

**TRADE UNIONS BEHAVIOUR TOWARDS MULTINATIONALS  
IN INDONESIA**

**By**

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## **ABSTRACT**

This thesis has aimed to explore the strategy chosen by unions in multinationals which in turn would influence the union's behaviour towards the management in the so-called 'neo-liberalism' environment. Multinationals were chosen for this thesis as multinationals have been among the role players in Indonesian economy particularly after the Suharto's era (1966-onwards). As cheap labour is one of the necessary conditions to attract foreign investment as Indonesia does not have technological superiority or abundant skilled labour, it was important to examine the role of trade union in multinationals as the representative of the employees to enhance to conditions of its members. Four multinationals from different industries were studied to enable comparison. The theoretical model underpinning this thesis has been that of Huzzard's (2004) strategic choice model. This model suggested that there are four levels of strategy which unions would have to choose. The Huzzard's strategic choice model ranges from choosing and defining the union's mission, ideology and identity to that of choosing union's structures, processes and capacities. This model also suggests that the choice of the strategy is highly influenced by the internal and external factors of the union.

**FOR My husband and children**

Thank you for the love, care, patience and understanding which have made this thesis possible and achievable. May Allah reward all of you with His blessings and love.

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## LIST OF ACRONYMS AND ABBREVIATION

MNC	Multinational Company
FDI	Foreign Direct Investment
SOBSI	Sentral Organisasi Buruh Seluruh Indonesia (Centre of All-Indonesia Workers Organisation)
ILO	International Labour Organisation
SPSI	Serikat Pekerja Seluruh Indonesia (All-Indonesia Workers Union)
Aspek Indonesia	Asosiasi Pekerja Indonesia (All-Indonesian Workers Association)
SPN	Serikat Pekerja Nasional (National Workers Union)
BKPM	Badan Koordinasi Penanaman Modal (Indonesia Investment Coordinating Board)
BPS	Biro Pusat Statistik (Statistics Indonesia)
Sakernas	Survey Tenaga Kerja Nasional (National Labour Force Survey)
HPP/HIP Labour /	Hubungan Perburuhan/Industrial Pancasila (Pancasila Industrial Relations)
P4D (Regional	Panitia Penyelesaian Perselisihan Perburuhan Daerah Committee for the Settlement of Labour Disputes)
APINDO	Asosiasi Pengusaha Indonesia (Indonesia Employer Association)
Korem	Komando Resort Militer (Military Command Post)
Kodim	Komando Distrik Militer (District Military Command)
NGO	Non-Government Organisation
MPBI	Majelis Permusyawaratan Buruh Indonesia (Indonesian Workers Consultative Assembly)
FBSI	Federasi Buruh Seluruh Indonesia (All-Indonesian Workers Federation)
OPSTIB	Operasi Tertib (Operation Security)
Muspida	Musyawah Pimpinan Daerah (Local Government Assembly)
FSPSI	Federasi Serikat Pekerja Seluruh Indonesia (All-Indonesia Trade Union Federation)

Golkar	Golongan Karya
KADIN	Kamar Dagang Indonesia (The Chamber of Commerce and Industry)
Nakertrans	(Departemen) Tenaga Kerja dan Transmigrasi (Ministry of Employment and Transmigration)
UK	United Kingdom
USA	United States of America
CEO	Chief Executive Officer
SE Asia	Southeast Asia
CLA	Collective Labour Agreement
MoU	Memorandum of Understanding
SP LEM-SPSI	The Metal, Electronic and Machinery Union, All-Indonesia Workers Union
TQM	Total Quality Control
HR	Human Resources
AFTA	ASEAN Free Trade Area
IR	Industrial Relations
ASEAN	The Association of Southeast Asian Nations
KSPI	Konfederasi Serikat Pekerja Indonesia (Indonesia Trade Union Confederation)
MFA	Multi Fiber Agreement
AGOA	African Growth and Opportunity Act
BBM	Bahan Bakar Minyak (Fuel)
IBRA	Indonesia Banking Restructuring Agency
BCA	Bank Central Asia
GBP	Great Britain Poundsterling
OPSI	Organisasi Pekerja Seluruh Indonesia (All-Indonesia Workers Organisation)
DPA	Dewan Perwakilan Anggota (Members Representative Committee)

## CHAPTER 1

### INTRODUCTION

#### 1.1 Background

As the 4th most populous country in the world, Indonesia offers an abundant supply of workers for domestic as well as multinational companies. It has been argued that the activities of multinationals (MNCs) have been an important contributor to Indonesia's rapid economic growth during the New Order era, along with orthodox macro-economic policy and political stability (Hill, 1988: introduction). This situation is commensurate with the argument that developing countries often seek to underpin economic growth via foreign direct investment (FDI), which is attracted by cheap and compliant labour (Abbott, as cited in Rowley and Benson, 2000: 6). MNCs can use foreign investment in developing countries as a countermeasure to problems of profitability and competitiveness in those economies arising from the pressures of high labour costs, union militancy, and labour market rigidities (Schoenberger, 1989). MNCs are attracted to developing countries because labour in these countries is cheaper, readily available, equally productive, more easily subjected to discipline and work longer hours (Southall, 1988: 10).

Trade unionism in Indonesia on the other hand, has had a long history, having commenced during the period of Dutch colonial rule in 1897 (Cahyono, 2003). After independence in 1948, one of the biggest trade unions at that time, SOBSI (Centre of All-Indonesia Workers Organisation) announced their affiliation with



the Indonesian Communist Party. When the Communist party was suppressed in 1966 with the emergence of Suharto's government, SOBSI was banned. Suharto styled his cabinet as the New Order and proceeded to centralise labour relations (Simanjuntak, 2009).

When the Asian financial crisis occurred in 1997, the Indonesian economy collapsed, demonstrating the fragility of Indonesia's economic and social foundations. This resulted in a mass desire for social reformation and hence the downfall of Suharto. Industrial relations was one of the areas where reforms took place. There were changes in the laws relating to employment conditions, including those which give trade unions the right to independently establish and organise. However, it is not clear what effect these changes have had on union activity and interaction with MNCs.

Hence, it is apparent that there is a shortage of data on unions and their activity in multinational establishments in Indonesia. There is virtually no data on trade union density in multinationals or by industry in Indonesia. In the absence of aggregate data, industry-level case study research is needed.

## **1.2 Aims**

The purpose of the thesis is to explore the union-management relationship in MNCs, particularly in the post-1998 reformation era where freedom to organise was guaranteed by the Government through the ratification of ILO conventions. In particular, there are two research questions that this thesis attempts to explore:

*What is really happening in the workplace in terms of union-management relationship?*

*Do unions enjoy greater freedom after the reformation era and how have multinationals reacted to the changes?*

The analysis is conducted through case studies in four multinationals operating in different industries, so as to enable a comparison which then will be examined by using strategic choice theory.

These questions are appraised through a critical comparison of how external and internal constraints have shaped union strategy in the case studies analysed.

### **1.3 Data**

The principal source of data was from interview transcripts conducted with 19 managers, 26 union representatives and 4 union members from the MNCs being studied; as well as with an ILO officer and two “independent unionists” to provide a broader understanding of the Industrial Relations system in Indonesia. The interviews were semi-structured, and explored the issues outlined below.

The key interview questions covered with union representatives were:

1. What was the relationship between the union and the management and how the respondents appraised this relationship in achieving union’s objectives.

2. The respondents were asked to describe the union's strategy in dealing with management and whether this strategy has ever changed.
3. How the respondents assessed Indonesian economic and social context as affecting union operations.
4. The issues that the union was concerned with and whether these were discussed in collective bargaining.
5. The type of consultative mechanisms that union use.
6. The description of union structure and the nature of the union's relationship with its members.
7. The attitudes towards, and procedures for taking industrial action.

The key questions covered with managers were as follows:

1. Why the company decided to recognise a union in the workplace.
2. How did managers see union activity as affecting the success of the Company.
3. Management strategy in dealing with union and whether this strategy has ever changed.
4. How management reacted towards a hypothetical drop in sales in terms of labour force adjustment.
5. Respondents were also asked to provide reasons as to why they thought Indonesia was attractive as a receiver of FDI.

6. What improvements respondents wanted to see in Indonesia in order to maintain an attractive environment for foreign investment.

The first multinational studied operates in the automotive industry. They have operated in Indonesia for more than three decades and have now become one of the biggest car producers in the country. Employing more than 5,000 employees, this company has had a long history of union recognition. The union in this multinational is affiliated with the All-Indonesian Workers Union (Serikat Pekerja Seluruh Indonesia – SPSI) federation, within the section of Metal, Electronic, and Machinery union.

The second multinational studied has operated in Indonesia for more than 40 years and is a well-established foreign bank in Indonesia, employing around 300 employees and also recognizes a union in its workplace. Organizing half of the total employees, the union in the multinational has been affiliated with OPSI (Organisasi Pekerja Seluruh Indonesia- All Indonesia Employee Organisation) since 1998.

A multinational operating in the textile industry was the third participant. This multinational has been operating in Indonesia since 1976. The union in this company is facing great challenges since the company has implemented significant changes in their efforts to survive increasing competition. Currently organising more than 1,000 workers, the union has affiliated with the National Workers Union (Serikat Pekerja Nasional – SPN) federation since the democratization era.

The last multinational studied in this thesis is a manufacturer and supplier of vehicle parts around the world. It is also a key supplier to the first multinational in this research. It started operating in Indonesia in 1975 and (at the time of research) employed approximately 2,000 employees. The union is now an in-house (enterprise) union after detaching themselves from a union federation in 2000. It currently organises approximately 1,400 employees across both establishments in Jakarta and Bekasi.

