

**Applying 'new institutionalism' to recent experiences in SOE's of Indonesia and Vietnam**

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## **ABSTRACT**

### **'Applying 'new institutionalism' to recent experiences in Indonesia and Vietnam'**

This paper examines the process of transforming employment relations in Vietnam and Indonesia using case studies of two state owned enterprises in each country. Three factors are identified as important in the transformation process, although their impacts have been different in each country: the role of the state, the influence of management and unions and the impact of international bodies such as the International Labour Organisation, the IMF and multinational enterprises. While the role of the central government is stronger in Vietnam, particularly since the end of the Suharto regime in Indonesia, both countries are increasingly subject to global influences and pressures. The paper utilises 'new institutionalist' theory to emphasize the important emergence of new institutions and their interaction with organisational changes in each country. The transformation of employment relations is likely to be an ongoing process in each country although the pace and direction of change will continue to differ, particularly given the stronger roles played by the state and unions in Vietnam compared with Indonesia

*Key words:* Asian Financial Crisis, *Doi moi*, labour relations, institutional changes, trade unions, Indonesia, Vietnam

## **Introduction**

This paper examines the process of transforming employment relations (ER) in Vietnam and Indonesia, particularly in the period since *Doi moi* in Vietnam and the end of the Suharto regime in Indonesia. The Asian financial crisis of the late 1990s also influenced changes in ER, particularly in Indonesia. Three factors are given close attention in the paper as having contributed significantly to changes in ER in each country: the role of the state, the influence of management and unions, and the impact of globalisation as exemplified by the role of multinational enterprises and foreign direct investment (FDI) and international bodies such as the International Labour Organisation (ILO) and the IMF.

The interaction of institutions with organisational change is also the focus of attention in this paper, particularly in relation to state owned enterprises (SOEs) which were selected for study in both Vietnam and Indonesia.

In regard to unions, this study will enlarge the understanding not only of the top-down impact of company reform, but retrospectively, the influence of unions transformation on this broader process. It would be interesting to see this within the SOE contexts, where liberalisation might be problematic as some strategic actors had to deal with substantial reduction of monopolistic power, privilege and facilities. Employees' resistance and anxiety might be more pronounced. This reform process has taken different paths in Indonesia and Vietnam. Democratic Indonesian trade unions were curtailed during the New Order era. Yet, with the economic and political reforms since the Asian crisis, trade unions at both the national and enterprise levels began to claim greater autonomy and more significant representative roles. A number of substantial studies have investigated the dynamics of the Indonesian IR system at a national level (Ford, 2004; Hadiz, 1998). Vietnam has not been experienced in the same mode of unions reform but rather this process is still slower than most of other aspects of the economy and in control of the government direction. To date the unions' structure has not much changed comparing with in the pre *Doi moi* era and its activities are still struggling to respond to the reality of dynamic changes at the workplace to their member needs (Collins, 2009).

In order to fill this empirical gap, this research offers an in-depth company level study at two large Indonesian SOEs and other two medium size Vietnam's SOEs. Given their unique institutional design and complexities, the multiple-case studies are not comparative. Instead, these cases were selected because they offer a variety of company reform and labour movement of the Indonesian and Vietnamese context.

This paper is structured as follows. The subsequent section discusses institutional theory, the conception of institutional change and the roles of agents. It draws important several important issues, namely the formal and informal rules of institutions. It also highlights the significance of studying the dynamic interaction of institutions and organisations in transitional economies. The paper will then present the case studies of selected Indonesian and Vietnamese SOEs. This article is concluded with a set of similarities and differences of ER between the two countries.

## **Institutions, institutional change and agents**

Social scientists began to pay greater attention to investigating the phenomena of institutions and institutional change, especially after observing the differing paths and results demonstrated by so-called transitional economies, such as Vietnam, as well as countries with

institutional complexity, such as Indonesia. Evidence shows that transition towards a greater market orientation not only impacts on the macro-environment, but also alters the internal workings of organisations, and ultimately their smallest entity, the individual employees (Warner, 2002). Nevertheless, it is not until recently that the role of agents or actors on institutional change are accounted for (e.g. Greenwood *et al.*, 2008; Lawrence, *et al.*, 2009; Mahoney and Thelen, 2010). Institutional theory of sociology is selected because it explains well institutional processes and change, and the dynamic interaction between institutions and organisations/individuals, as well as the role of institutional agents.

Institutional theory in sociology recognises organisations as institutional agents with the capacity to process information stemming from the environment and to act upon it. This later thought converges with the conceptions proposed by economic sociologists, such as Nee and Swedberg (2005), who attempt to combine institutional theory from economic and sociological schools of thoughts.

In the early development stage, scholars attempt to explain the influence of institutional context (rationalised myths) on what economics suggests as 'rational actors' (Meyer and Rowan, 1977) as well as similarities across organisations due to homogenisation which is usually pursued to reduce uncertainty. Organisations tend to mimic other successful organisations, for example, the implementation of 'best practices' and other management fads (DiMaggio and Powell, 1983; Sitalaksmi, 2010). There are immense pressures for organisations to behave rationally, but given that human beings are inherently rationally bounded, Meyer and Rowan (1977) suggest rationalised myths as the socially acceptable conduct. In addition, under institutional pressure, organisational homogenisation is the only thing that 'rational' actors would pursue. The more changes they initiate, the more organisations become alike.

In the early 1990s, a study on deinstitutionalisation (Oliver, 1992) prepares the ground for examining institutional change. Nevertheless, the notion of uncertainty which is closely associated with institutional change (Beckert, 1999) has yet been thoroughly researched. Further, other scholars criticise the overemphasis on homogeneity (e.g. Beckert, 1999; Kraatz and Zajac, 1996; Peng, 2002; Reay and Hinings, 2005) and its inability to explain intra-organisational dynamics (Greenwood and Hinings, 1996). Also crucial is the failure to appreciate the roles of actors (e.g. Beckert, 1999; Dorado, 2005; Ingram and Clay, 2000; Muller-Jentsch, 2004).

Organisational change can be distinguished into 'organisational restructuring' and 'organisational transformation' (McKinley and Scherer, 2000, Newman, 2000, Greenwood and Hinings, 1996). At the company level, organisational change strategies are usually pursued for several interconnected reasons. Of the external sources, institutional change (Czaban and Whitley, 2000), industry turbulence (Gordon *et al.*, 2000), and technological advances (Kraatz and Zajac, 1996) are believed to be pertinent. Internally, factors such as change of ownership composition (Czaban and Whitley, 2000) and CEO turnover (Gordon *et al.*, 2000) are relevant. In practice, however, firms have to deal with a mixture of these factors, often complicated by pluralistic directions and interests. As will be explained later, pressures to undertake SOE transformation appear to be much greater from other aspects of institutional change, for example liberalisation policy and the trade union dynamic.

