimicking behaviour or acts to resemble so called “best practices”, firms also comply with other institutional pressures. Most foreign-owned MNCs for example, tend to be very careful in complying with the local regulatory framework for HRM. According to number of interviewees, it is the policy of the headquarters to comply with Indonesian rules and regulations, including building a better relationship with labour unions. Some MNCs even operate above local labour standards (Lipsey and Sjöholm, 2006). A HR manager of a USA-MNC in the food industry interviewed by e-mail concluded:

We obey all rules and regulations. Also, employees are our partner and therefore we must fulfil all their normative rights by conforming to the rules here.

Many MNCs appear to have complied with the Indonesian legal framework. However, as noted by Manning and Roesad (2007); two important issues seem to cause problems in terms of legal compliance. They are the issues of severance pay and fixed-term contracts or sub-contracting. The level of severance pay in Indonesia was criticized, especially by business owners and economists, as being one of the highest in all developing countries and a factor that is detrimental to Indonesia’s competitiveness (van Diermen *et al.*, 2011; Manning and Roesad, 2007). Fixed term subcontracting, or the widely known outsourcing contracts, provides for flexible employment arrangements that companies use to deal with pressures arising from fluctuating economic conditions. Although flexible employment practices existed prior to labour reform in Indonesia in 2004-2005, they have become widespread across firms since receiving legal endorsement.

Nonetheless, whilst there was willingness for MNCs to conform to local regulations, there were perceptions of more stringent interpretations of industrial laws applying to MNCs, compared to their local counterparts. For example, an HR manager of a USA MNC reported that the local Manpower and Employment Office did regular inspections over various aspects of HR/IR practices in search of legal compliance. Nevertheless, it was perceived that regular inspections by the government office to local firms may not be as frequent as to those at MNCs.

Despite evidence of the existence of coercive isomorphism in the Indonesian HR/IR field, it should be recognized that the Indonesian HR/IR system often lacks law enforcement. For example, as reported in a few volumes of Laporan Kondisi Hak Asasi Manusia di Indonesia (Report on the Conditions of Human Rights in Indonesia), various labour relations cases have not been managed appropriately in the past. This phenomenon seems to persist as recent cases reported to industrial relations tribunals also lack proper follow-up (Rupidara and McGraw, 2010). Accordingly, despite facing an environment with a loose legal employment context, many MNCs still tend to conform rigorously to the local legal framework in Indonesia.

Since the field lacks operational mechanisms to enforce laws, this research observed that coercive isomorphism tends to function more on a symbolic level. In some cases, rules and regulations are implemented and both the legal authorities and the affected parties,

particularly business firms, conform to their legal responsibilities. In some other cases, however, illegal practices can appear and regulative pressures are sometimes carried out by informal means, with actions that could violate the rules and regulations. For example, an interviewee explained that before his company adopted legal compliance principles and procedures from its multinational parent, the company's employees were allowed to entertain (*sometimes it can mean bribe*) government officials to avoid legal problems. Rules and regulations that have coercive power for compliance can still be seen to be distorted by dubious practices of unlawful actors.

Besides benefiting from the rather loose regulatory mechanisms, firms also take advantage of changes in the regulative environment that are favourable for them. An example of this is a recent legal endorsement of flexible employment practices such as outsourcing (Manning and Roesad, 2007; Rupidara and McGraw, 2010). After receiving the endorsement, outsourcing practice has been widely spread across firms and public organizations. All case organizations in this research also confirm that they have introduced this practice. Rupidara and McGraw (2010) however contended that the wide adoption of the practice has actually created legal problems because many organizations do not strictly follow legal requirements. Although this phenomenon shows how regulatory mechanisms endorsed isomorphism, they can also be misused at the same time. The wide-spread use of the practice shows that changes in particular aspects of regulations that favour firms could easily affect the managerial behaviours of companies.

Isomorphic processes in the normative institutional domain

As in other domains, isomorphism can also be found in the normative institutional domain of the HRM field in Indonesia. It was observed that this related to the role of knowledge creating institutions such as academic institutions, professional associations, or consulting firms setting new normative standards into the field. Initial data show there seems to be an increasing number of companies that are using the professional assistance of such institutions. For example, Bank Permata, a large national bank in Indonesia, worked with consulting firms to facilitate fundamental changes necessitated after five banks merged into one (www.hrportal.com). Two of the consulting firms were Accenture and Hewitt Indonesia. Accenture provided assistance in helping to reduce staffing levels, while Hewitt helped to install a new job grading system. Another example is Astra which worked alongside Prasetya Mulya Business School and the Asian Institute of Management in the Philippines in their in-house training and development programs (SWA 24 (03) 2008). All case study companies in this research also worked with different consulting firms in absorbing new standards of HRM practices. This provides evidence on roles professional or normative bodies have played and are continuing to play, in transferring new (knowledge) standards of practice into firms in Indonesia.

