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Knowledge and HRM practice transfer in emerging economies: the case of Japanese joint ventures in Indonesia

ABSTRACT

Through the lenses of organizational learning and human resources management (HRM), this paper explores how MNCs engage in cross-border knowledge transfer and how HR practices promote absorptive capacity in an emerging market economy. The findings reveal outcome differences relating to different HRM practices, themselves associated with different investment modes. Longer presence and direct control by Japanese headquarters affect the forms and effectiveness of knowledge transfer: with direct presence, home-country HR practices are crucial drivers of absorptive capacity, while with less direct presence, reliance on external agencies is more important in mediating knowledge transfer.

Keywords: Absorptive capacity, cross-border knowledge transfer, human resources management, emerging market economy, automotive industry.

1. Introduction

We investigate how Human Resource (HR) and industrial relations (IR) affiliates' practices promote local employees' ability, participation and motivation, using primary data from eight Indonesian and Japanese cases within the same business group (Astra International) 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 learning. We explore *inter-organisational* relationships between Japanese firms, Indonesian affiliates, an Indonesian joint-venture partner and Japanese state-sponsored organisations directly involved in foreign knowledge transfer processes, as well as *intra-organisational* relationship among different stakeholders. The focus is on organisational learning processes that support the local capacity, participation and commitment to scrutinise new knowledge in a host-country environment characterised by less stable institutions (e.g. Meyer & Peng, 2016), less investment in human capital development and bottleneck business infrastructure (Irawati, 2011). The specific empirical case examines the inward transfer of Japanese management concpets, also known as "Japanisation" (Smith & Elger, 1994; Womack, Jones, Roos, & Capetner, 1990; Turnbull, 1986), focusing specifically on the knowledge transfer dimension of automotive management systems exemplified by Total Quality Management (TQM), Just-In-Time (JIT), the Toyota Production System (TPS), Kaizen and 5S.¹ A fuller appreciation of how HRM practices contribute to absorptive capacity to the more nuanced and contextualised approach to knowledge transfer called for by Minbaeva et al. (2014), May, Stewart, Puffer, McCarthy, and Ledgerwood (2011) and Michailova (2011). The paper seeks thereby to move the debate from simply documenting the extent of this phenomenon (which has been done

¹ The 5S are: *seiri* or sort, *seiton* or straighten, *seiso* or shine, *seiketsu* or standardised and *shitsuke* or sustain (Narusawa & Shook, 2009).

largely through quantitative methods) to capturing the nature, processes and context of knowledge assimilation.

The paper is structured as follows. First, it revisits relevant international business (IB) literature in the emerging market economy (EME) context and integrate it with HRM-IR contributions. Next, we construct research questions on the hitherto under-explored issues of: 1) absorptive capacity mechanisms under diverse levels of headquarters (HQ) direct control; 2) the implications of HR practices for 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.

2. Conceptualizing the diffusion HRM practices 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 while several HRM practices may be identified as potential contributors to absorptive capacity, and thus as facilitators of knowledge transfer, there is a paucity of 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 HRM scholars (e.g. Martinez Lucio, 2014; Stewart, 2014; Ferner, Edwards, & Tempel, 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 fewer stable, tested channels for knowledge transfer. This further problematises recipients' engagement in knowledge creation (Michailova & Mustafa, 2012; Song, 2014).

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 our understanding of how and why affiliates’ employees acquire, apply and share new knowledge (Jiang, Lepak, Hu, & Baer, 2012; Kang, Morris, & Snell, 2007). Knowledge transfer mechanisms rely on individual and interpersonal interactions, in particular in the context great demographic and working conditions differences of between knowledge sender and recipients. Minbaeva et al. (2014) argue that when these are absent, knowledge transfer is limited. 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 affiliates’ adoption and diffusion of knowledge, MNCs must maintain transparent communication among organisational units (Meyer & Peng, 2016; Björkman et al., 2007). This interpersonal interaction mechanism serves as an inter-human interface through which to share expertise and recognise the capabilities of foreign affiliates, which Minbaeva et al. (2014) postulate as the micro-foundation of absorptive capacity.