According to Nee and Swedberg (2005), the relationships between the formal and informal rules can be grouped as 'close coupling', 'decoupling' and 'informal become opposition norms'. Institutions entail a varying degree of coupling relationships depending largely on the characteristics of the subgroups and leaderships (Brinton and Nee, 1998). From this perspective, the performance of an economy or organisation is determined by 'coupling'

within institutions. Yet, decoupling or oppositional informal rules are also natural at certain stages of institutional change (Mahony and Thelen, 2010).

Seeking to understand institutional change and its impact is common in research focusing on transitional economies. Research using these settings is more able to see a greater dynamic interaction between formal and informal rules of the institutions (e.g. Keefer and Shirley, 2000; Smyth, 1998; Tian, 2001). There are two primary approaches in transitional economies, namely 'big bang' and gradual reforms. Indonesia and Vietnam are experiencing of these transitional approaches. The reforms in Vietnam, was instigated under relatively predictable and controllable institutional changes. By contrast, Indonesia had to endure institutional upheaval following the Asian crisis in 1998. Consequently, the strategic actors within different countries may deal with entirely different organisational fields, especially when the underlying institutional logics differ. This what makes a comparative study between Indonesia and Vietnam illuminating.

Meanwhile, viewing unions as institutional actors may paint quite a different picture on institutional homogenisation. The influence of trade unions, for example, has often been regarded as a coercive mechanism (Paauwe and Boselie, 2003). However, trade union power should not always be perceived as working against the other strategic actors. Further, strategic actors do not only respond to institutional change (Reay and Hinings, 2005), but can also initiate such change (Dorado, 2005; Szelenyi and Kostello, 1998). In order to investigate the issues more comprehensively, this article uses SOEs and the unions of them as the case studies. The key rationales in selecting the case studies were (1) the significance of the companies of which the unions were associated with; (2) the companies were homes of the unions which have led the movement, at least, at some levels of institutional change, or (3) the similar characteristics of the unions to those of the larger population securing broader generalisation. Two large Indonesian and two medium size Vietnamese SOEs were studied. This paper aims to model the pathways leading to transformation of the labour relations in the globalising economy.

### **SOEs reform and institutional change in Indonesia and Vietnam**

Indonesia and moreover Vietnam have strong socialist value and yet increasingly face greater globalisation pressures. The countries share some similarities as well as differences in terms of institutional change. One clear similarity is the global force to open the formerly protected SOE business environment. Currently, SOE in both countries witnesses a greater private and foreign participation almost in all economic sectors. Major difference between the economic reforms in these two countries lays at the presence of some intervening factors while the new institutions are in the making. The SOEs reforms in Vietnam were instigated under relatively predictable and controllable institutions. By contrast, Indonesian SOEs had to endure social and political upheaval following the Asian crisis. The notion of institutional change, therefore, should be understood within its unique context. Further, its impact on the workings of the SOE and the unions as well as upward influence of those two may also differ.

#### *Indonesia*

As soon as Soeharto was appointed president in 1968, the new face of Indonesia emerged and had stayed remarkably well until hit by the Asian Financial Crisis in 1997 and followed by the hostile removal of the president. This unprecedented and sudden institutional change forced the weakened state, under pressure from multilateral agencies, particularly the IMF, to

undertake major reforms of SOEs as part of its broad-brush economic recovery program. Meanwhile, union activism awakened and began regain power.

In order to transform SOEs into world class corporations, the Ministry of SOEs pursued four key strategic initiatives through the transformation of the working culture, restructuring, privatisation, and strategic development (Ministry of SOE, 2010). Among these, restructuring and privatisation have attracted most attention (Sitalaksmi, 2010). The restructuring can be pursued in privatisation through a divestment of SOEs as well as by giving private enterprises greater opportunity to participate in the economy (McLeod, 2002). Business restructuring includes merger, acquisition, consolidation, and joint operations in several areas of the economy. Restructuring was proven to reduce the number of loss-incurring SOEs from 38 in 2006 to 8 in 2010 (Mardjana, 1999; Ministry of SOE, 2010). As of 2011, there were more than twenty SOEs experienced changes in ownership, yet eighteen of them underwent privatisation through initial public offering (Ministry of SOE, 2011).

Another contribution of SOEs to the Indonesian economy can be inferred from their role in improving the domestic capital markets. The public offerings of SOEs have mostly been followed by an increase in the capital market index and the shares are usually oversubscribed. A percentage of the total market capitalisation, the SOEs were able to double from just below 20 per cent in 2000 to 40 per cent in 2006 and yet decline to 29.5 per cent in 2010 (Minister of SOE, 2010).

In the fight against the colonialist, the contribution of the communist-backed unions was quite significant in early dates of independence in Indonesia. The most radical unions against the Dutch colonial in fact grew out of the 'old' SOEs, such as railway and postal, telegraph and telecommunication companies (Tedjasukmana, 1958). Unfortunately, the unions had been later abandoned by the first President. Meanwhile, SOE performance continued to worsen as the economy was declining. Soeharto continued the reform of SOEs. He successfully built institutions where the economy could develop while curbing political and social democracy. Different sets of strategies depending on the global and domestic climate at a given time were launched (Kuncoro and Resosudarmo, 2006; Mangkusuwondo, 1973; Panglaykim *et al.*, 1968). In addition, the economic policy was pursued within the authoritarian state system (Spar, 1996) and closely guarded by the 'dual-function' military involvement (Beeson, 2007). During this era, the communist-backed trade unions, suddenly found themselves on the brink of demise. Under this system, political aspirants were to be channelled through one of the state-sanctioned political bodies (GOI, 1978). The curtailment of social and political freedom was also through the enforcement of state ideology *Pancasila* in a more systematic way, penetrating all societal levels and making it as anew informal rules. 1973 marked by the establishment of the only state-sanctioned trade union confederation, *Federasi Serikat Buruh Indonesia (FBSI* -- the All-Indonesian Labour Federation). This move was intended to shift the orientation of the labour relations from political unionism to economic unionism. Accordingly, *FBSI* was formed to extend the government's agenda of national development and later was then transformed into an unitary *SPSI (Serikat Pekerja Seluruh Indonesia – All Indonesian Workers' Union)* which further increased the state's control of IR in 1985 (Gall, 1998; Ford, 2009). Further entrenchment occurred in 1974 when *HIP (Hubungan Industrial Pancasila – Pancasila Industrial Relations)* was introduced. It became more alike government agencies, and more distant from the hype of the national labour movement at the time.