#### **1.4 Methods**

The primary methods used in the research constitutes case studies, which were conducted in four MNCs from different industries where unions were present and being recognised. Case studies are one of most common ways to conduct qualitative enquiry, but they are neither new nor essentially qualitative (Stake, as in Denzin and Lincoln 2000: 435). Yin (2003) defines a case study as ‘an empirical enquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident’ (Yin, 2003: 13). As such, case studies may comprise a mixture of qualitative (e.g., interviews) and quantitative (e.g., surveys) methods – the key defining characteristic of case studies as an epistemology is the emphasis on contextual, primary data.

#### **1.5 Organisation**

Chapter 2 discusses the literature review on the Indonesian labour market to provide a clearer picture on the position of trade unionism in Indonesia. It is followed by a review on multinationals and trade unionism development in Indonesia during the New Order and reformation era (post 1998)

Chapter 3 provides a theoretical perspective on the nature and impact of trade unions in the workplace; and hence the implications of union activity for employment and competitiveness. The views from neoclassical and institutional economics regarding this issue are explored and compared. Whilst the neoclassical view regards trade unionism as disrupting equilibrium in the labour market, institutional economics regards trade unionism as a viable, indeed necessary institution to contribute to the (efficient) functioning of the labour market.

However, in the more hostile recent policy context of neo-liberalism, it could be argued that trade unions need to develop a more focussed, strategic approach to increase membership. A number of scholars have examined the nature of union behaviour in terms of the strategic parameters shaping union actions. Kelly (1996), for example, classifies union strategy in terms of a moderate vs. militant outlook. He argues that militant trade unions more are likely to achieve their goals. Gardner's eight strategy elements (Gardner, 1989) and Gahan's framework of union strategy construct (1998) are amongst other attempts to explain strategy.

A comprehensive approach is proposed by Huzzard (2004) who utilises strategic choice theory to argue that there are four levels of strategic choices

upon which unions have to decide. Each level will consequently influence the choice of the following level. This approach will be explained further in this chapter and become the theoretical framework in this thesis.

Chapter 4 outlines the research methods used in this thesis.

Chapters 5 to 8 discuss the findings of case study #1 (the automotive multinational), case study #2 (the textile multinational), case study # 3 (the foreign bank) and case study # 4 (the automotive component multinational). The structures of the case study chapters are similar. The first section provides an overview of the Company and the union, followed by the relationship of the union and management and the coverage of collective bargaining. The next section explores the union's internal and external constraints in developing their "strategic choices". The final section of the chapters summarise the findings and evaluate the union's strategic choices.

Chapter 9 provides a comparative discussion of the case study findings by exploring and comparing the most important aspects of the union's internal and external constraints and considers their implication for Huzzards' model. Section 9.2 revisits the theoretical framework outlining Huzzard's model and the research questions. Section 9.3 and 9.4 examines union external and internal constraints in developing their strategic choices. Section 9.5 revisits formulating union strategy by evaluating the most important aspects and the links between. Section 9.6 summarises the findings of this chapter; while Section 9.7 provides the suggestions for further research.

Chapter 10 presents the conclusions and recommendations of this thesis.

## **1.6 Caveats**

Given the nature of case study research which tries to explore rather than generalise, the analysis and findings in this research cannot provide a complete picture of the constraints facing the entire union movement in Indonesia. The research comprised case studies in four well-established multinationals which have recognised unions for a long time and have relatively strong market position (except for the textile multinationals). Thus, the findings cannot provide a picture of unions operating in weaker-position multinationals such as subcontractors or the unions in local companies (as access was not obtained to do research in such companies).

However, as the research aim is to ‘shed light on the labour process and thus help to penetrate the ‘black box’ of firms’ practices’ (Yin, 2003: 15), case study methods are hence used. Through this, one can build up an iterative profile of the labour process and shed light on the employment strategies (Mintzberg, 1978) used by MNCs and unions in Indonesia; using what Williams (2000) calls a ‘moderatum’ approach, whereby aspects of a phenomenon provide indicators for broader phenomenon.

The next chapter will discuss the literature on labour markets, multinationals and trade unionism in Indonesia; in order to give a better context, and hence understanding of the case studies in trade unions in four multinationals which will be discussed in the subsequent chapters.



## CHAPTER 2

### LITERATURE REVIEW: THE LABOUR MARKET, MULTINATIONALS AND UNIONS IN INDONESIA

#### 2.1. Introduction

As the 4<sup>th</sup> most populous country in the world, Indonesia offers an abundant supply of workers, particularly less skilled labour (Bende-Nabende et al, 2001: 392), for domestic as well as multinational companies. In 2005, the Indonesian work force comprised over 155 million workers, of which 60% were estimated to be working in the informal sector -- defined as the self employed and unpaid family workers (Sugiyarto et al, 2006: 302): particularly in the agricultural and trade sectors. The presence of an informal sector that can absorb displaced formal sector workers is believed to have provided Indonesia with a flexible labour market and an alternative for workers who cannot find jobs in formal sectors (Manning, 2000: 122)

Those who work in the formal sector are employed by domestic and multinational companies. Although there is no data showing the proportion of workers in each category (domestic and foreign companies), a government agency publishes statistics of employment absorption in “approved investment” in several simultaneous years which demonstrates that foreign direct investment appears to account for more formal sector employment than domestic investment.

**Table 2.1 Employment absorption by approved investment, 2002-October 2007**

Types of investment	2002	2003	2004	2005	2006	2007*
Domestic Direct Investment	53,996	49,339	61,935	122,750	79,415	80,385
Foreign Direct Investment	88,386	117,224	148,401	156,109	206,945	147,507

*Source:*

*[http://www.bkpm.go.id/en/publications/investment\\_statistics/investment\\_statistics\\_october\\_2007](http://www.bkpm.go.id/en/publications/investment_statistics/investment_statistics_october_2007); \*The data on 2007 statistics is only available up to October 2007.*

Multinationals have played an important role in driving industrialisation in Indonesia. However, the presence of multinationals has not been free from controversy, as many consider multinationals to be the agents of ‘modern colonialism’ whose financial influence may lessen the independence of the host country. Multinationals are also seen as the drivers of ‘the race to the bottom’ (Hadiz, 2000: 6) whereby they seek the cheapest yet productive workers - particularly from developing countries like Indonesia – which in turn they use as a bargaining tactic to drive down wages and working conditions in general by playing off one country, or group of workers, against another – the so-called “fragmentation” under globalisation (Jones and Kierzkowski, 2001: 17; Robinson, 2004: 15 Bonnano and Constance, 2008: 254; ).

Hence, this chapter will first of all discuss the state of Indonesian labour market; where the level of unemployment and the issues of informal and contract workers as well as outsourcing practices will be raised, so as to depict the challenges Indonesian unions are currently facing. The second part of this chapter will explore the nature of multinationals which many scholars argue has weakened the bargaining position on trade unions (Horn and Wolinsky, 1988:

494; Bean, 1994: 190; Cox, 1994: 44). This section will be followed by a discussion of the presence of multinationals in developing economies and impacts on organized labour. This is followed with a description of the industrial relations system and trade unionism in Indonesia, particularly the changes that have taken place since the downfall of the Suharto “New Order” Government in 1998. This last section will summarise the literature review and examine the gaps between the existing debate and the current situation in Indonesia and to what extent this PhD thesis contributes to the development of understanding trade union behaviour in developing countries.

## **2.2. The Indonesian Labour Market**

This section describes the condition of the Indonesian labour market, particularly after the onset of the Asian crisis in 1997. This section will show that the labour market in Indonesia is highly flexible, as the informal sector plays an important role as an alternative of employment for workers. The fact that Indonesia is still predominantly an agricultural country also means the workforce could retreat to this sector when they lose their (modern/formal sector) job.

Statistical depictions of the Indonesian labour market, however, should be treated with some caution. Some phenomena might be ill-defined which may cause an underestimation of the extent of a phenomenon, such as the data on unemployment which is discussed below. The following paragraphs, thus, will try to capture the problem and its implications.

The official unemployment rate in Indonesia during the initial years of the 1997 Asian crisis did not show the extreme decline one might have expected (as shown in the table below). Rather, unemployment growth was considered slight in comparison to other countries affected by the regional crisis. In South Korea, for example the unemployment rate increased from 2.2% in 1997 to nearly 8% in 1998, whilst in Hong Kong, Malaysia, and Thailand unemployment nearly doubled (Manning, 2000: 121)

**Table 2.2 Unemployment rates by gender, BPS (Statistics Indonesia) and the Ministry of Manpower**

	1994-1997	1998-2000	2004	2006	2008
Male	4.6	6.0			
Female	4.1	5.6			
Total	5.6	6.6	9.9	10.3	8.4

*Source: National Labour Force Survey (Sakernas) as cited in Dhanani, S, 2004: 10 and BPS (<http://www.bps.go.id/sector/employ/table1.shtml>)*

Manning (2000) argues that the growth in unemployment was alleviated by the existence of the agricultural and informal sectors, which played an important role in absorbing workers who lost their modern/formal sector jobs. In addition to the agricultural sector, Manning (ibid.) argues that the remaining crisis-affected unemployed were also being absorbed by another sector; trade (retail smallholdings).