It is worth noting that within the collaborative relationships between consulting firms or academic institutions and their clients, some of the knowledge brought in by the institutions originated from other knowledge repositories outside of their own, whether from their parent or affiliating companies. The transference of knowledge in global networks of professional firms can be highlighted in this research. For example, one consultant said that:

For salary survey and retirement [services], the tools [we used] are the same for the whole Asia Pacific.

Furthermore, the client firms of this consultancy organization are spread across a number of industries, including public organizations. This example shows that standardized knowledge and processes are delivered across organizations as well as geographical regions, thus gradually disseminating new standards in the HRM field across the region.

A new but growing phenomenon could also be discerned involving the diffusion and adoption of HR professional knowledge from the wider field increasing the number of HR

professional groups. These groups have been a major vehicle for many professionals to tap into the increasing knowledge base available within HRM. Many Indonesian HR professionals, including those from MNCs, are increasingly involved in the groups, usually in the form of virtual or e-mailing groups which is more informal. Some groups are transforming themselves into more organized groups, with regular physical meetings for improved knowledge sharing. Observations from the e-mailing lists show that some groups have even attempted to develop a specific educational curriculum for member and non-member professionals. Further, one group had even sought to gain authorization to conduct professional certification. It can be foreseen that there is an increasing role for the professional HR groups in standardizing HRM knowledge and capabilities within the field in Indonesia, which could positively change the landscape of HRM professional practice in the near future.

Isomorphism across institutional domains

Isomorphism was described as taking place within all domains of the Indonesian HRM field. Mechanisms of isomorphism can also connect different actors across domains. An example of this is a combined work done by the Management Institute of the University of Indonesia, the HR Indonesia Foundation (one of community-based HR professional groups) and SWA business magazine. Since 2006, these actors have annually awarded the HR Excellence (HRE) Award to best performing firms with regard to HRM practices. This award, which includes surveys and assessments into nominated firms aims to promote best HRM practice that can be openly accessed by other organizations (Soetjipto *et al.*, 2007). The award for 2016 was held in February where Astra Sedaya Finance and Maybank Indonesia are among the winners (SWA 02/2016).

Increasingly shared-learning among actors and firms within the Indonesian HR field have been another mechanism that extended the transference of new knowledge, as well as complying with regulatory frameworks. Companies and particularly the HR actors appear to be more willing to commit resources to develop multiple channels for access into new knowledge sources or learn from their peers. In addition, in relation to firm to firm relationships, this study found that the participation of individual actors in public learning forums such as seminars, workshops, training programs, even informal knowledge sharing groups, have been used as alternative channels for the diffusion of HRM practices.

Discussion

Inter-organizational and inter-individual contacts have been shown in this study to be a major vehicle for isomorphism to occur. This supported the transfer of knowledge, including new standards from outside to and within the field of HRM in Indonesia. The contacts connected different HR actors to different repositories of knowledge, within and across institutional domains. This research supports previous studies that have been developed by, for example, Easterby-Smith *et al.* (2008) in knowledge transfer research and Scott (2008) and Carney *et al.* (2009) in institutional analysis for the transfer of ideas. Further, relationships between multinational companies and their subsidiaries have been shown to be a main element in this notion of successful HRM knowledge transfer (Smale, 2008). For example, the relationships have enabled knowledge that was previously external to the Indonesian HRM field to be introduced later into the field and become new industry standards through various mirroring and standardizing mechanisms. This study however found that MNCs are clearly not alone in carrying out this role. Consulting firms and academic institutions, particularly key business schools, are also important institutions for imparting the external knowledge to Indonesian local firms.

The mechanisms described above enable HR professionals in different local and multinational companies, to benefit from imitating and initiating the practices of successful companies, including MNCs. This appears to support the ubiquity of mimetic isomorphism in the Indonesian HRM context. This research also further supports the earlier works of

Lipsey and Sjöholm (2006) on labour wages and of Takii (2006) on productivity increases which show that MNCs pay higher wages and are more productive than local companies, and who argue that there is a transference of relevant practices (and knowledge) into local firms.