The Asian crisis followed with a series of economic reform had initially opened a window of opportunities for unionism to flourish. Despite the seemingly divided group of independent trade union and SOE workers, the pressure and demand for greater freedom of association

converged. As such, the previously dormant SOE workers began to take part in the making of the new institutions in the Indonesian industrial relations. It should be noted that SOE workers had been considered as *'priyayi'* (elite) employees'. SOE workers started to organise following the abolition of automatic membership of *KORPRI* in 1999, and, more importantly, the announcement of the Trade Union Law. The previously 'harmonious' SOEs began to witness growing and unprecedented internal labour unrest (Gatra, 09/10/1999). In the recent years has been growing of ILO in sharing the Indonesian IRs climate by introducing into the country series of structures and practices including 'job pack' or Decent Work agenda (ILO Jakarta Newsletter, 2011). These new practices have received a strong commitment from the government. The evident of Indonesia is among first group of Asian countries has signed the ILO Job pack by its government has shown the country has committed to further IRs reform leading by international organisations. This also shows the significant role of such bodies in restructuring the country IRs system. Table 1a indicates the recent SOE's performance in Indonesia.

**Table 1a: Share and GDP growth rate by SOEs 2004-2009 (Indonesia)**

	2004	2005	2006	2007	2008	2009
GDP composition (at current prices)	100.00	100.00	100.00	100.00	100.00	100.00
SOEs (revenue)	23.0	24.0	23.0	22.0	23.0	18.0
GDP growth rate (at constant prices)	5.0	5.7	5.5	6.3	6.0	4.6

Source: Minister of SOE (2010), World Development Indicators – World Bank, ADB Key Indicators (2011)

### *Vietnam*

In contrast with Indonesia, *Doi moi* and reform of SOEs in Vietnam characterised by the gradualist process with strong lead by the communist government. Unlike Indonesia going to the reform, the fundamental cause of *Doi moi* was from the internal factors including the party leadership and the country economic development. If international actors such as IMF, World Bank, ILO have played significant roles in framing the changes in Indonesia then this has yet been the case of Vietnam at least in the early dates of *Doi moi* (Collins et al., 2011). In other words, the economic reform has been led by the government to serve its political goal of achieving economic stability in order to keep the communist regime in power. Even though during this process the development of Vietnam's economy and its unchanged political system have grown apart from each other but in general the Vietnam's state is still the only strategic actor to lead and control this process including reform of unions structure and practices (Collins 2009). This unique character of *Doi moi* has been shown in the country's SOE's reform process.

SOEs role was stated clearly in the Vietnam's socialist economy system that the state- owned sector, fuelled by subsidized inputs and subject to planning orders from the authorities, was the "engine growth" of the economy. The state controlled everything from the supply of materials through to the market for the products. It subsidised all the production expenses and

set out the wage levels for employees (Fforde, 1986; Le Dang Doanh, 1996). The question of profit was not an aim so surplus labour was commonplace and did not attract much attention. Until 1980s there were imbalances in development of SOEs. Many SOEs found themselves in a critical situation to keep up with the government objectives and in the same time to implement the post-war economy which had required the great demand of consumer goods and foods which they could not satisfy (Collins, 2009).

One of the key goals of *Doi moi* which began in 1986 was to implement new economic system which will move to multi - sector economies, streamline the development of the non-state sector and allow the economic system freedom to respond to market forces (World Economic Institute, 1997). In general the process of SOEs reform can be divided into three main stages with clear government objectives. 1) The pre-1998 period: reform was mainly on policies which assisting to establish first steps into formalised a legal framework and setting up a basic for more in-depth reform in later stage. Key reform polices during this period were on management and restructuring SOEs such giving autonomy to their management, introducing new form of ownership through the process of equitisation. 2) The 1998-2006 period: reform was focussing on pushing further policies which was started in the previous stage. The equitisation now became serious practices which forced many small and medium size SOEs to change to joint-stock companies. Government also introduced new approaches to straightening the big and powerful SOEs by merging them become parent-child corporations or one-member limited companies (Collins, 2009). 3) The 2006 - current time period: marked by the joining with WTO in late 2006. The reform has been more mature and cautious as Vietnam has leant from other Asian countries such as Indonesia of how heavily their reliance on external investment sources for their development, which left it economic vulnerable to a slow - down of global economy (Collins, 2009). SOEs are continuing their process of restructuring into public joint-stock companies, the parent-child corporations and the one-member limited companies. To date SOEs still remain as the economic backbone. Until early 2000s SOEs still contributed about 40 per cent of GDP, 39,2 per cent of state budget revenue, over 50 per cent of total export turnover and accounted of 98 per cent of JV with FDI (Nguyen Huu Dat and Nguyen Van Thao, 2002: 9). Table 1b provides some indications of SOEs performance in the recent years.

At current time SOE's leadership still include four components: the party leader, management, union representative and youth representative in which the party leadership had the dominant role (Collins and Zhu 2003). However, reality of many cases show the real governing body of SOEs is in hand of management who is also the party leader and union's secretary is also firm's manager (likely a HR manager or an operation manager who is working closely with floor workers) (Collins, 2009). This structure confirmed clearly the role of unions involving to governance of the SOE's business at least in legal face. This has remained about strong union's history of supporting Communist government since its formed in 1929 and throughout the wars with France and then America (Fall, 1959). Vietnam's trade union has been used by the government to assist its political goals through its four basic functions as call: 1) Protecting the interests of workers in their working environment such as supervising the allocation of welfare benefits; 2) Participating in managing the assets and property which the government assigned to the SOE; 3) Encouraging and motivating workers in order to raise productivity and 4) Educating its members in socialist ideology and awareness (The Socialist Republic of Vietnam, 1990). These key functions have been remained unchanged since *Doi moi* started even though there has established of new union charter in 1989 (Collins et al, 2011; Nguyen Van Huy, 1996).

The first Labour Code which issued in 1994 formalizing the labour contract, introducing Collective Working Conditions Agreement (CWCA) (Collins and Zhu, 2005) which are

considered as a document to resolve disputes between employees and employers. However, the conditions of each clause of the CWCA varies depending on the circumstances of each company (Collins 2009). Through signing labour contracts and the CWCA there has been a basic shift in the relationship between management and workers. The labour-management relationship has been changed from traditional socialist principles, which respect collectivism in the work place, to greater institutionalization since then.

Although the relationship between management and employees in SOEs has undergone many changes, to date they still have a reasonably more harmonious relationship and co-operate with each other then in other sections. During the economic transformation process there has been increasing a number of labour strikes, especially since middle 2000s dues to high levels of lay off redundancies across all sectors. However, SOE's employees have not been recorded of their involvements in this labour movement. But both SOEs management and employees are still share the common objective of achieving the production and business targets set by the state and ensuring that they are able to make their annual payment to the state budget. In other words, labour relations in Vietnam's SOEs and unions have not much changed in principle since *Doi moi*. The negotiation to find the solution in labour dispute is key principle of government of equality and unity (Kim Anh et al., 1999).