Nevertheless, this figure suffers from ill-defined concept of unemployment, as being argued by Ahmed and Dhanani (1999). They argue that the official

unemployment statistics by the BPS (Statistics Indonesia) failed to address the true magnitude of unemployment as it excludes those unemployed who are not seeking work because they do not believe there are jobs available for them (discouraged/disguised unemployment). They compare their data with that of the BPS and from this it can be seen that there is a striking difference on the level of unemployment. It is mainly caused by the indicator they use in measuring unemployment as they include those who are willing to accept work at the time of the survey (regardless they are actively seeking work or not) into their unemployment indicator. Their findings are shown in the table below:

**Table 2.3 Unemployment rates by gender, all-inclusive indicators**

	1997	1998
As % of labour force	12.38	14.19
Male	5.64	6.12
Female	19.54	21.53

Source: Ahmed and Dhanani, 1999<sup>1</sup>

However, it should be noted that since 2001, the BPS changed its definition of unemployment, adding discouraged workers into the unemployment measure (Sugiyarto et al, 2006: 333). As a result, official unemployment rate doubles and higher: 8 per cent in 2001, 9.1 per cent in 2002, 9.9 per cent in 2004 and 8.4 per cent in 2008 as shown in table 3.2 (Sugiyarto et al, 2006: 333; <http://www.bps.go.id/sector/employ/table1.shtml>).

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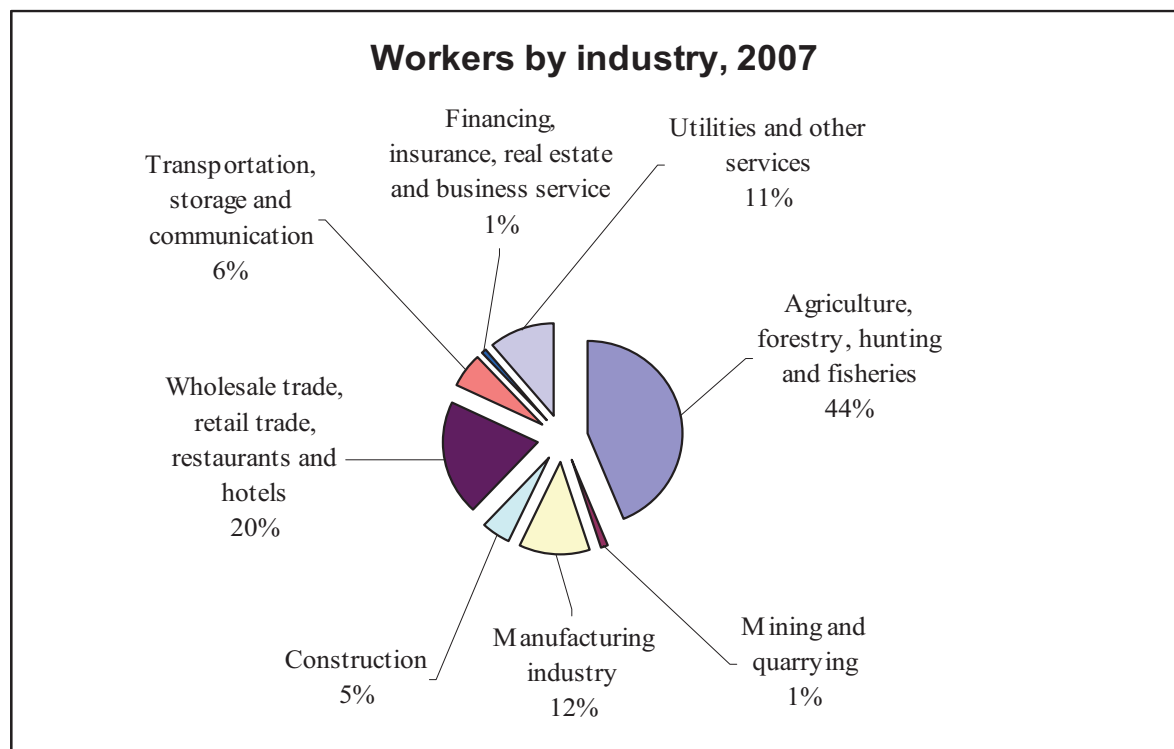
<sup>1</sup> Ahmed and Dhanani (1999) Indonesia's Recovery: Employment Optimism or Statistical Illusion? ILO Jakarta Office.

The survey conducted by the BPS shows that there has been an increasing trend of female unemployment, particularly when the new unemployment definition is applied. The gap between female and male unemployment rates has widened as shown by the BPS survey which shows that in 2003 the rates were 13 per cent and 8 per cent respectively-- whereas by using the old definition, in 1994 the rates were 4 per cent and 3 percent. Thus it can be concluded that discouraged workers are mainly females.

The survey also shows that more females are leaving the labour market and staying at home. Sugiyarto et al (2006) argue that poor working conditions for females have created the 'push factor' of females leaving the labour market instead of experiencing the "pull" of any genuine welfare improvement in their households. (ibid, p: 333-338).

The agricultural sector has been the dominant component of (re-)employment, serving as an alternative employment destination in the informal sector, particularly for low-skilled workers who cannot find jobs in the formal sector. Agriculture was the main industry of employment for workers, comprising 55 per cent of workers in 1990. The share continued to decline until 1997, when 41 per cent of workers were employed. However, the share was again increasing after the 1997 financial crisis as many workers returned to work in this sector. Indeed, in 2007, figures on employment by industry confirmed that the agricultural sector still holds the highest percentage of employment in Indonesia, as shown below.

**Figure 2.1 Workers by industry, 2007**



Source: counted from employment statistics, BPS (<http://www.bps.go.id/sector/employ/table2.shtml>)

As the agricultural sector has served as the alternative for jobs since the 1997 economic crisis, the number of informal workers has increased. After the decline from 77 per cent to 63 per cent during 1990-1997, this percentage increased to 71 per cent by 2003 where 51% of the workforce were unpaid workers and 20% were self employed.

Unlike the significant change in the incidence of informal employment, the incidence of part-time workers in urban areas in Indonesia has tended to be stable, despite the crisis. In a study conducted by the ILO, workers who were categorised as ‘part timers’ were those who worked less than the normal hours

of 38 hours per week (Dhanani, 2004: 22). The rate of part-time workers has been around 30% of total employment for years. However, in 1998, the percentage of part-time employment increased quite significantly even though it decreased again in the subsequent year. The fluctuation in 1998 was explained as the reaction of the workers who were desperate to find permanent full-time jobs in the beginning of the crisis. (Irawan et al, 2000: 21).

Nevertheless, the figure reveals something different when part-time workers in rural areas are discussed as the rate of part-time workers is significantly higher. Nearly 80 per cent of part-time workers were found in rural areas by which over 70 per cent of them were engaged in agriculture. This situation can be explained by the extent of part-time workers working in agricultural sectors, where working hours are generally 32 hours, shorter than in the other sectors (ibid). In terms of gender, female workers comprise over 50 per cent of part-time workers whereas they accounted for just 30 per cent of full-time workers (Dhanani, 2004: 23).

However, Sugiyarto et al (2006) use the term ‘underemployed’ rather than part-time workers in identifying workers who involuntarily work less than the usual full time. The figure of the underemployed with their definition is similar than Dhanani’s part-time workers and that underemployed are also more commonly found in rural area and agricultural sector.

**Table 2.4 Characteristics of underemployed workers, 2003 (% of total)**

Urban	22.6
Rural	77.4



Agriculture	73.1
Other sectors	26.9
Male	52
Female	48
Informal sector	88.6
Formal sector	11.4

*Source: Sugiyarto et al, 2006:344*

The other type of workers which have become more popular currently is that of ‘contract workers’ (i.e., fixed-term contracts). The use of contract workers has been steadily increasing after the Government introduced Employment Law 13 (2003), in which the use of contract workers was legalised. However, there is no comprehensive data on contract workers in Indonesia, although several partial studies have taken place in different areas, which show an increasing trend of contract labour use.<sup>2</sup>

Research held in Tangerang (near Jakarta) and Surabaya (East Java) show that 90 per cent of the companies studied had employed contract workers: though the number of contract workers varied between each industry - from 10 per cent to 90 percent of the total workers employed. Textile and garment industries used more contract workers than other industries studied (although the report does not mention all types of industries being studied)<sup>3</sup>.

On the other hand, the Government argues that the practice of ‘contract workers’ is not clearly legalised in Employment Law No. 13, but has become a popular term among the community for the term ‘fixed-term work contract’ which is essentially different from the practice currently done by many employers. The Government states that in the Law, ‘fixed-term work contracts’

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<sup>2</sup> See: <http://www.geocities.com/edica/anti-imperialisme/buruhapec.html>

<sup>3</sup> See: <http://iika.blogspot.com/2005/07/gerakan-buruh-di-tengah-globalisasi.html>

can only be used by employers for jobs which can be completed within a definite time (three years maximum) and/or the jobs are only done within particular seasons. Law 13 also states that 'fixed-term work contract' cannot be used for regular jobs or main jobs of a company.

The Government argues that a 'fixed-term work contract' is meant to give workers more chance to obtain work rather than create job insecurity among the workers. However, many employers have actually breached the law by using 'fixed-term work contract' for core duties in their main business and thus, the term 'contract workers' has become more popular<sup>4</sup>. Hence, it can be argued that the Government has not taken sufficient action to enforce Law 13 and remove/reduce the practice of ongoing contract workers by the employers.

With the characteristics typical of informal, part-time and contract workers (i.e. shorter hours of work, less than minimum-wage income, uncertainty of income and job continuation), it can be argued that the welfare of these workers is highly questionable. This condition in turn is worsened by the absence of a social security net for these workers. Although the Act that regulates social security for workers includes all types of workers, the implementation of the regulation and the actual practices of employers show a contrasting phenomenon.