Building on work by Minbaeva et al. (2014) and Aguilera (2007), Björkman et al. (2007), this paper posits that a series of causal relationships exists between 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. The case of Japanese organisational concepts is a privileged one, as the literature has established the importance of their embeddedness in Japanese HRM-IR (e.g. Stewart, 2014; Aoki, Delbridge, & Endo, 2014; Ferner et al., 2012; Marchington, Wilkinson, Donnelly & Kynighou, 2006). When Japanese organisations internationalise, questions emerge regarding how such specific learning mechanisms can be diffused, and the importance of management-employee shared understanding (instead of top down authoritarian approaches) in promoting affiliates' 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-IR practices; however, we do not know enough about which forms of training provide such support, and how. For example, Barley, Treem, and Kuhn (2017) argue that research exploring processes of knowledge differentiation is still under-developed. At the micro level, this paper focuses on the importance of formal home-country HR training schemes in fostering affiliate employees' participation in and commitment to acquire foreign practices. It has been proposed that trainer–trainee face-to-face interactions influence learning relationships (e.g. 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, Van Den Bosch, & Volberda, 2005; Lenox & King, 2004). How do affiliates' HR managers engage local trainees in using skills and knowledge from the MNC's home country? This line of inquiry leads us to research question (RQ)1:

How do home-based training models shape employees' ability to acquire new knowledge and adopt management practices?

Another fundamental aspect 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 Japanese management systems, trust builds upon sharing-accepting understanding is perceived as a key motivator (Stewart, 2014; Roy, 2012). Dhanaraj, Lyles, Steensma, and Tihanyi (2004) also note that strong motivation is based on both trust and shared values in inter-human and sender–recipient knowledge relationships (Inkpen & Tsang, 2005; Kostova & Roth, 2002). Crucially, the inter-organisational knowledge transfer network includes not only HQ and affiliates, but also other actors such as unions and employer associations, and quasi-government agencies who directly involved in disseminating and planting Kaizen, TPS, JIT concepts in the host country. Therefore, HRM practices such as employee participation, job rotation and internal communications may be viewed as motivational tools, particularly when they contribute to trust-building and value-sharing among actors (Khan et al., 2015; MacDuffie & Helper, 2006).

The essence of such HRM practices is the expectation of a positive correlation between employment relations and employee commitment (Martinez Lucio, 2014). Commitment depends largely on management commitment to invest on training, alongside the role and effectiveness of unions and employers' associations (Martinez Lucio & Mustchin, 2014). Training focused 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. Martinez Lucio and Mutschin (2014:119) question whether, in Indonesia, the development of learning has been 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 paper examines how MNCs and affiliates' employee 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 management practices in Central Eastern European subsidiaries (Meardi & Tóth, 2006) and more broadly to surprising levels of retention and skills upgrades (Meardi, Strohmer, & Traxler, 2013; Meardi, Marginson, Fichter, Frybes, Stanojević, & Tóth, 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 foreign management practice is particularly appropriate for JMNCs characterised by strong employee engagement (Lucio & Mustchin, 2014; Stewart, 2014). This notion leads to RQ2:

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

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 and 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 is an inter-organisational knowledge transfer tool in EMEs (McDermott & Corredoira, 2010; Ambos & Ambos, 2009). Both formal and informal knowledge sharing are important factors in knowledge assimilation owing to differing organisational learning characteristics across firms (Meyer & Peng, 2016). 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 (Khan et al., 2015; Kogut, 2000). Hence, we contend that patterns of control and interactions between HQ and affiliates, especially in complex inter-organisational networks, affect cross-border knowledge transfer processes and outcomes. This leads to the following RQ3:

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

3. Methodology

The analysis of this paper is based on a large scale collection of primary data covering a set of JMNC automotive manufacturer’s affiliates 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 Association of Southeast Asian Nations (ASEAN) region (OECD, 2017, 2014). Currently, it is one of the 13 most rapidly growing developing countries and transition economies globally (Hoskisson, Eden, Lau, & Wright, 2000; Wright et al., 2005). Importantly for this study, Indonesian organisations have their own HR policies and practices, supported by local laws that prohibit MNCs from direct involvement in HR-IR issues (Irawati, 2011; Debrah, McGovern, & Budhwar, 2000). This makes the management of knowledge transfer from foreign sources particularly contested.