**Table 1b: Share and GDP growth rate by SOEs 2004-2010 (Vietnam)**

	2004	2005	2006	2007	2008	2009	2010
GDP composition (at current prices)	100.00	100.00	100.00	100.00	100.00	100.00	100.00
SOEs	39.23	38.36	37.30	36.52	35.54	34.14	33.74
GDP growth rate (at constant prices)	7.79	8.43	8.17	8.48	6.31	5.32	6.78

Source: CIEM 2005, 2006, 2008; GSO 2010

### **Research methodology and case studies**

The research method employed in studying SOEs largely depends on the issues to tackle and the level/unit of analysis. Investigating SOEs within the political economy domain, for example, commonly involves case studies with a qualitative approach (MacIntyre, 1988; Mardjana, 1994) or mixed methods (Prasetiantono, 2005). Despite this development, research on such topic at SOEs is limited. From what is available, case studies and statistical measurement are the mostly commonly applied methods (Safina, 2000; Siswo, 2004). Regardless of the industry, research questions that are considered sensitive, such as employee-related matters and governance, usually rely on a qualitative approach and in-depth interviews.

Contextual company-level management research in both studied countries is still lacking. Although the private entities have received greater attention from scholars, the SOEs have been largely unexplored. Furthermore, there is only a limited number of what Yin (2009) terms 'analytical generalisations' that can be used to develop preliminary propositions.

The research questions of this paper are best addressed using a phenomenological perspective. The impact of institutional change on companies, for instance, has been subjectively perceived by the strategic actors. Further, the relevance of the phenomenological view is strengthened by the fact that the research involves multiple parties whose interests and perceptions may not in harmony, but which have to be properly addressed by the companies. Phenomenological research is also justified as another option for a case study method (Creswell, 1998). Nevertheless, Creswell does not entirely negate the possibility of combining the positivism and phenomenological traditions that he identifies. Following Crotty, this research adopts phenomenology as the methodology, and case study as the selected method.

In multiple-case designs, case selection should be carried out to satisfy specific purposes (Yin, 2009). They are either to predict similar results (a literal replication) or to predict contrasting results but for predictable reasons (a theoretical replication). This study uses a similar theoretical framework to learn about the contrasting and similarities of cases in Indonesia and Vietnam. Expecting the unique institutional setting and hence the interaction with the given companies, contrasting results may occur. In other words, this study intends to provide a variety of possible implications and company strategies, or what Yin (2009) underlines as two different patterns of theoretical replications.

In short, a case study method is considered suitable to be employed in this research. More particularly, a multiple-case design is pursued in order to improve the implications of the research as well as to moderate the riches in comparative study approach.

The study has conducted since 2003 to 2008 in Vietnam in Indonesia. It selected four SOEs representing two most discussable industries in two countries, namely services industry in Indonesia: PT Telekomunikasi Indonesia (hereafter called Telkom - telecommunications) and PT Bank Mandiri (hereafter called Mandiri - banking) and manufacturing industry in Vietnam: Gia Dinh Agricultural Corporation (GDAC) and Machine Tool TL Company.

This study used both primary and secondary data. Primary data was collected through in-depth interviews and secondary data was gathered from numerous reports. In applying the interview technique, a balanced view from different groups of the strategic actors was pursued. The first strategic actor, the state, was represented by members of government official at national levels. In Indonesia these group of interviewees included higher echelons at the Ministry of SOE, Ministry of Finance, the Indonesian Telecommunications Regulatory Body (ITRB), and the Ministry of Transportation and Communications. In Vietnam this group included MOLISA, Ho Chi Minh Department of Labour, invalids and Social Affairs (DOLISA); Central institute for Economic Management (CIEM), Vietnam Confederation of Labour, Ho Chi Minh Confederation of Labour. In addition to these individuals, interviews were also undertaken with ILO in Vietnam and two Special Staff and an adviser to the Minister of SOEs in Indonesia. The later group of interviewees are considered as 'others'. Tables 2a and 2b present the distribution of case studies interviewees.

**Table 2a. Distribution of Indonesian interviewees (number of person)**

<b>Group</b>	<b>Telkom</b>	<b>Mandiri</b>	<b>Others</b>
The State	4	2	4
BOC*	4	2	-
BOD*/former BOD	3	6	-
Senior management	8	3	-
Firm trade union	4	4	-
Other stakeholders	1	-	1

<i>Total</i>	<i>24</i>	<i>17</i>	<i>5</i>
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\*Note: BOC: - Board of Commissioners - represents shareholders; - BOD: Board of directors represents the company's executives.

**Table 2b. Distribution of Vietnamese interviewees (number of person)**

<b>Group</b>	<b>GDAC</b>	<b>Machine Tool TL</b>	<b>Others</b>
The State departments			3
National Federation Labour			2
Ho Chi Minh Federation Labour			3
Senior management	4	4	-
Firm trade union	2	2	-
Other stakeholders	4	4	4
<i>Total</i>	<i>10</i>	<i>10</i>	<i>12</i>

The second strategic actor is the management which include the top decision makers and relevant middle managers. The latter was carefully selected for their knowledge and possession of hands-on experience of the issues. Management was represented directors/managers of Human Resources, Operation and senior members. These group of people provide insight into past company reforms and day to day activities. The third strategic actor is the trade union and worker representatives. The total number of interviews from four cases was seventy eight.

#### *Profile of cases*

Telkom is a former monopoly company has been continuously undertaking a reform program even before the Asian crisis. It is one of two dominated SOEs in the telecommunication industry in Indonesia. Telkom represented for a major sectoral reform in 1989 and further liberalisation in 1999. The strategic option to reform the company has elicited mixed responses from its employees as well as the militant trade union.

Liberalisation policy for the sector, however, was always challenged, by both the Telkom management and the trade union (i.e. *Sekar – Serikat Karyawan*). Telkom grew out of the old telecommunication company that was imbued with a strong nationalist sentiment. Similar to many other SOEs, Telkom was more entrenched in Soeharto's patrimonialist system. Being the backbone of the nation's telecommunications development, Telkom received a large amount of international funding for infrastructure and technological development (Sugondo and Bhinekawati, 2004). This assistance had to come to an end in the late 1980s. The company restructuring began with privatisation and the installment of a joint-operation scheme (*KSO- Kerja Sama Operasi*) in mid 1990s. Telkom was successfully privatised through a listing on both global and domestic stock markets. Despite the introduction of a market-oriented ideology, the nationalism legacy of the union continued to have an effect. The obedience of the workers appears to have been enforced by the embeddedness of informal rules under the *KORPRI* flag. As a result, despite the increasing trend to strike action at the national level at the time, Telkom employees remained quiescent.