However, more generally in the Indonesian context, it is contended that the isomorphic effects noted will have their limits. Particularly in only reaching a limited number of companies: specifically, large and medium-sized companies that have enough resources and willingness to access the new knowledge sources. It is still rare in Indonesia to find the diffusion of modern HRM practices to local companies, in general. Outside the boundaries of firms practicing modern HRM, there exists a different world. In the micro, small, and medium size enterprises (MSMEs) and informal sectors, workers are often poorly paid compared with workers in large formal companies. They are also more likely to work above normal hours and mostly without days off, without overtime pay, without or with minimum social security, in bad working conditions, and without being registered or recorded by the authorities (Mott MacDonald, 2008). These employees are very far from benefiting from the modernization of HRM/IR practices now occurring in more formal sectors and especially in modern medium and large size companies in Indonesia.

Conclusions and implications

The data analysis presented in this research characterized the Indonesian HRM institutional context as a field where firms and their supporting counterparts such as consulting firms and academic institutions, are connected through different mechanisms for transferring knowledge. There are collective “efforts”, although disjointed, to shape the field by infusing and distributing standardized or professional, global knowledge of HRM. This has led to a resemblance of HRM practices in one firm to those of others, although the growing similarities do not appear to be universal.

Based on the analysis in this research of the Indonesian HRM field, an isomorphic field can be identified by a number of characteristics:

- Such a field may usually be in a transition, where in this case of Indonesian HRM it is moving from administrative into the more strategic functioning of HRM within firms;
- As a field in transition there are increasing demands for innovative knowledge or models as a reference to use for undertaking changes;
- As it is transitional and lacks internal reference, new knowledge has been provided mainly from the external institutional environment;
- In transferring external knowledge into the field, different actors, such as MNCs, consulting firms, academic institutions and elite firms, have played an important role in the diffusion of knowledge into the field;
- The incoming external new knowledge has then been further propagated through various institutional mechanisms that involved links between actors and this in turn shaped HRM/IR practices within many organizations, although it is also argued to have been limited to mostly large and some medium-sized companies; and
- An isomorphic field would show increasing levels of interaction among and between actors and new knowledge.

Although this article has documented isomorphic mechanisms in the diffusion and adoption of HRM practices, it is important to note that institutional changes are still occurring in different levels in the fields, including legal, cognitive and normative frameworks of the HRM/IR field in, for example, Indonesia. At macro level, it can be observed that there are initial indications of the emergence of HR professional bodies that may further impose more standardized HR knowledge within the field over time. Also, the relationships, alliances and

power relations among relevant actors and institutions may also further push regulating actors such as the government of Indonesia to reform labour relations standards. Relevant information has been provided to suggest that any significant positive change in the regulative framework may influence the behaviours of organizational actors who would then benefit from this change.

At the meso and micro levels, both multinational and local firms in Indonesia show some willingness to conform to the changing legal and normative frameworks that are also favourable to their own interests. The rapid spread of outsourcing practice is an example of this and how different institutional forces affect the behaviours of actors both positively and negatively in the HRM field. Isomorphism was shown to be reinforced by the mimetic behaviour across firms, especially in the companies that are interested in developing their HRM/IR practices, and by the normative referencing to new knowledge and models disseminated by educational and consulting institutions. The Indonesian HRM case provides an example of how multi-institutional influences, at both micro and macro level, have shaped an institutional environment and changed the behaviours of actors within it.

Finally, from this study, a number of important findings can be discerned to support much-needed further research in this important field of management research. First, further research could be undertaken using the findings to extrapolate what is relevant to the wider area of HRM and business practice in the South East Asian region. Second, this research has revealed a number of characteristics of a highly isomorphic field based on the case of the Indonesian HR field, and it is suggested that further research be conducted in similar isomorphic fields to identify these characteristics and whether or not they confirm the results of this research. Third, further research into the HRM field in Indonesia is also needed to uncover deep-seated institutional logics and mechanisms that can facilitate or constrain future changes in the field. As a transitional field usually contains different, sometimes conflicting, institutional pressures in influencing the direction of change, a better knowledge of how the conflicting forces work is needed to provide understanding about how to manage effective, well-informed institutional change within the Asia-Pacific region.

Moreover, involvement in the networks of diffusion of ideas can benefit HR professionals in Indonesia. Further, the study highlights the need for active but critical participation in the networks of HRM knowledge and diffusion to obtain greater benefits during the period of transition in Indonesian HRM. The study has shown the existence of different channels of HR knowledge transfer. HR actors therefore need to decide which channels might be more effective in knowledge transfer, from inside or outside the Indonesian HR field.

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