The implementation regulation of social security, (Regulation No. 14: 1993) only emphasises the obligation of social security contributions to employers with 10 or more employees and a monthly payroll of not less than one million

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<sup>4</sup> See: <http://sim.disnakertrans-jateng.go.id/index.php?xici=berita&idberita=20080107140201>

Rupiahs (around 60 GBP). As such, the most common non-compliance practice by employers is that they declare that workers employed are paid on a daily basis or are contractors and thus not insurable by any social security scheme in Indonesia; a practice which actually is not consistent with the Act or the regulation of who should be covered by a social security scheme (Angelini and Hirose, 2004).

Whilst workers in the formal sector enjoy employer assistance in paying social security contributions, informal workers, with the absence of clear employer-employee relations, cannot expect the same privilege. The burden of joining a social security scheme is also higher for informal workers as they earn a low and irregular income that cannot guarantee the contribution payment for the scheme. The general lack of awareness of social security entitlements and low trust towards government institutions amongst many informal workers, however, has exacerbated this problem (ibid).

## **2.3 Multinationals and Labour in Developing Countries: the case of Indonesia**

### **2.3.1 Multinationals and labour in developing countries**

In this section we now consider the impact of multinationals. Multinationals have been viewed as the major actors of making the world become one integral part in terms of economic activities. They are defined as those companies which

either directly or indirectly control production or service provision, in two or more countries.

Since 1960, there were attempts to develop a comprehensive theory explaining the phenomena of multinationals or foreign direct investment (FDI). The work was initialized by Stephen Hymer who argued that FDI involved the transfer of a package of resources and not merely just finance capital as had been argued before (as explained in Dunning, 1993: 69-70).

Another theory developed during this decade was that by Vernon with his theory of 'product life cycle' to explain the multinational activity. He suggested that at the first stage, products were produced for the home market in the home country. In the later stage, the products were exported to other countries similar to home countries in demand pattern. As the products become standardised, the pressure comes from the need of cost-efficiency as imitators start to penetrate the market and demand becomes more price elastic. Labour cost as well as trade barriers imposed by competitor in the host country have created an attraction of producing abroad rather than domestically (ibid. 70-71).

Along with the development of theory on multinationals, in his book, Dunning (1993) argues that multinationals expand abroad to achieve one or several objectives: searching for natural resources and/or lower labour cost, expand their market, and/or gain efficiency of their production processes, and/or promote their long-term strategic objectives (p. 56-61).

Furthermore, it can be argued that multinationals have two distinctive features that distinguish them with other kinds of business that involve international

activities and domestic multi-activities. First, multinationals organize and coordinate multiple *value-adding activities* across national boundaries (while international trading only exchanges goods and services across national boundaries without involving value-adding activities). Second, they internalize the *cross-border markets* for the intermediate products arising from these (value-adding) activities (Dunning, 1997).

As they operate within several countries, multinationals deal with a number of industrial relations systems simultaneously. This condition is believed to create asymmetrical relationships between multinationals, government, and unions. Unions are threatened with the superior position of multinationals by the latter's ability to relocate their business to more favoured locations. Enderwick (1985) and Bean (1994) argue that multinationals often use their ability to relocate their production facilities to put trade unions in a disadvantageous position. Actual shifts reduce job security and labour demand, whilst the threat of closure may be used as a bargaining tactic.

Furthermore, the broader financial base of multinationals has weakened the bargaining power of unions in most countries (Bean, 1994: 190). In the event or threat of strikes at one of the subsidiaries, multinationals can maintain (or increase) production at other sites, and thus their cash-flows - which alleviates the costs of strike activity. This situation is usually worsened by the laws introduced by government to maintain foreign investment, such as the policy of a sole union controlled by the government which existed in Indonesia between 1973-1998.

In developing countries, the presence of multinationals has raised some controversies despite their important role in driving forward the globalization of economic activity and their capability in stimulating industrialization in developing countries. Labour exploitation is one of the main themes of controversies along with host country's economic policy, national sovereignty, and cultural identity (Guillen, 2001: 124).

Abbott argues that developing countries often seek to underpin economic growth via foreign investment, which is attracted by cheap and compliant labour (Abbott, as cited in Rowley and Benson, 2000: p. 6). Multinationals from developed economies, on the other hand, can use foreign investment in developing countries as a defensive reaction to problems of profitability and competitiveness in those economies arising from the pressures of high labour costs, union militancy, and labour market rigidities (Schoenberger, 1989). Multinationals are attracted to developing countries because labour in these countries is dramatically cheaper, readily available, equally productive, more easily subjected to discipline, work longer hours, and offer optimal selection of workers in terms of age, gender, and so on (Southall, 1988:p. 10; Carbaugh, 2009: 307).

The issue of "cheap" labour has made the presence of multinationals in developing countries a more debated issue than in developed economies. Guillen (2000) lists three key features of the debate, which are:

1. Most of developing countries are rich in natural resources and/or cheap labour that multinationals lack in their home countries. Abundant cheap labour is definitely an attracting point of a host country.

2. During the post-World War II period, many developing countries were ruled by authoritarian regimes, which tended to repress labour and mollify its political and economic demands to satisfy investors. One of the most unique features of industrial relations in developing countries has been the centrality of the state in terms of tight governmental control over the trade union movement and its activities. The purpose is undoubtedly to protect the interest of foreign capital (Bean, 1994: p. 218). This control is strengthened by growth-oriented developmental plans in developing countries where the state is much more centralised. In most developing countries, strikes prove burdensome as they neither encourage the welfare of capital nor attract foreign investment, both of which have become identified with the 'national interest' (ibid: p. 220).

3. Multinationals are often perceived as limiting national sovereignty or being agents of colonialism. The dependence of developing countries on multinationals has forced governments to consider multinationals' interests in developing national policies, which can disadvantage the host country's labour.

### **2.3.2 The debate over multinationals: the case of Indonesia**

In the context of Indonesia, after decades of a hostile approach towards multinationals during Sukarno's era, Indonesia tried to "restore" its reputation with international business as part of its efforts to attract foreign investors since

1966. The early years of the New Order government were characterised by a very liberal policy towards multinationals in order to attract foreign direct investment. Japanese multinationals were chief amongst those who expanded their business in Indonesia since then. In fact, the Japanese have been the largest investors in Indonesia, especially in the manufacturing sector. Another developed country, the United States, has dominated the petroleum sector (Hill, 1988: 54). Over the period 1967-1984, these two countries accounted for almost 80 percent of Gross Realised Investment in all sectors, owing mainly to American investment.

Regardless the country of origin of foreign direct investment, attracting multinationals requires the presence of some necessary conditions. Cheap labour is one of the necessary conditions as Indonesia did not have technological superiority or abundant skilled labour at that time (Bende-Nabende et al, 2001: 396). Hence, the majority of multinationals invest in industries which are labour-intensive in nature, such as textile, garment, electronic manufacturing and motor vehicles manufacturing industries. Another factor of importance with respect to Indonesia is that it possesses abundant natural resources: especially gas and petroleum; which needs foreign technological expertise in order to be able to utilise these assets.

The dominant industrialisation strategy at the beginning of the New Order was that of import substitution. Multinationals were “invited” to help the government promote economic growth, create jobs and gain revenue needed for development. Multinationals, conversely, required the political and social “stability” from the host country. The decisions of the Suharto regime to ban the Communist Party in



1960s and reduce the number of political parties to three in the early 1970s were part of their efforts to maintain this appeal.

In 1974, the government applied a more restrictive policy towards multinationals as the people protested over the over-presence of Japanese multinationals. The people considered multinationals as villains, which endangered national sovereignty and created over-dependence. The government responded to this protest by applying the new principles governing all new foreign investment, which included (Hill, 1988: 31):

- All new investments were to be joint ventures;
- Indonesian equity should be increased to 51 per cent within a certain period (ten-year period);
- The list of industries closed to foreign investments was to be extended;
- Tax incentives were to be reduced; and
- The number of foreign personnel were to be reduced

However, the government still needed multinationals in developing the economy. Thus, the restrictive approach was never applied enthusiastically.

In the beginning of 1980s, the government changed its industrialisation strategy to become export-oriented. The government launched an investment package in May 1986 to attract foreign investment. This package, which reinstated the liberal policy towards foreign investment like that introduced in 1967, consisted of: equal treatment for multinationals whose 75 per cent equity owned by Indonesia with those of domestic firms in terms of domestic distribution rights

and access to state banks; liberalisation of domestic equity; increasing the numbers of sectors accessible for foreign investment; the ability of foreign firms to reinvest their profits in their own activities; the chance for foreign firms to be authorized for an additional 30 years; and the relaxation of the minimum investment requirement<sup>5</sup>

With a rather restricted approach towards multinationals and an export-oriented industrial policy, multinationals were seen as arm's length collaborators, whose presence was needed to increase exports (Guillen, 2000). Multinationals under this category were interested in low wages, labour docility, and the absence of unions in the host country. In order to fulfil the requirements, the government strengthened the application of the Pancasila Labour/Industrial Relations (HPP/HIP) during 1980s to ensure "harmonious" employment relations. The HPP/HIP industrial relations system will be explored further in the next section.

However, the attractiveness of Indonesia as a foreign investment destination declined sharply in 1998, owing to political instability, national insecurity, law insecurity, and the changing labour policy and industrial relations system. These changes were triggered by the Asian Financial crises in 1997 caused by the collapse of regional currency. Among the countries affected, Indonesia was by the most severe. There have been massive layoffs as a result of closures of companies, or as a result of their liquidation by the government for their failure

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<sup>5</sup> [www.bappenas.go.id/get-file-server/node/5914/](http://www.bappenas.go.id/get-file-server/node/5914/)

to repay debts or for other economic reasons, pushing the proportion of the population living below the poverty lines to rise to almost 40%<sup>6</sup>.