With the collapse of the Soeharto regime, Telkom attempted to improve its human resource management by building a stronger linkage between human resource strategy and business

strategy. The previous institutional homogenisation gradually gave way to a more modern and competence-based system. However, the acceleration of the change was more obvious within the formal HR rules policies. The informal rules relating to the embedded PM style were much slower to adjust. As a result, Telkom is witnessing the emergence of a more mid-way approach.

Since its establishment, *Sekar* has performed two main roles, a narrow and broad one. The narrow role is associated with the labour-management relationship at the company level, while the latter refers to the contribution the union makes in changing the macro-environment. The evidence demonstrates that *Sekar* is equally strong in both roles. Within the narrow scope, it has stretched its role towards a much more strategic position. At the same time, it has increasingly demonstrated a broad role, particularly in reshaping the telecommunication sector and the Indonesian SOEs at large. The union was critical to the concept and implementation of best practices in HRM. It claimed that the practices were just a more covert way to eliminate many employees given that the desired competencies would not be found in the available resources. Equally important issue was *Sekar*'s effort to perform its broad role. The strongest trigger was the urgency in pressing the state to drop the duopoly policy in the telecommunication industry, particularly the plan to dismantle Telkom's monopoly on the lucrative long distance market. Although the voice of the management was divided about advancing *Sekar*'s role, it frequently encouraged *Sekar* to air the strategic issues facing the company without getting its own hands dirty.

In short, the case of Telkom illustrates how *Sekar* could act more realistically and perform relatively well, both in the narrow and broad roles, and not merely play as an object of institutional change. *Sekar* could exercise an upward influence on both the company in particular and institutional change in general.

PT Bank Mandiri, a state bank was established in 1998, has been hailed as the hallmark of enterprise restructuring in Indonesia. It was the product of a merger of four troubled state banks at the onset of the crisis. These were which so-called 'legacy' banks recorded about 30 per cent of the total assets of the Indonesian banking sector and were home to about 26.6 thousand employees (Merger Committee, 2000). Mandiri's establishment also marked the beginning of new rules of the game within the organisation, or at least new formal rules. The introduction of the formal rules was extensive. In the early years of the bank, the institutional environment supported increased management autonomy. The determination of the management to move the new bank away from its past history was reflected in radical across-the-board strategic change. The battle of the management to save the bank and the future of the employees has since been hailed as part of the company's heroic history. Given the merger was part of the banking restructuring program, the process was therefore under the watchful eyes of the IMF and the government. This occurred while social unrest and political pressures were at their height. The government was forced to renegotiate the restructuring method with the IMF. Initially, the IMF advised liquidation of all four troubled state banks – a policy flatly rejected by the government, given the potential risk of contracting the economy and creating social unrest. An agreement to carry out a merger was finally made and the execution was required to be closely monitored by the IMF.

Mandiri had witnessed the aggressive implementation of 'best practices', one of them being competence-based human resource management (CBHRM). Despite the radical nature of this change, potential resistance appears to have been dampened by the employees' preoccupation with the more personally daunting impacts of this 'big bang' merger. As the company stabilised and its performance started to pick up, HRM became more integrated into the company's strategy.

As survivors of the massive layoff and aware of the high national unemployment rate, the Mandiri employees considered themselves to be ‘better off’. Therefore, not only did they tend to be more obedient, they were also becoming more dependent on the company. This unique circumstance largely explained the relatively smooth organisational change at Mandiri. In short, the merger laid a foundation for the shift from a PM to an HRM system and practices. At this early stage, the increased power of management allowed for the change to the HR system without significant resistance. As a result, although institutional decoupling was evident, the informal rules did not counter the formal rules. The bank favoured a more radical shift and quicker pace. As a result, the initiatives were often perceived to flout the embedded informal rules that were deliberately intended to break away from the dysfunctional practices of the past. The analysis, therefore, shows decoupling of the formal and informal rules. The permeation of these formal rules in the HRM area also clearly reflects the increasing power of the management as a strategic actor.

The emergence of more democratic IR, and thus increased labour activism, at the company was unprecedented. On the one hand, institutional change encouraged the establishment of the trade union – the *Serikat Pekerja Bank Mandiri (SPBM)* in 2001. The management, however, never expected the trade union to be a strategic actor. Although the company continued to experience rapid change in its HRM, some elements of which were consistently criticised by the union, management had been quite successful in mitigating the union’s pressure. As a result, with IR forced to follow the direction of HRM, the ER appeared to support company reform. The establishment of *SPBM* was motivated by both external and internal pressures. Although internal motives were strong, *SPBM* would not have existed without the enunciation of the Law of Trade Union. *SPBM* grew out of the white-collar workers group which was fairly reluctant to initiate conflict with the management. Unlike *Sekar* at Telkom, *SPBM* did not inherit a tradition of labour militancy. The control of *KORPRI* appears to have reinforced their subservience. The employees of the legacy banks were not enthusiastic activists. The union believed that this radical shift in HRM would sooner or later marginalise many employees. Nearly 80 per cent of the employees of the newly established Mandiri were recruited from the former legacy banks. They were accustomed to the PM system and very anxious about the uncertain impact of the ongoing changes on the HRM.

*SPBM* is the first independent and official trade union in the bank’s history. Unlike *Sekar*, which was able to perform both ‘broad’ and ‘narrow’ roles, *SPBM* could and did choose to focus only on the latter roles. Despite the self-proclaimed improvement in its roles and influence, the union’s efforts were still continually moderated by management. The analysis shows a rather different result from the claim for improvements. This argument was supported by the protracted and weak implementation of the collective bargaining.

**Table 3a: Profile of Indonesian cases**

Case name	Year established	No. of employees	Main products	Total sales	Product* competition	Market
Telkom Indonesia	1856	21,138	fixed wireline, fixed wireless, cellular, data and internet and	IDR.68,629.2 billion	High	Domestic and international

network and interconnections.

Mandiri	1998	25,236	Wholesale banking (institutional; corporate; commercial and business; and treasury, financial institutions and special asset management) and retail banking (micro and retail; and consumer finance)	IDR 20,071.5 billion	High	Domestic and international
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Note: \* Product market competition was assessed as high, medium or low by each enterprise's management board.

Findings from previous studies on Vietnam's SOE shown that an enterprise's location has a strong correlation with its process of ER reform (Zhu et al. 2008). Therefore this study selected 1 SOE in Hanoi and another in Ho Chi Minh to represent for the general institutional changes.