In the automotive industry, workplaces with large labour forces and high technological content are particularly relevant to this study, as knowledge transfer pertaining to technology, management and organisational learning is indispensable nowadays. I conducted a multi-site case study on Astra Automotive Group, Indonesian industrial conglomerate with affiliates owned, to different extents, by Japanese automotive MNCs. In this case, I distinguished

between three main divisions: Toyota (cars), Honda (motorcycles) and Astra Auto Parts (AOP, autoparts). This method allowed us to conduct congruence analysis (RQ1 on employment relations and learning motivation), to investigate the co-variation of foreign control and knowledge transfer processes (RQ2 on direct control and affiliates' knowledge absorption) and to trace the causal process (RQ3 on training and learning abilities) (e.g. Blatter & Haverland, 2012). Following approaches pioneered by Eisenhardt (1989), I used the case study to develop analytical rather than statistically-generalisable findings from rich empirical data with a multilevel research logic. A single country study is best suited to addressing explorative research questions, leading to theoretical propositions that may guide further larger-scale studies.

Extensive and rich qualitative data were gathered from detailed interviews and observations at the company level, as well as with two external agencies in Japan and Indonesia that play an important role in the knowledge transfer network. The 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 HQ direct control, particularly through directorship, managerial and expatriates.

The data were collected from management, employees and union representatives involved in cross-border knowledge transfer in Toyota, Honda and six AOP affiliates.² In addition, I collected data from two external agencies, the Association for Overseas Technical Cooperation and Sustainable Partnerships (AOTS, in Indonesia and Japan) and the Employer Association of Indonesia (APINDO, in Indonesia). Triangulation of data from different actors and organisations allows “a distinct experiment that stands on its own as an analytic unit”

² *First-tier*: Denso (95% Japanese stake and 40-year presence) and Aisin (66% Japanese stake and 22-year presence); *second-tier*: Federal Nittan (60% Japanese stake and 22-year presence) and Kayaba (50% Japanese stake and 38-year presence); *third-tier*: Adiwira Plastik and Indo Karlo Perkasa, both with zero Japanese ownership and no presence.

(Eisenhardt and Graebner, 2007: 25). These eight sites were selected to cover the maximum variation in HRM practices, forms of control and knowledge transfer processes.

Between November 2014, September 2016 and April-November 2019, data were collected through video-calls, face-to-face and group interviews, and onsite visits to organisations, firms and plants in Japan and Indonesia. To maintain anonymity, the precise job titles of research participants are omitted from any quotations. The interviews were conducted in Bahasa Indonesian, Javanese, Japanese and English. 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 respondents were from different hierarchical levels, functional business areas and no less than five years work with the same responsibility/capacity. HRM 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 Japanese management systems, while agency participants' selection was based on their involvement and experience in directly involved in training for Japanese (directors, managers and expatriates), and Indonesian HR (directors, managers, employees) and union stewards. A total of 135 interviews (10 in Astra, 12 in Toyota, 25 in Honda, 30 in AOP and 25 in agencies) was conducted with 33 Japanese and 102 Indonesian participants. Eighty of the Indonesian participants had participated in management and production TPS training in Japan, Thailand, Malaysia and Indonesia. Qualitative analysis was conducted in line with IB studies focusing on factory and management observation, research participants experience, views and cross-cultural nuances (e.g. Birkinshaw, Brannen, & Tung, 2011; Corley & Gioia, 2011). Further data were collected from among the largest Indonesian trade unions in automotive sector (i.e. the All Indonesian Workers Union Confederation,

KSPSI; the Confederation of Indonesian Metal Workers, KSPMI; and non-affiliated unions), the Indonesian Chamber of Commerce (KADIN), Employer Association (APINDO), the Institute of Developing Economies Japan External Trade Organization (IDE-JETRO) and JETRO.