This sudden turnaround has demonstrated the weakness of Indonesia's economic fundamentals. The people forced the government to reform social and political conditions. The fall of President Suharto in the mid-1998 was an indication of the greater desire of the people to experience a more democratic and transparent political life. In order to gain domestic and international support, Habibie and Abdurrahman Wahid, who were subsequently the second and third president, took a radical step towards labour policy. Habibie ratified ILO convention No. 87, Year 1948 on "Freedom of Association and Protection on the Rights to Organise". Abdurrahman Wahid followed his step by enacting the Law 21 (2000), which enabled the establishment of unions with a minimum of 10 members.

The absence of an independent trade union movement, which had been an attracting factor for foreign investment certainly could not be provided anymore by the Indonesian government, as hundreds of unions were formed after the enactment of Law 21. However, in practice workers were not necessarily more protected in conducting industrial action despite the growing numbers of trade unions. The fact that unemployment as well as the inflation rate has remained high has created a situation whereby an employee would be conscious of keeping their job; and hence being reluctant to engage in union activities. However, multinationals could have considered that the presence of unions could entail the possibility of a disruption to labour docility. On this basis, the

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<sup>6</sup> See: [http://www.delidn.ec.europa.eu/spf/spf\\_4akatiga-reportfinal.pdf](http://www.delidn.ec.europa.eu/spf/spf_4akatiga-reportfinal.pdf)

next section will consider the detailed evolution of the Industrial Relations system in Indonesia.

## **2.4 Industrial relations system and trade unionism in Indonesia: development and challenges**

### **2.4.1. Industrial relations system in Indonesia**

On December 1974, the Indonesian government introduced an industrial relations system which confirmed its attempts to become more “friendly” to foreign investment. The system was known as Pancasila Labour/Industrial Relations (HPP/HIP) which had three basic principles:

1. Partner in production.
2. Partner in responsibility.
3. Partner in profits and benefits.

The HPP/HIP model postulated that the relationship between workers and employers was one of a harmonious relationship in production for joint prosperity. Thus, industrial conflict must be avoided and resolved through “consensus”, not by strike action<sup>7</sup>. Through the law, the government insisted trade unions that were going to go on strikes get permission from P4D (Regional Committee for the Settlement of Labour Disputes) first. Without this

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<sup>7</sup> See: <http://www.asia-pacific-action.org/southeastasia/indonesia/publications/doss1/teten.htm>

permission, strikes could incur criminal sanction. In practice, the P4D never gave permission for labour strikes<sup>8</sup>.

However, even though conducting a strike during the New Order period was almost impossible; many cases of this action still took place. These strikes were organised by workers outside SPSI and without going through official procedures, i.e. asking permission to P4D. Thus, the government considered that those strikes were illegal or criminal acts and could incur punishment to the organisers; the military were often involved in suppressing industrial action and many independent trade unionists were imprisoned.

HIP was operated through a tripartite institution between the sole worker organisation controlled by the state, SPSI, APINDO (Employer Association), and the government (through the Department of Labour). The tripartite body's work was overseen by the security institutions (territorial military commands and the police) and state intelligence.

Indeed, territorial military institutions, particularly the Korem (Military Command post), Kodim (District Military Command), and Koramil, played important roles in the HIP. Military intervention in labour disputes was legitimised under the Ministry of Labour Decree No. 342 (1986). Even though this decree was later officially withdrawn on January 1994, through the Ministry of Labour Decision No. 15A/1994, the role of the military over labour issues was still considerable. Hence, it can be said that industrial relations during this

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<sup>8</sup> <http://www.202.159.18.43/jsi/101uwiyono.htm>

era was that of “unitarist corporatism” whereby trade unions were highly controlled by the state.

When Suharto finally gave up his presidential position, the government under Habibie was forced to remove the Labour Minister Regulation No. Per./01/Men/1975, which had made trade union formation very difficult, as many new trade unions had emerged and demanded recognition. This removal was followed by other radical changes: ILO convention 87 (1948) on “Freedom of Association and Protection on the Rights to Organise” was ratified through the Presidential Decree No.83 (1998)<sup>9</sup>.

The step taken by Habibie in legislating for an independent trade union movement was followed by Abdurrahman Wahid. He enacted a new law: No. 21, 2000, which enabled the establishment of unions with a minimum of 10 members. This law enactment has resulted in massive union formation: The data in 2001 shows that there were 3 confederations, 86 federations and more than 11,000 workplace-level unions (Rahayu and Sumarto, 2003: 7). In 2003, this figure was again increasing with 87 national unions/federations and more than 18,000 work-place level unions (Ministry of Manpower, 2006). However, despite the mushroomed formation of new independent trade unions, trade union membership only accounts for a minority of the workforce, in the formal sector, as will be explained in the following section.

The radical steps taken by the two presidents towards trade unions were believed to be part of their efforts to gain public support to legitimise their

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<sup>9</sup> ibid

presidency position as well as a result of pressure from international NGOs. However, some labour activists consider that the change of law was only another tool to control unionism. They argued that the Law 21 (2000) mainly regulates the administrative and procedural matters on union establishment, rather than protecting the freedom of unionism itself. Thus, although the number of trade unions has increased significantly, it is believed that labour is still in weak position as industrial actions still often result in the arrest of union activists, as had happened during the New Order period.

#### **2.4.2. Trade unionism in Indonesia**

##### *Unionism during the New-Order government*

Trade unions in Indonesia had commenced in 1897 during the Dutch colonial era. After independence, one of the biggest trade unions at that time, SOBSI (Centre of All-Indonesia Workers Organisation) announced their affiliation with the Indonesian Communist Party. When the communist ideology was suppressed in 1966, the communist party and hence SOBSI were banned. Suharto came into power in that year, and styled his cabinet as the New Order.

The main focus of the early years of the New Order was promoting economic “recovery”. In order to achieve it, the government started to control all kinds of mass-based organisations which were considered radical; including political parties and trade unions that were suspected as the main factors to be blamed for the chaos during the Old Order period. Thus, the early years of New Order government was characterized by its effort to amalgamate the existing non-communist trade unions into one workers organization (Hadiz, 2000: p. 247). It

started by sponsoring the establishment of the MPBI (Indonesian Workers Consultative Assembly) in 1969. Twenty-two trade unions became members of this assembly. The government gradually directed the MPBI to form a single, easily controllable trade union. In 1973, the government finally succeeded, establishing the FBSI (All-Indonesia Workers Federation), which claimed itself as the only workers' organization officially recognized by the government (ibid).

The FBSI "submitted" itself to HPP (Pancasila Labour Relations), under the auspices of a government-initiated industrial relations approach. Under this model, FBSI was operated as a tool for safeguarding political security and stability, by involving the FBSI officers in OPSTIB (*Operation Security*) under the military. The heads of central or regional FBSI bodies were those who had been actively involved in OPSTIB. Moreover, the selection of the executive leadership of local FBSI committees had to go through an examination by Korem (Military Command post) and Kodim (District Military Command), and the *Muspida* (Local Government Assembly)<sup>10</sup>.

However, after several years, the 22 sectoral trade unions which were members of FBSI became more independent, as they had built direct affiliation with international trade unions. Trying to stop the greater independence of the unions, the government changed the form of labour organisation from a federative to a unitary form. FBSI was renamed SPSI (All-Indonesia Trade Unions) in 1985. The industrial relations policy was renamed Pancasila Industrial Relations (HIP), even though there were no changes in the substance of this model.

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<sup>10</sup> (<http://www.asia-pacific-action.org/southeastasia/indonesia/publications/doss1/teten.htm>)



The form of SPSI was later changed again into a federation in 1995, due to negative critiques from domestic and international labour activists on the government policy that made trade union formation and recognition impossible. It became the FSPSI (All-Indonesia Trade Union Federation), but government control over this organisation was scarcely different (Hadiz, 2000: p. 248). In practice, this new form did not change the number of recognised trade unions, as the government did not withdraw the regulation on the union establishment; the Ministry of Labour Decree No. 05 (1987). This decree stated that the precondition that should be met by a union to be officially accepted and recognized was that it should have a Unitarian structure, branches in no less than 20 regions at the sub-provincial level and in 100 bodies at the district level and in 1,000 units at the workplace level.<sup>11</sup>

SPSI/FSPSI could not be independent labour organisations as they got their funding from the government as well as from their members. Therefore, their concern over labour welfare and other issues were subordinated to the government's interests. Moreover, the heads of SPSI/FSPSI were company owners or politicians. Imam Sudarwo himself, the first SPSI leader, was a businessman, while most of other SPSI heads were leaders of the New Order's ruling party, *Golkar (Golongan Karya)* (*ibid*). This kind of the so-called "company union" had led to the failure of SPSI to be independent in addressing the interests of the workers and rather play their role as the agent of the employer in executing the latter's agendas; a typical example of the agency problem where the agent (union) fails to address the interest of the principal (the

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<sup>11</sup> *ibid*

members) because of different goals and/or risk aversion (of the agent) (Eisenhardt, 1989: 58).

Moreover, the possibility for the emergence of a trade union at the work place level through efforts by the workers themselves was obstructed by the involvement of the company and the Department of Labour in the process of the establishment and operation of the work place unions. This intervention was legitimized through Ministry of Labour Decree No. 1109/MEN/1986. This among others requires that: in the process of the establishment of a work-unit union, the workers must consult with the company, APINDO (Employers association) and KADIN (The Chamber of Commerce and Industry). Thus, it is not surprising that the head of SPSI work unit in general was held by an employee whose position represented the interests of the company, usually personnel staff or treasurer (ibid).