TL Machine Tool Company was among first SOEs of Vietnam which established straight after the declaration of Vietnam's Socialist government in 1954. Even there has been many changes and restructuring since *Doi moi*, it still maintains a biggest SOE in Hanoi and still one of the key SOEs of the government. It produces three major groups of products including home metallic wares, motorbike equipment and bicycles and car components. Currently it employs 2600 people. In 1997 apart of its become a joint venture with a Japanese MNC to produce car components for exporting. As other profited making SOEs during *Doi moi*, TL Machine Tool Co. was forced by government to restructured few times by taken over other loss-making SOEs in 1997, 2002 and 2005. This process has led to a massive lay off and redundancy for the loss –making SOEs including both employees and managements. About 80 per cent of personnel from those SOEs was received redundancy packages. TL Machine Tool Co. also had a duty with government to pay for debt of these business as well as covered all outstanding social security (retirement, medical and unemployment benefits) that these SOEs had owned their employees. In 2006 TL Machine Tool Co. transformed into a parent-child company which regarded as a new Vietnamese version of Japanese model of co-operation (Vietnam Net, 2004). The new business structure has given TL Machine Tool more autonomy from the central state in its business activities. It only manages the child-company in Ho Chi Minh through the shares in the business but not involve to its day- to-day activities. However, in term of finance and investment, the child-company still needs to get approval from TL Machine Tool management board and of course the parent-company still needs to get further direction from central state. Thanks for its joint venture company with Japanese

MNC in 1997, The SOE has received new knowledge in number of business areas such as new management model, operation model, technologies on top of the financial benefit that the joint venture business has brought back to the SOE. The new management tool such as Just-in-time, TQC, Kensa which have well implemented in the joint venture business were transferring into the SOE after few years. However, opposes with the big changes in business practices, unions activities have not much influenced by the restructuring process. TL Machine Tool still has the same dual-function unions as in pre -*Doi moi* with manor changes of focussing more on training and education functions. The unions are still in-charge on the welfare for employees across all business units. The new management board was still included four main components. But in fact one of deputy general director was a party secretary and another was a union general secretary. Therefore unions was still in decision making group with dual-function roles. The main activities of unions at TL Machine tool was organising music, sport competitions, visiting funerals, sick employees. There were labour tensions during the merging with other SOEs such as negotiation about new position for many management personnel from loss-making SOEs, training or lay off for those workers did not have suitable skills to work for TL Machine Tool, how much individual workers would receive for their redundancy packages. However, thanks for the dual-function of union secretaries board (15 of them) the out-going employees had received their entitled benefits, therefore they did not have much to protest or request. This had made the process reasonable more peaceful comparing with it would had happened in other ownership business such as private ones.

The GDAC was established in 1990 as result of the government policy on restructuring small and medium size SOEs. It included 35 small and medium size SOEs in the agricultural industry in Ho Chi Minh City. In early 2000 the government pushed forward equitisation process which was started in the previous period. Since then haft of GDAC SOEs was transforming to joint- stock companies. However, GDAC still remains a key shareholding in these new ownership enterprises and most members of the management committee come from the SOE's board of directors. Furthermore its remained SOE part also transformed to be a parent- child corporation in 2005. If there was more clear governance structure for parent-child business model which reasonable defined the roles and obligations of parent SOE then it was not evidenced in equitized firms. The unclear division between SOE's roles and rights as a majority shareholder, which had led to the dominated roles of GDAC in its join-stock companies. Therefore it still influenced the new businesses by forcing them to implementing its ER practices. In short, the new firms were still using SOEs policy for all areas of ER including recruitment, compensation, unions, training and so forth. During the transforming to join-stock companies, there were tensions between management and workers who were in the weak position to get to new business. However, they were avoided by equitisation policy of allowing all employees of these SOEs to buy shares in the new business. As the result, many of them have become shareholders in the new company. Or in other words, they are now owners of the join-stock firm. Therefore the level of employees commitments to new company even higher that of the previous SOEs.

**Table 3b: Profile of Vietnamese cases**

Case name	Year established	No. of employees	Main products	Total sales	Product* competition	Market
Machine Tool TL	1955	2,500	home, kitchen metallic ware,	VND152 billion + US\$3 million	High	30 % exports (EU, South

			motorcycle and car equipment, bicycles			Korea, ASEAN, Japan)
GDAC	1990	10,000	processed seafood, garment, petrol retails, forestry, furniture, husbandry and animal foods	US\$250 million	Medium	65 % exports (Australia, Europe & US, ASEAN)

Note: \* Product market competition was assessed as high, medium or low by each enterprise's management board.

## Discussion

### *Institutional change and the SOEs reform*

Institutional change is the key issue this study attempted to tackle. It provides the general background on the influence of the macro-environment on the case studies SOEs. As suggested in previous sections, several pertinent issues at the institutional level are the relationship between formal and informal rules, and the importance of actor institutionalism. The last element is elaborated through the actions of three strategic groups, namely the state, the management and the trade unions.

The evidence from the cases demonstrates that, regardless in Indonesia or Vietnam being SOEs, they were exposed to largely similar institutions and homogenisation during the economic reform process (New Order regime in Indonesia and *Doi moi* in Vietnam). However, the case studies show that the impact of institutional change and the resulting organisational characteristics differ markedly between two countries and between cases. This research identifies number of key reasons for these differences. They are the relative political proximity of the company to the central state power, and the extent to which sectoral reform and organisational change was genuinely pursued. As noted previously, although major economic reforms were instigated in the 1980s in both countries, they turned out to be ambiguous at best because of both governments continuing control over many sectors. In addition, the Indonesian SOEs simultaneously witnessed the emergence of new strategic actors - the trade unions. They demanded a greater share in the dominant coalition in organisations traditionally dominated by the state and the management. This has not been evidenced in Vietnam's cases where the trade unions is still influenced by state/party and the management. In other words, even though Vietnam's trade unions has practiced dual-functions they still shared the leaderships to leading the reform at enterprises level which their Indonesian counterparts have not achieved. This dynamic contributed to the different organisational responses to institutional change following the changes have brought in by surrounding context including Asian Financial Crisis and *Doi moi*.

Consistent with New Institutional Sociology (NIS), both countries cases displayed clear traces of rules institutionalisation during the *Doi moi* process in Vietnam and the New Order regime in Indonesia. The case studies demonstrate that three institutional mechanisms

suggested by DiMaggio and Powell (1983) intermingled and reinforced one another, creating a tightly-coupled institution. The evidence underlines that the coercive mechanism, enforced by the state, was the most prevalent one. The state was also dominant in enhancing mimetic homogenisation. Strong state intervention had moulded SOEs to increasingly resemble the state bureaucracy. Further, these two mechanisms were strengthened by a normative one whereby the state treated SOEs as agents of development of its reform policy.

SOEs built up strong bureaucratic characteristics that not only affected the strategic orientation of the companies, but also the people management systems. Such mechanisms had been around few decades and were therefore embedded in the companies' traditions and informal rules. All four cases also learned that promotions were determined more by the ability of the top management in order to guarantee 'political stability' at the companies. Their top positions were reserved for the regime loyalists, including those with military backgrounds (in Indonesian cases) or party members (in Vietnamese cases). Other normative mechanisms included the mobilisation of high-ranking officials across SOEs, as well as the forced mission of the companies to become agents of development. From the perspective of NIS, institutionalism through mimetic, normative and coercive mechanisms could lead to organisational homogeneity. This would make the companies lose their competitive advantage in the long run (DiMaggio and Powell, 1983). The homogeneity of the case studies SOEs, however, was proven to be less pronounced, especially as the Asian Financial Crisis or *Doi moi* set in.