This discourse-based approach deepened our understanding of the dyadic and contested knowledge transfer processes in the EMEs context (e.g. Balogun, Jarzabkowski, & Vaara, 2011). To meet our objective, I conducted micro-level analysis to explore ways in which the organisation had adapted, developed and changed as it received new knowledge. This inductive approach was appropriate for this study because it generated new explanations (e.g. Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011) and ways of conceptualising the phenomenon of MNC cross-border management transfer in EME context where the host-country lack of training and development investments and local business partner has strong interest in managing the inward knowledge flows. Through a three-cycle coding process, the author systematically broke down the data and refined the analysis to develop a conceptual picture, formulate strict standards and articulate insights (Hsieh & Shannon, 2005; Welch et al., 2011). In addition to this triangulation method, reliability was enhanced by collecting and selecting data from a vast range of participants at all levels. All recorded interviews were transcribed in the original language.

4. Findings

4.1 Inter- and intra-organizational 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 eight sites (Toyota, Honda, and six 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 affiliates' absorptive capacity.

The case of Toyota Indonesia suggests that a strong, long-term direct foreign presence with more extensive HQ–affiliate interactions results in an increase in absorptive capacity and strong diffusion of new knowledge. Toyota Japan's 95 per cent stake and 45-year presence is associated with Toyota Indonesia's positive HR-IR practices and improved working conditions. Interviewees from Toyota, triangulated with data from Honda, APINDO, IDE-JETRO and HIDA, observed that working conditions on Toyota's production lines are better than in AOP affiliates and the Indonesian national average. While cognitive and relational levels of Japanese capital positively promote inward organisational knowledge transfer, 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, although more unevenly. However, the interviewees also emphasised that affiliates 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 higher 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 affiliates with higher levels of Japanese capital (e.g. Denso, Aisin, Federal Nittan 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, AOTS are paramount. AOTS mediates organisational learning, HR-IR training and development, and knowledge resources for innovation within local suppliers. Relationships with AOTS’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 eight sites are part of the same Indonesian conglomerate, Astra International, knowledge flow is also co-ordinated among affiliates that have closer relationships with Astra and/or intra-related Astra firms. Astra’s automotive groups are 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 a higher standing within Astra.

Firm size is another factor affecting absorptive capacity. 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. 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. A 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-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-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 HQ. My analysis indicates that strong, durable interactions within and between organisations stimulate competitive dynamics and the evolution of JMNCs’ work practices in Indonesia. Direct foreign presence, which tends to grow alongside investment share, impacts on the quality of knowledge transfer and motivates both investment in training and involvement in diffusing knowledge, resulting in stronger absorptive capacity in affiliates. Between 1971 and 1989, Toyota Motor Corporation Japan’s (TMC) stake was between 49 and 51 per cent. In 2003, Toyota Indonesia’s operation was split into two: sales/distribution and manufacturing. Since 2003, TMC has had a 95 per cent stake in manufacturing, and since then, Toyota Indonesia manufacturing has operated in two manufacturing plants (in Karawang and Sunter). As a result, 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 much more rigorous than when TMC only had a 41 per cent 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. Employee and unions have seen the difference since the Japanese have gained influence over Toyota

Indonesia manufacturing. Therefore, the HQ's direct and indirect interactions with affiliates (i.e. through JMNC- and state-sponsored knowledge transfer networks) promote employees' ability and motivation to accept foreign knowledge.