#### *Labour unrest during New Order period*

Under the HIP model, as noted earlier, conducting strikes was very difficult as the government required trade unions which intended to conduct a strike to get permission from P4D (Regional Committee for the Settlement of Labour Disputes) first. Without this permission, strikes could incur criminal sanctions; and as noted, in practice, the P4D never gave permission for labour strikes<sup>12</sup>. On the other hand, efforts to undermine the power of strikes were also done by giving the rights to companies to carry out

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<sup>12</sup> (<http://www.202.159.18.43/jsi/101uwiyono.htm>)

mass sackings of workers who were on strike for six days in a row<sup>13</sup>. However, despite the difficulties in conducting strikes, many cases of this action took place, especially after 1990s, as shown in the table below.

**Table 2.5 Strikes in Indonesia, 1990-2007**

<b>Year</b>	<b>No. of strikes</b>	<b>Labour involved</b>
1990	61	27,839
1992	251	176,005
1994	278	136,699
1996	350	209,257
1998	234	141,495
2000	273	126,045
2001	174	109,845
2003	146	61,790
2007	150	135,297

Source: <http://www.nakertrans.go.id/>

The level of strikes was relatively high since the 1990s, for a reason argued by Hadiz in his chapter, *Globalization, Labour, and the State: Indonesia* (2000). He stated that the upsurge in labour unrest was related to a process of sustained industrialisation, which changed the way Indonesian workers experienced

<sup>13</sup> (<http://www.asia-pacificaction.org/southeastasia/indonesia/publications/doss1/teten.htm>)

everyday life. Contemporarily, the new-urban based industrial workers are urban residents, who think that living permanently in the village is not attractive because of the lack of land. Thus, they – who are much younger and better educated - are more inclined to aspire to a better life and work conditions (Hadiz, 2000: p. 250).

Additionally, it also important to note that while trade unionism was restrained during Suharto's repressive era, locality-based NGOs whose orientation was towards the improvement of labour conditions had provided workers' education, training programs and discussion groups with little control from the Government. This activity, led by middle-class individuals outside the labour movement had created a sense of class identity amongst workers and in return had enabled the conduction of worker strikes during Suharto's new Order (Ford, 2001: 103; Hadiz, 1997: 137-138). However, when the government finally introduced the Law No. 21, 2002 which enable the formation of independent unions, these NGOs discontinued the activities (as independent unions were able to conduct such trainings and discussions) (Isaac and Sitalaksmi, 2008: 241).

Most of the industrial unrest was driven by demands for higher wages and better working conditions. Other reasons for disputes<sup>14</sup> were:

- Worker demands for the establishment of work-place level FSPSI units free from employer or government intervention.

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<sup>14</sup> (Hadiz, 2000: p. 251; [www.smeru.or.id/report/workpaper/practindustrel/practindustrel.pdf](http://www.smeru.or.id/report/workpaper/practindustrel/practindustrel.pdf)).

- Demands for workers' additional rights, such as the absence of, or insufficient amount, of allowances provided for food, transport; menstrual leave (one day per month) for female workers; etc.
- Interference and involvement of third parties, such as workers from other enterprises and other affiliated trade unions, which often provoked workers to fight for their interests.
- Pressure from a number of workers inside the enterprise to coerce other workers to support their cause through demonstrations or strikes.
- Solidarity for fellow workers believed to have been treated unfairly by employers.
- Diverging perceptions on government laws and regulations.
- Changes in corporate management, which are viewed as inconsiderate of workers' interests and welfare.

*Unionism during the reformation era --1998 onwards*

After the downfall of President Suharto in the middle of 1998, the policy and regulations upon the organisation of labour underwent dramatic changes. The new government under Habibie's presidency made trade union establishment much easier by removing previous regulations on union establishment. The government ratified eight ILO conventions, of which one of them was

convention No. 87 (1948) on the “Freedom of Association and Protection on the Rights to Organise”<sup>15</sup>.

**Table 2.6 The dynamics of Indonesian trade unionism 1965-present**

1965-1973	1973-1981	1982-1987	1988-1992/3	1992/3-1997/8	1998-present
‘Left’ oriented unions disbanded, government union (FBSI, later SPSI) formed	SPSI expands but is heavily dependent on government support, some Industrial branches of union active	Government exerts control over leadership and structure of SPSI through hard line Minister of Manpower	SPSI become less financially dependent on government but is bypassed in most labour Action. New union formed (SBM), despite government opposition	Because of domestic pressure and US threat to with-draw GSP trade rights, government does not ban independent unions, but they are not recognised and their leaders are harassed	Government reforms employment-related laws, including the law of Freedom of Association. The number of national unions grows quickly

Source: Manning, 1998: 206

*The growing numbers of trade unions versus low interest amongst the workers*

These changes resulted in massive union establishment nationally, as mentioned in the previous section. Unfortunately, the growing numbers of union establishments were not followed by a high willingness of workers to join unions. There were several versions on union membership data, all of them showed a low density of unionism in Indonesia compared to the mushroomed formations of (new) independent unions. Data from 2002 revealed that the number of union members was only 8 million: 16-20 per cent of the total workforce of formal-sector workers) (Quinn, 2003: 36). However, Quinn also

<sup>15</sup> (<http://202.159.18.43/jsi/101.uwiyono.htm>)

noted that this figure is highly questionable. A more recent estimate (2006) showed that the union density of much lower than Quinn's, with only around 6-7 per cent of formal sector workers (3.4 million union members of 40-50 millions formal sector workers). Table 2.6 below depicted the proportion of union members, showing that union membership concentrated in the first three union confederations.

**Table 2.7 Membership of Indonesian trade unions 2006**

<b>Name of trade union peak body (confederation)</b>	<b>No. of federations</b>	<b>No. of enterprise union</b>	<b>Members</b>
KSPSI	16	6,122	1,657,244
KSPI	10	1,101	793,874
KSBSI	11	1,307	227,806
National Federation of Trade Unions	3	833	269,509
Non-confederation of Trade Union Federation	50	1,677	403,714
Non-federation Trade Union		1,237	305,959
<b>TOTAL</b>		<b>11,444</b>	<b>33,888,597</b>

Source: ILO Jakarta, taken from Isaac and Sitalaksmi (2008: 244)

This phenomenon was also related to the fact that not all of the trade unions were formed with a mission to improve workers' welfare. Many of them were formed politically to gain public support for a particular party. Workers thus cannot see the advantages they could get if they become members of such trade unions. However, trade union activists argue that not all non-enterprise level trade unions do have clear missions. They also believe that there are trade

unions which have an idealistic approach to defending workers. Yet, they did not reject the accusation that most of the unions only exploit labour issues for their own self-interest.

There are several other reasons that have made union membership unattractive for many workers<sup>16</sup>.

First, most of the trade unions do not have strong national bargaining ability compared with employers; whose interests can be forced through big political parties as most of the parties' leaders are also business players. The weak bargaining power of trade unions in Indonesia is also caused by the low interest in unionism. While the rate of unionism is only around 6 per cent, as seen, the official rate of unemployment is also high at nearly 10 per cent by August 2007, according to the Government (Statistics Indonesia—this figure would be much higher if the category by Dhanani previously - unemployed but not actively seeking work and underemployed – was also included). Thus, it is relatively easy for employers to replace trade union activists if they disrupt company operations. Thus, as noted, it could be argued that workers would prefer to keep their jobs than be actively involved in union activities, which may endanger their job continuity.

Second, almost all of the current trade unions are not independent in funding their organisation as well. They do not get funding from the government, though, but from non-government organisations or international organisations, particularly from their international union affiliates, which are not free from

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<sup>16</sup> (<http://pdsorganiser.topcities.com/bacaanprogresif/Buruh/KrisisSP.htm>)



their own interests. Thus, their decisions or reaction over labour issues cannot be separated from the funding providers' interests.

Third, existing trade unions do not co-operate in resolving labour problems. They consider each other as competitors in gaining members and public support. A very clear example of trade unions' friction externally and internally was when the government under Megawati's leadership finally enacted the new Employment Law No. 13 on 25 March 2003. The government claimed that the enactment of the new Law had been approved by a "small team" consisting of 6 trade unions which represented 63 trade unions. However, in reality, not all the members of the 6 trade unions agreed with their leaders in approving the law. They claimed that their leaders acted on behalf of their own interest instead of the wider organisation. They disapproved some articles in the law about strikes and dismissals as well as about contract workers and outsourcing – arguing that contract workers and outsourcing may endanger job security and lower the workers' interest to join unions<sup>17</sup>.

Thus, if existing trade unions could not develop national-level bargaining power, work co-operatively each with other to resolve labour problems, and be independent in funding their organisation; it would be difficult for them to increase the level of unionism density among the workers.