Both events, the Asian Financial Crisis and *Doi moi* brought in institutional change that was felt immediately by the SOE cases. Despite the similarities explained earlier, this study discovers that the change had different impacts across sectors and companies. In other words, there was marked heterogeneity among them, a notion endorsed by later institutionalists such as Greenwood and Hinings (1996). Accordingly, four cases responded to the change in different ways.

As mentioned earlier, the cases were selected basing on their strategic positions in the economic reform process. Both Indonesian SOEs are strategically significant to the Indonesian economy and to the regime. During the New Order era, the legacy banks were placed within the state's power. They were the prime recipients of the 'off-budget' fund and the means to channel 'command lending' to Soeharto's preferred business connections (MacIntyre, 2000). Despite the banking liberalisation policy of the late 1980s, the state still maintained the 'strategic position' of these banks. This is the reason why the banking reform was often viewed as ambiguous. Meanwhile, at Telkom, the state could not withstand the global trend of telecommunications reform in the late 1980s. Nevertheless, unlike the reforms in most Asian countries, the Indonesian government, by contrast, preferred to keep the monopoly rights of Telkom.

The Vietnamese cases represented for the *Doi moi*'s gradualist approach in which the government using these cases as its trail for its new reform policies. The establishing of GDAC was result of government policy in reducing loss making and small, medium size SOEs. In the early days of *Doi moi* from the late 1980s until the early 1990s, the opening up of the SOE sector freed SOEs in their business activities. The number of SOEs increased to nearly 12,000. However, many of them did not run successfully and did not know how to operate in a market system. As a result, they placed a heavy burden on the government budget, forcing the government to act quickly to restructure the sector. Issuing Decree No. 388/CP in 1991 helped to reduce the small and unprofitable SOEs by merging them with large, profitable ones. GDAC typified this policy, which is aimed at increasing enterprises' capital strength and decreasing their administrative costs. Both Vietnamese cases have

substantially changed under *Doi moi*. Machine Tool TL has established a joint venture with a foreign partner with the view of learning from it new business practices and technology to increase its competitiveness. The SOE part later had transformed into parent-child corporation. GDAC also has changed into a parent-child corporation and equitised half of its SOE's members. However, both SOEs are still holding majority shares in the new businesses. In other words they are still in dominant roles and in control of new business operations. This means government still plays a decisive role in any decision making process in both SOEs.

In reference to NIS, the gradual change that had occurred at Indonesian cases from the late 1980s is believed to have helped mitigate institutional decoupling (due to the difference between the existing state-oriented rules and the more market-oriented ones) and prepared the organisation for future change. By contrast, Vietnamese cases had to struggle to reduce the close coupling with the state institutions it inherited from the past. Nevertheless, although market-oriented organisational change was carried out in a rapid and quite radical way, the fact is that overt decoupling between the resulting new rules and the old ones did not materialise in the early years of both Indonesian and Vietnamese cases. This can be attributed to the organisational members' preference for securing their jobs rather than engaging in a conflict with the management.

The previously dominant role of the states in enforcing coercive mechanisms began to give way to involvement by a wider array of stakeholders in the case of Indonesia such the parliament, watchdog organisations, and more interestingly, trade unions. This situation has been minimised in Vietnamese cases where the 'four-components' (*bo tu*) (Party, management, communist youth and trade unions) are still on control of SOEs. The external forces such as international watchdog organisations has yet not have much directly influenced to the decision making process at the firm's level. However, evident from the cases also shown that the subsequent reforms spurred the companies to mimic other successful companies and adopt 'best practices'. The shift towards a greater market-orientation also altered the old normative mechanism where the companies eventually were no longer expected to be agents of development. Further, new waves of democracy, decentralisation, moves to a more civil society and market competition have substantially moderated the state's control.

The combination of these factors had direct implications for the existing dominant coalition and the dynamics of the strategic actors at both countries. Indonesian cases shown that the opportunity came to gain greater management autonomy, made possible by their privatisation process. What is regarded as an interesting trend was the entrance of the trade union into the dominant coalition as soon as the Indonesian Trade Union Law was announced in 2000. Experience of an expansion of management autonomy was also experienced by all four cases, albeit at a more rapid pace. However, the difference was in the degrees of their autonomy. For example, in Mandiri case, facing a less powerful state after the tremendous pressure to restore the Indonesian banking sector, the management could obtain unprecedented discretion in undertaking the forced merger. The management was successful in renegotiating the terms of the merger, although it had to confront the IMF and the state. This situation had inevitably exposed its employees to future job uncertainty and further discouraged them from organising. It also reinforced the earlier stigma of trade unionism, so that white-collar workers at banks were usually reluctant to engage in labour activity (La Botz, 2001).

In term of pattern of change, the cases shown that the sudden institutional change, combined with a history of gradualist yet ambiguous reforms during the New Order regime, has distinguished Indonesia from a gradualist in Vietnam. Indonesia experienced a remarkably different impact of institutional change following the Asian Financial Crisis. Consequently,

institutional-based theories are essential in explaining social and business phenomena in such a unique setting of Indonesia and Vietnam.

### *Institutional change and IR*

There are some similarities as well as differences in the external and internal pressures on the unions. The commonalities were related to the new political, economic and social contexts of these countries. Externally, both unions experienced a transition from repressive to more democratic IR. They were also affiliated with companies which were facing increased market competition due to the earlier reforms. Internally, transforming towards a more modern management system (including the shift from traditional PM to an HRM system) accompanied by privatisation and restructuring are the most prominent internal factors.

The combination of these pressures has impacted upon and been responded to differently by the unions. In general, Vietnamese cases shown that their unions could not fully exploit this opportunity. At the peak of the massive job redundancies of GDAC in late 1990s owing to the equatisation process GDAC employees were more preoccupied with survival issues. The unions using their dual-function role to involve in this negotiation process at the company. Their independent voice remained weak. Provided with unprecedented autonomy, the management grew in power, even *vis-à-vis* the government, and especially over the union. By contrast, evident from Indonesian cases shown that even though there was differences in the degree of union's activities between them, in general Indonesian union was supported by more favourable institutions compare with their Vietnam's counterpart. First, they have more the legacy of being a union of struggle. The labour movement at Telkom (then PTT) began as early as 1908 (Misdiyono *et al.*, 2000). The organisation grew rapidly and contributed to the nation's claim for independence in 1945. Second, Telkom's long experience as a monopoly company provided its union with stronger informal rules once democratic IR was introduced. These characteristics allowed the union to move to a more strategic level and be relatively more confident in dealing with other strategic actors independently.