4.2 The role of Japan-based training (RQ2)

Absorptive capacity in the analysed cases was affected not only by the intensity of direct contacts, but also by home-based HRM training. The types of training differed across organisations and over time, and specific forms of training, notably those based on direct HQ–affiliate interactions, appear to have facilitated the ability, motivation and capability of Indonesian trainees to understand the applicability and utilisation of TPS in their organisations. At Toyota, training was more systematically and regularly planned, and involved more Japanese expatriates, while Honda Indonesia had very few expatriates, and AOP firms had varying numbers. Much of the training was in the form of classroom or workshop sessions, led by locals who had received extensive training (mainly) in Japan, Thailand and Malaysia, alongside a Japanese TPS *sensei* (master/trainer). This partnership of trainers delivering training in the local environment was significant, because the objective of the Japanese expatriates and Indonesian Japanese-trained graduates was to shape affiliate trainees' understanding and motivate them to use TPS in their workplaces. The Indonesian trainer appreciated the local issues experienced by local employees, while the Japanese *sensei* was 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 shopfloor. For instance, interviewees from Honda and AOP said that those who gained knowledge and implemented what they learned reflected on their behaviour and developed higher levels of professionalism. As a result, they not only performed better in their jobs, but also gained respect in their communities. Thus, a

home-based assimilation type of training may redefine employees' perspectives and understanding.

My analysis confirms that the human interface serves as a conduit for knowledge transfer and boosts employees' participation and interest 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. This might be argued to be driving a management agenda or intervention, which may be difficult to accept, but 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 for shaping 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, my findings from six interviewees in Astra, ten in Toyota, 20 in Honda and 30 in AOP reaffirm that trust between Indonesian affiliates 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 mindsets with regard to this subject. While Japanese employees perceived "waste" reduction in the context of the lean production methods of TPS, Indonesian workers viewed "waste" in terms of the generic waste of resources and capital. For instance, they saw 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. The extensive TPS training changed the Indonesian workers' opinions on "waste management" and health and safety.

According to 60 Indonesian interviews, the JMNC's and AOTS's Japan-based training programmes last between three weeks and three 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 AOTS, Astra and APINDO. An inter-human knowledge approach may also create strong relationships among workers, making them more receptive to Japanese management concepts, the development and diffusion of tacit knowledge. Equally importantly, such agencies facilitate local knowledge creation through the adoption of Japanese way doing it and ongoing support, even after the training in Japan and Indonesia has been completed. AOTS 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 relating to product quality, innovation, productivity and working conditions. Also, the conventional Japanese learning approach of *sensei-seito* (trainer-trainee) fosters trust, thereby making Indonesians more receptive to Japanese way of learning. A Toyota manager (former AOTS 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 similar learning model to inter-human relationships, which Indonesian employees learn from their Japanese *sensei*.

This study reveals that the combined AOTS/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 AOTS Japan, Indonesian trainees attend training sessions with other trainees from different countries. Human connections appear to have a positive impact on Indonesian trainees' ability and motivation to adopt Japanese management systems. A Toyota Indonesia manager (and AOTS 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 AOTS alumnus added: “[AOTS] training in Japan seemed like a discovery journey [for me] ... Oh, this is the TPS!” AOTS plays an even more important role in facilitating the combined type of production and HR management training outside Toyota, as reported by interviewees at Astra and in agencies (APINDO, the chamber of commerce, and the association of automotive industries of Indonesia, GAIKINDO). A AOTS 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 AOTS Japanese personnel and AOTS Indonesian alumni reveal that an understanding of and commitment to Japanese work systems are fundamental objectives of the Japanese training model and deepen their understanding the system that can improve their own workplaces. 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 affiliates' 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 leadership and organizational skills, 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 affiliates, 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. Since Astra has seen the positive impact of adopting Japanese automotive systems at Toyota and Honda, it has been prompted to incorporate Japanese way into its own management practices. An Astra HR director reported:

In Astra Automotive Group, there are Japanese companies that bring a number of Japanese manufacturing cultures, such as Kaizen, Gembatsu, Gemba and 5S. These cultures were adopted and eventually became integral to the Astra system beyond Astra Automotive business line. These [Japanese] working cultures, discipline and mind-set were further internalized and localised in Astra.