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<sup>17</sup> ([http://www.hukumonline.com/cetak\\_artikel.asp?code=7497&artikel=](http://www.hukumonline.com/cetak_artikel.asp?code=7497&artikel=))

**Table 2.8 Summary of Main Labour Regulations, 1945-2004**

Presidential Era and Regulations	Description
I. Sukarno (1945-1967)	
1. Law No. 12/1948	Labour Law
2. Law No. 1/1951	Implementation of Labour Law No. 12/1948
3. Law No. 21/1954	Law on labour union and employer to provide a basic agreement
4. Law No. 18/1956	Ratification of ILO Convention No. 98 on the right to organise and bargain collectively
5. Law No. 22/1957	Dispute settlement law
6. Law No. 80/1957	Ratification of ILO Convention No. 100 on wages for male and female workers
II. Suharto (1967-1998)	
1. Law No. 14/1969	Main regulation on employment
2. PP No. 33/1981	Regulations on wage
3. Ministerial Regulation No. 01/MEN/1990	Explanation on minimum wage and its implementation

4. Ministry of Labour Regulation No. 3/1993	Overall control of all aspects of labour organisation
5. Ministry of Labour Decrees No. 4/1986; No. 1108/1986 and Regulation No. 62/1993	Limitations on the right of strike based on mandatory bipartite and tripartite negotiations involving Ministry of Labour and the security forces and mechanism to force workers to resign after 6 days absence of strike

### III. Habibie ( 1998-1999)

1. Ministerial Regulation No. 5/1998 to replace Ministerial Regulation No. 3/1993	Ratification of ILO Convention No. 87 (on Freedom of association and protection of the right to organise); introduce a new system for registration of trade unions and abolish the previous monopoly union
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### IV. Wahid (1999-2001)

1. Amendments to Labour Law No. 25/1997	On labour unions
2. Trade Union Act, Law No. 21/2000 to replace Regulation No. 5/1998	Guarantee workers' right to organise; setting the minimum number of members of a trade union (10), conditions

	governing multiple unionism in single establishment, rules for information on union federation and confederation
3. Ministerial Decree 150/2000	Operational procedures on rationalisation of workers including severance pay
V. Megawati (2001-2004)	
1. Labour Law No. 13/2003 replaced among others Labour Law No. 25/1997, Law No. 14/1969, Law No. 21/1954 and Law No.1/1951	The new Labour Law includes all basic aspects of employment protection such as planning, training, industrial relations, occupational safety, wages and welfare. Several detailed regulations are also included such as for severance pay
2. Industrial Dispute Settlement Bill, law No. 2/2004	Provides basic procedures on industrial disputes
3. Law No. 40/2004 on National Social Security	The beneficiaries are all Indonesian workers. The system includes Jamsostek, Taspen, Asabri and Askes

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### **2.4.3 Public perception over trade unionism**

Perceptions of Indonesians in general towards unionism are that it is provocative and militant. It can be argued that this perception is generated because Indonesians prefer to avoid uncertainty as studied by Hofstede<sup>18</sup>. The uncertainty avoidance of Indonesia comes to second after the Power Distance Index where Indonesia is at 78, higher than the average for Asian countries of 71 (of 100-scale) – indicating a high unwillingness to “disrespect legitimate authority”. High uncertainty avoidance and power distance could have created a society which perceives trade unionism as a new institution which may ‘endanger’ the stability of society. The high level of power distance also suggests that most Indonesians are in favour of strong leadership/authority to direct the unequal power among the society rather than providing bargaining conditions which are favourable for trade unions.

Moreover, these perceptions are very much fomented and reinforced by the media, which represents the interests of varied groups, but mainly nationalists, opportunists, and religious groups. For example, the case of the Nike’s subcontractor shutdown was reported as the result of stronger unionism in the workplace. This kind of report was based on interviews with government officials, employers and union representatives. However, it was also other union representatives who suggested that the company’s closedown was caused by the emergence of unionism in the workplace, creating an image that a union is dangerous for the job security of workers. Together with reports on

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<sup>18</sup> See [http://www.geert-hofstede.com/hofstede\\_indonesia.shtml](http://www.geert-hofstede.com/hofstede_indonesia.shtml)

demonstrations and strikes organised by unions and rare stories of union's positive contributions for workers and employers, Indonesians question the advantages of strong unions, not to mention the lingering public fear of communism – as unions were regarded as representing the communist party in the Old Order.

## **2.5 Literature review summary and contribution of this research**

This chapter has explored the Indonesian labour market and multinationals. Evident is that the informal sector has dominated employment for Indonesian workers, particularly in the agricultural sector. Although the proportion was lower during 1990-1997, it has been increasing again during and after the 1997 economic crisis. Many workers who cannot find full-time permanent jobs in the formal sector are effectively forced to retreat to the agricultural and trade sectors as an alternative; reinforced by the absence of a social security net in Indonesia.

In terms of the formal sector, multinationals have absorbed more employees than domestic companies (BKPM, 2007) as multinationals are usually present in the form of large establishments. Formal sector employees, however, are now facing a new challenge: the use of contract workers by employers as this practice has been legalised by the government in the Law No. 13 Year 2003. The government argues that in the Law the term 'fixed-term workers' is used instead of contract workers, with a different definition to that used by the

employers. 'Fixed-term worker' is meant to give workers to have higher chance to obtain a job, not to create job uncertainty<sup>19</sup>.

Nevertheless, there is no action taken by the government toward employers who behave illegally and breach the definition of fixed-term workers and thus, many contract workers are experiencing job uncertainty. The use of contract workers also creates a new challenge for trade unions, as contract workers are very difficult to organise and contract workers may be hesitant to join a union due to fear of not getting a new job contract after the existing one is completed, particularly if they join a union. Although the practice started in 2003, as yet there has been no research on the effect of this practice to workers' behaviour - nor any trade union reaction and strategy in facing the challenge.

Thus, it can be argued that literature on Indonesia industrial relations and trade unionism is very limited and mostly is based on aggregate statistical data and industry-based surveys involving massive respondents (example: the BPS; SMERU report; Manning, 2000; Hadiz, 2000). Although this type of data is necessary to provide the background and surface of the Indonesian industrial system, what is really happening in the workplace is still a "black box" for many researchers; whether the changes in the Law on industrial relations and trade unionism really have changed the way the actors (i.e. government, employers and employees) act. Have unions experienced freedom in action since then? Are employers no longer resistant to trade unionism and its demands? Are workers really benefiting under the new conditions?

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<sup>19</sup> See <http://www.disnakertrans-jateng.go.id/index.php?xicix=berita&idberita=20080107140201>: Fenomena Pekerja kontrak dan outsourcing.

The thesis will focus on the industrial relations process in four multinationals operating in Indonesia. The importance of multinationals in Indonesia's economy as well the accessibility toward the respondents are main reasons of conducting the research in multinationals, where the time and funding limitations are also taken into account. The findings of the research are expected to give more explanations to what happen in the workplace; to see how the process of collective bargaining takes place and how the strategic choices facing unions in the workplace are affected by the external and internal factors.

The research was conducted in four multinationals from different industries: automotive, textile, banking and car-parts industries, which were all based in Jakarta. The different environment where each multinational operates will be explored to examine its impact on trade unionism in each establishment.



## CHAPTER 3

### THEORETICAL FRAMEWORK

#### 3.1. Introduction

This chapter seeks to provide a theoretical perspective on the nature and impact of trade unions in the workplace; and hence the implications of union activity for employment and competitiveness. There have been a number of perspectives written on the effects of trade unions on employment and competitiveness. A dominant view is that trade unions are widely regarded in many countries as raising labour costs and hence driving up unemployment. This view is supported by the argument within neoclassical economics that the existence of unions would disrupt the equilibrium of wage determination in the market, which would have the effect of increasing unemployment (employers decrease the number of employees) - or of the undercutting of the wage rate by the unemployed. Both of these outcomes would be deleterious for trade unions.

The simple competitive neoclassical model also suggests that individuals are the central agents of economic action. Individual preferences and satisfactions, shaped by the (perfect) information they have in regard to the market determine aggregate supply and demand in the market, including the terms of labour. Hence, collective action such as trade unionism would represent a market distortion and would constrain individual choice and thus reduce the 'efficiency' of the market.

Institutional economics, in contrast to the methodological individualism inherent in simple neoclassical theory, offers an alternative perspective by arguing that institutions define and limit the set of choices of individuals (North, 1990: 4); economic activity does not merely operate within free individual preferences and perfect information. They also believe that instead of human satisfaction, the end of economic activity is the provision of maximum opportunity of “human growth” (Kaufman, 2000: 192). The interest of human growth is reserved by the functions played by institutions; in this case, within the labour market and the workplace. Collective bargaining conducted by trade unions is said to constitute an institution whereby the ‘rules of the game’ in the workplace are set collectively to ensure the protection of employees (who are believed to be in a weaker bargaining position towards employers). The following section considers the neoclassical view of the labour market and criticisms of it, before turning to institutional theories and the role of trade unions.

However, in the more hostile (to unions) policy environment known as neo-liberalism, it becomes necessary for trade unions to start developing an effective strategy in order to maintain their viability. The approach used in this thesis is that of Huzzard (2004), who draws on strategic choice model to argue that there are four levels of strategic choices which unions have to decide. Each level will consequently influence the choice of the following level. This approach will be explained further in this chapter and hence becomes the theoretical framework in this thesis.

### **3.2. Neoclassical competitive labour market**

Neoclassical economics, which represents the mainstream (or orthodox) view in labour economics, is a revision of the classical economics developed by Adam Smith, David Ricardo, and other nineteenth-century economists. One of its distinct assumptions is that human behaviour is driven by what is called the 'rational actor model'. In the simple neoclassical model, firms are assumed to maximize profits, whilst individuals seek to maximize their level of well being (or utility) and are able to calculate the values of every alternative ("opportunity cost") in order to choose the optimal income.