An equally essential issue that contributed to shaping unions in the cases is the pressure arising from the development of HRM, including the 'best practices.' The case studies show that strategic choices, such as the Western model of HRM, were seen as the track for the companies to become modern organisations. All companies embarked on privatisation and restructuring as responses to increased market competition. As discussed in the previous sections, the companies are not equal in dealing with the unions in order to realise their reform agenda. In the case of Indonesia, the gradual transformation program allowed the employees and union to evolve in step. Purcell's (1993) argument that HRM is a reflection of a unitary frame of reference might not be entirely evident in this case. This was shown by the introduction of 'best practices' which was instigated by the management. Nevertheless, with the increasing partnership with the union, the argument that collective IR has only a minor role in HRM (Godard and Delaney, 2000; Guest, 1987) is not fully supported at Telkom. This is due to the relative confidence of the union in dealing with both the state and the management. This situation, however, did not seem to exist at Vietnamese cases where HRM largely falls within the domain of management and the union was largely acting as management messenger. Unlike Indonesian cases whose union legitimacy in the eyes of employees was quite strong, Vietnamese cases suffered union fragmentation and a just formality roles in the system, lack of real touch to dealing with IR issues.

### *Roles and model of the unions*

The roles and influence of both trade unions were quite different in many ways. In performing their roles, they were engaged in different scopes and levels. Two roles are within the broad and narrow scopes.

In relation to the broad role, Vietnamese union was not only passive in dealing with IRs matters, but also appears to have less role in the 'four component' that governing the SOE's business affairs. Vietnam's SOEs employees seem to share the characteristics of the socialist workers, who rather take easy on the unionism. Further, its attempt to enter this domain resulted in the lack of the union activists within SOE's working environment. In contrast, Indonesian union had been consistent in addressing the broad issues mainly concerning their industry. It was able to tap into the strategic level (case of Telkom), for instance in demanding its inclusion as part of the company's corporate governance. The evidence demonstrates that the union had been confrontational towards the state and the independent regulatory body. It demanded the cancellation of other operators' access to the company's lucrative businesses. Performing this role was in fact a logical consequence of being affiliated with a former monopoly company, where the state and the company had a history of compromise. This role, however, was performed more strongly by a rather strategic yet previously monopolistic company such as Telkom. The Mandiri union was in many ways strongly suppressed not to air their concerns openly. The union leaders bought the ideas that being exposed to highly competitive industry, this action could jeopardise the company's image and position. In order to circumvent the situation, the leaders opted to join federation as individual yet avoiding the union to become a member of any federation.

In regard to the narrow scope of their role, both unions had to go through a similar process, but with different characteristics due to the nature of their relationships with the management. They were the legitimate employee representatives in collective bargaining. However, Indonesian one was forced to engage in tough negotiations at the company's level while its Vietnam's counterpart had dual-function roles in bargaining power. Given say that Mandiri case was indicated that, it has much less power in term of negotiation with the management led to the continual delay in signing the first collective agreement.

The case studies also show that unions in both countries shared similarities, but had different approaches to developing their organisations (in both structure and membership). Two primary reasons were at play, namely the particular historical union background of each and the respective company dynamics. The similarities relate to the way the union structures were arranged. The unions designed their organisations on a regional/geographical basis, following that of the companies. This mimetic homogenisation was commonplace (Sako and Jackson, 2006). In this way, the unions were expecting to be more adaptable to any changes made by their company. However, Vietnamese union had more difficulty in operating independently from the management therefore the Western concept of protecting their member interests are still a central problem of this union's model.

Based on the analysis, the trade unions under investigation apparently represent two different models. As suggested by Fells (2003), there are three possible models of trade union, namely 'the management-driven model', 'the trade union gatekeeper model' and 'the management-union alliance model'. In the case of Vietnam resembles 'the management-driven model'. The organisation has shown that it had influenced by management in the change process. The union has also been largely included in the transformation endeavour. Management views the union as a partner in the organisational development process. In the case of Indonesia characterises 'the trade union gatekeeper model'. A combination of a strong union militancy

tradition (in Telkom) and flexible strategies (in Mandiri) have allowed the union to continue claiming its role and influence.

## **Conclusion**

Several key findings emerged from this study. Three influences have been important in transforming employment relations in each country: the role of the state, the influence of management and unions and the impact of international bodies such as the ILO and the IMF as well as multinational enterprises. In recent years, the process of transforming employment relations has been more advanced in Indonesia, particularly since the fall of the Suharto regime, than in Vietnam, although the long-term impacts of *Doi moi* are still being experienced in that country.

While SOEs in each country shared some similar characteristics before the implementation of recent economic reforms, particularly after the Asian Financial Crisis, the direction of subsequent changes has been different. These differences have been strongly influenced by the relative proximity of SOEs to the central power of the state and their experiences of organisational change. In Vietnam, the unions are allied to the Communist Party and they still have strong influence on the government and conduct of business in the country. By contrast, the unions which were associated with the former Suharto regime in Indonesia have lost influence although new labour organisations are emerging.

Changes in each country have led to the creation of new institutions. The relationship between the formal and informal rules has changed in accordance with the interplay between the new institutions and organisational dynamics. A decoupling from the old rules emerged as the relationships between the actors were altered by new formal rules.

There have been some similar developments in each country, such as a greater market liberalisation and the decentralisation of some government activities. In Indonesia there has been the introduction of greater democratic process and a greater role permitted for civil society, although these pressures are also building in Vietnam. The concept of 'legitimate' and 'socially acceptable' conduct by business has been made more explicit in each country. Although the role of the state remains very important, particularly in Vietnam, its intervention in SOEs has been moderated.

The roles of trade unions in each country have changed in recent years, although the changes have been less in Vietnam where the unions are still deeply involved in the processes of economic and political reform. But the unions in Indonesia have been able to take advantage of institutional changes more effectively than unions in Vietnam, which have tended to be the victim of such changes (HOW?). The unions in Indonesia have adopted more of a 'gatekeeper role' while in Vietnam they have followed more of a 'management driven' model.

Given the different political contexts and business systems in each country, applying a Western 'best practice' model is problematic. However, institutional changes in each country have forced SOEs to adopt more strategic HRM approaches and to put greater emphasis on

developing HR competences. In the area of industrial relations, external influences from global institutions, such as the ILO and the IMF have been stronger on Indonesia than Vietnam. However, a sharp decline in foreign direct investment (FDI) has led to increased unemployment and a return to more rigid labour market regulation which have stimulated demands for further reforms in ER in each country. The transforming of ER is likely to be an ongoing process in the future but the pace and direction of change will continue to differ in each country.

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