A Toyota Indonesia IR director described acquiring and promoting foreign knowledge:

The Japanese quality control is one [aspect] of Japanese management systems 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 [affiliate] sends a small group of employees to represent their firms.

The adoption of TPS by Toyota Indonesia provides an example of inter-organisational knowledge transfer and intra-organisational knowledge sharing with local affiliates. As the

Indonesian trainees had become local experts in TPS, the interviewees gave them honorific titles such as “black-belt TPS”. They provided training to their fellow Indonesians in other Toyota affiliates. Furthermore, during the fieldwork, the researcher was invited to take part in Astra’s HR-IR training for non-Astra affiliates (e.g. state-owned oil and gas firms). Astra HR and IR directors later explained that they receive and conduct a number of such training requests to learn the adoption and evolution of Japanese way into Indonesian context. This external request 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 directly participate 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 AOTS trainee in Toyota’s union remarked:

The training in Japan administered by AOTS 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 that matter for local context. Our 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 AOTS have been diffused across all companies involved in the Japanese automakers' supply chain. 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 affiliates in Indonesia to ensure compliance with Japanese standards. Another localization of Japanese management 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 affiliates, such as Indokarlo and Adiwira Plastik.

Job rotation of 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 or elsewhere may enhance the quality of training. Our cases suggest that Japanese expatriates and AOTS not only play a role in overseeing the training, but equally importantly address difficulties, such as demotivation, experienced by local employees in utilising Japanisation in their workplaces. HQ and affiliates are engaged in both delivering and examining the quality of training.

4.3 Building relationships between management and unions to promote motivation (RQ3)

The analysed sites differ in their IR arrangements. 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.

As a former Japanese trainee quickly added, "it's a Japanese type of organized one [strike]".

In AOP, antagonistic management–union communication is exhibited throughout first-, second- and third-tier firms. However, since management and union have engaged 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 key 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, and Astra adopts and invests such a management-employee communication system that serves the local communication people-center. 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 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.

Japanese involvement in HR-IR training for management and employees varies, resulting in uneven levels of employee commitment and capability when establishing 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 affiliates’ HRM practices, such as union communications, constitute 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 where Astra Automotive Group 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 acquired and utilised the Japanese way of communication. 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 view 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. Developing this point further, we are able to distinguish here between inter- and intra-organisational interactions. While the JMNC was not directly involved in establishing a union forum, Toyota Indonesia displayed a high level of adoption of Japanese IR practices relating 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. The cases reveal, therefore, that involvement of IR actors supports employees’ and managers’ motivation to adopt and diffuse new knowledge.

5. Discussion

This paper extends existing theoretical models of absorptive capacity, exploring them at both inter- and intra-organisational levels of analysis. It finds that HQ–affiliate 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 automaking sites and their supply chains in EMEs such as Indonesia, all linked to the same conglomerate, 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 process is built across 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, associational 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 evaluation indicate the importance of two channels: first, face-to-face, home country-based training, whether provided by companies or by agencies such as AOTS and APINDO; and second, the involvement of IR actors, such as unions modelled on Japanese patterns, which enhance employees' engagement and affiliates' absorptive capacity.

Gupta and Govindarajan (2000) and Minbaeva et al. (2014) argue that larger affiliates with greater knowledge resources provide opportunities for employees to create, retain and transfer knowledge. This paper maintains 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 indicated by differences between Toyota, Honda and AOP. As the Toyota case illustrates, 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. AOTS and APINDO) require indirect investment to overcome this shortcoming and facilitate inflows of new knowledge to affiliates. 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 JMNCs and Japanese inter-organisational networks' objective of promoting Japanisation in Southeast Asia. The situation at AOP indicates 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 & Anand, 2009). However, what we have established here is that, while the extent of Japanisation increases in accordance with the extent of Japanese holdings, there is potential for this trend to spread throughout the organisation and into areas of the business that compete directly with the foreign affiliate (Kogut, 2000). Thus, the analysis of AOP highlights how knowledge transfer permeates the complex and overlapping networks of affiliates that characterise many large emerging-market firms.

The AOP case also demonstrates that Japanese work culture has become entrenched in local affiliates and has boosted absorptive capacity. Therefore, we conclude that the structure of affiliates' HRM and IR practices is a significant factor in *inter*-and *intra*-organisational knowledge transfer mechanisms. Moreover, we identify two levels of absorptive capacity: direct knowledge transfer from foreign firms, and spillovers into the wider economy. The

JMNC offers *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) affiliates. However, 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 mechanism through which HRM practices may develop employees' abilities and motivation. In addition, much of the discussion has focused on how affiliates operate in advanced industrialised countries (Minbaeva et al., 2014), and on knowledge transfer in mainstream EMEs such as China and India. In this work, we have sought to offer new insights into knowledge transfer processes in the under-studied and largest economy of EMEs 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 affiliates (Indonesia). Thus, the findings add granularity to Hansen's (1999) and Lichtenthaler's (2009) analyses of the highly complex nature of absorptive capacity. The mechanisms for adopting Japanisation in Toyota, Honda and AOP are summarised in Table 1.

Insert Table 1 about here

Table 1 summarises the main findings in terms of characteristics of the affiliates, their HRM practices and absorptive capacity, linked to the varying degrees of foreign involvement. It indicates the contribution of the MNC in diffusing cross-border management transfer to foreign affiliates. All three knowledge transfer mechanisms have a positive impact on

affiliates' absorptive capacity to acquire, adopt and assimilate new knowledge. However, more research is needed on the relative importance of each.

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 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) affiliates, unions lack adequate learning resources and capabilities to retain and assimilate new knowledge. Hence, the eight 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.

6. Conclusion

The examination of a multi-site case in an EME sheds light on the intra- and inter-organisational processes that support knowledge transfer mechanism, impacts and competition across the supply chain. The supply tier system that exists at AOP and between AOP, Toyota and Honda corresponds with the complex transfer processes and competition for knowledge discussed by Kogut (2000) in a US setting. This qualitative research, confirmed through triangulation by both company actors and external associations, reveals the importance of direct presence, supporting agencies, culture-specific face-to-face training, and IR actor involvement. Future research might test these factors across MNCs in EMEs. In the meantime, the findings provide strong grounds for MNCs' management to consider these

factors in their knowledge transfer initiatives and reflect on their duration and the resources required.

Finally, our micro-level evidence suggests that knowledge transferred through MNCs has implications for the host country's wider economy, through labour market spillovers in which Japanese and Indonesian supporting agencies are of paramount importance. This influence starts with transfer across different elements of the Indonesian conglomerate (i.e. Astra International), but involves external organisations (i.e. AOTS) for diffusion, as well as codification (i.e. APINDO and AOTS) of new knowledge from JMNCs, thus fostering more general transference to local Indonesian firms. The Astra International conglomerate 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.

In brief, this analysis has focused on certain forms of codified knowledge in terms of HRM and IR policies and practices. However, it would be instructive to extend this analysis to, for example, less codified or technology-based knowledge.

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Table 2: JMNC affiliate characteristics, training practices and implications for absorptive capacity

	JMNC affiliates		
	Toyota	Honda	AOP
Foreign ownership, level of involvement	95% ownership; strong Japanese influence	50% ownership; weaker Japanese influence	0–75% ownership; varied Japanese influence
Japanese entry	1971	1971	1978–1995
Country-of-origin-focused HRM training	Training in Japan and Japanese mentors	Japanese training in Indonesia	Little training
IR and inter-organisational knowledge transfer network	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