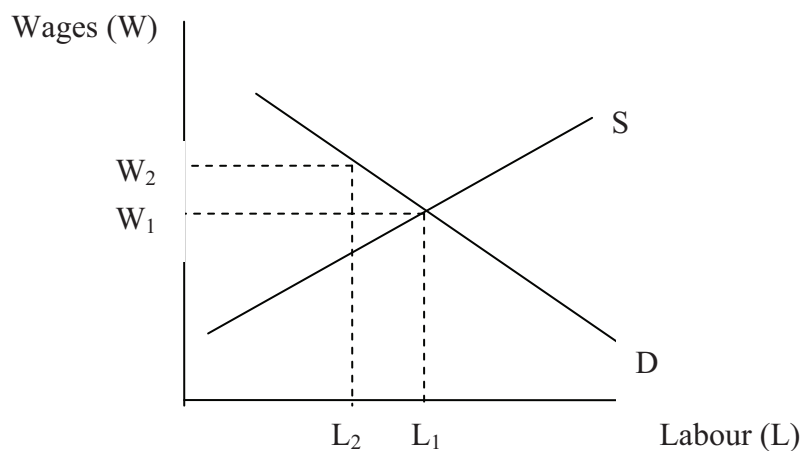
Furthermore, in the simple neoclassical model, the labour market is perfectly competitive, having a large number of buyers and sellers, and it is relatively easy to enter into and exit from the market. This assumption, together with the 'rational actor model' shapes the theory of how market forces determine wages and the allocation of labour.

Under perfectly competitive markets, both employers and employees are wage takers; they do not have any economic power to affect wage rates. The wage is determined solely by the interaction of demand and supply in the labour market. This behaviour is stimulated by another assumption underlined the simple neoclassical model, which is the existence of perfect knowledge and homogeneous labour. Perfect knowledge means that employees are aware of the available wage rates in the market while employers know how productive the

labour is. Homogeneous labour, hence, assumes that all labour in a given category have identical productivity.

This model suggests that if unions exist in this kind of market, they can only raise wages at the expense of employment. Firms would incur increased costs once unions force up wage rates. Fewer workers would be employed, *ceteris paribus*, which would cause a decline in output, and stimulate higher prices. This will enable firms to pay higher wage rates to the remaining employees with higher productivity (marginal products), as shown in figure 3.1.

**Figure 3.1 Wage determination in perfectly competitive markets**

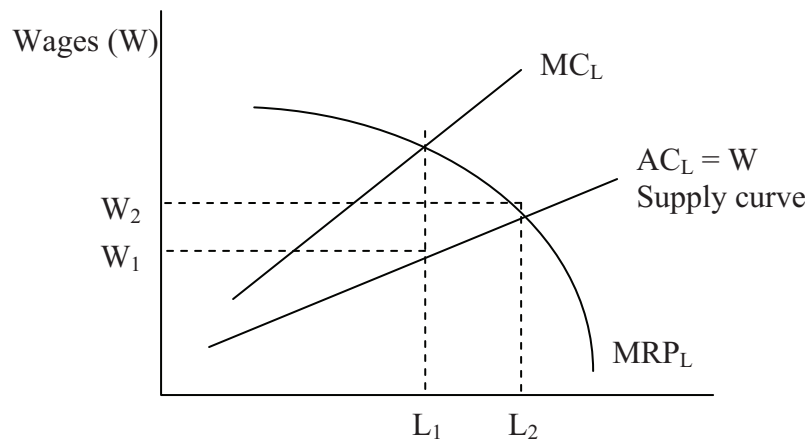


When unions force the wage rate from  $W_1$  to  $W_2$ , employment would fall from  $L_1$  to  $L_2$ . Assuming homogenous labour (and no skills atrophy by the unemployed) unions could also incur undercutting of the wage by the

unemployed (unless unions are able to prevent companies from employing non-unionised labour).

However, these assumptions have been subjected to a number of criticisms (including from many who might otherwise describe themselves as neoclassical economists). The first criticism is that the markets scarcely operate under perfect competition; they usually operate within imperfect competition. Employers could exist in the form of monopsonists or oligopsonists. When there is only one employer for a particular type of labour, the company is called as a monopsonist; when there are few employers, they are called oligopsonists. These employers have power to determine wage rates; they are not wage takers. Furthermore, they are able to force wage rates down. The way they set wages as depicted in figure 3.2.

**Figure 3.2 Wage determination in imperfectly competitive markets**



Monopsony employers face an upward-sloping labour supply curve. When the firm needs more labour, it has to increase its wage rates in order to attract workers from other industries. However, this means that the firm will have higher wage bills, and thus a decrease in its profit (as the profit-maximising quantity of labour is given by  $MC_L = MRP_L$ ). Therefore, monopsony firms would produce less and employ less labour ( $L_1$ ) in order to be able to pay lower wage rates ( $W_1$ ), and hence maximize profits.

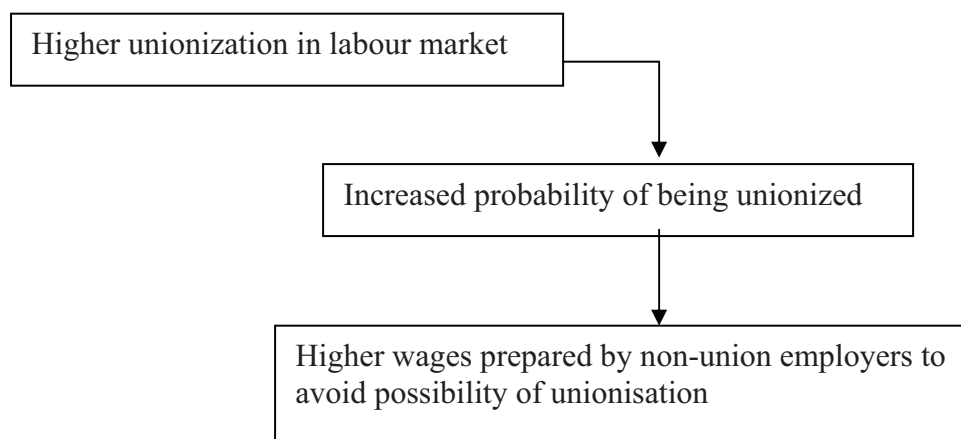
Thus, in monopsonistic labour market, the employers are believed to have some market power (Manning, 2003: 3). However, unlike the previous definition of monopsonistic labour market above where there is only one available buyer, Manning (2003) preferred to characterise monopsonistic labour market as not 'being infinitely elastic' as being argued in competitive labour market although there might be more than one buyer.

Using this assumption, employees are believed would not suddenly change their jobs when there was a small wage cut as information on alternative employment opportunities is less than perfect although softer impacts such as higher turnover rate and recruitment difficulty might occur (Gunderson and Riddell, 1988: 213-214; Manning, 2004: 146); .

However, it is interesting to see the impact of unionisation to the wage in a monopsonistic labour market. Unions in this labour market are believed to have a higher wages mark-up for both the unionised and non-unionised sectors; furthermore, a higher level of unionisation does not always mean lower (non-union) wages. Rather, a 'threat effect' applied by non-union employers is also

evidence found where higher unionisation in labour market would increase the wage for non-unionised labour as well.

**Figure 3.3 The impact of unionisation to non-union wages in monopsonistic labour market**



In a monopsonistic labour market, non-union employers are competing for labour with other employers, including the unionised ones and hence indirectly increase wages in local labour market created a spillover from unionisation to non-union wages (Manning, 2003: 351-352).

Nevertheless, it is believed that monopsonistic labour market is not a common phenomenon (McConnel and Brue, 1986: 150; Fleisher and Kniesner, 1984: 219). Unions may well have a unitary control in labour supply in labour market in facing a single buyer or in monopsonistic labour market as defined by Manning above and thus, creates a bilateral monopoly situation (Hieser, 1970).

As both the employer and the union have equal power, the situation of bargaining within bilateral monopoly market is said to be indeterminate as being

argued by Edgworth (1881) and Pigou (1938) which means deadlock could happen anytime. In contrast, Hieser (1970: 57) argued that in the real world, a stable, determinate situation commonly accomplished; when deadlock occurs, which are very rare, it would lead to strike (union's action) or lockouts (employer's action).

The second criticism of the simple neoclassical model concerns the way in which wages are determined. Wage determination in the simple neoclassical model is based on the assumption that employers and employees have equal bargaining power. Hence, employers will try to pay a wage as low as possible while the employees will move from one firm to another to find the highest income they could get. However, Alfred Marshall, one of the founders of neoclassical economics, realized the potential problems within this approach. He noted that workers suffer from unequal bargaining power vis a vis employers, due to such factors such as the lack of reserve funding, difficulty in obtaining financial capital to invest in additional skills and training, mobility problems, and the fact that the services of labour are perishable (labour cannot be inventoried and sold later) (Kerr and Staudohar, 1994: 151).

Furthermore, the equal bargaining power of employers and employees is also challenged by Marxian economists who argue that society is divided into classes, whereby one class (capital owners) exploits another (labourers) (Marx, 2004: 21-22) Exploitation occurs when the labourers who perform surplus labour (i.e. the labour power expended exceeds the need to produce commodities to cover the cost of production) is not the one who enjoys the surplus value he created. In reacting to the exploitation, the labourers may



accept or not to accept the situation. Those who do not accept the situation may create the 'class struggle' with pressing or higher wages as the centre of the struggle.

Imperfect information is the fourth limitation of simple neoclassical models. Whilst it is argued that employees have perfect information on jobs and wages, in reality acquiring information in the labour market through job search is costly, both in terms of money and the time devoted for it – i.e., transaction costs. Thus, rather than being paid on the same rate, two identical workers could be paid different wage rates because of imperfect information. Furthermore, even if a worker has complete information of the possibility of gaining higher income in another firm, immobility might occur as the next problem (as has been noted by Marshall). Moving geographically for higher income is not costless.

Moreover, another key criticism of simple neoclassical theory is the rejection of the 'rational actor model'. A person's "choice" can be irrational, owing to the presence of emotions as well as the limited capacity of human brain in valuing every alternative, called *bounded rationality*. Some theorists, such as Herbert Simon, argue that individuals do not always maximize their economic income, but rather, individuals pursue a goal until they reach a satisfactory level (Kaufman and Hotchkiss, 2000: 30-31). On the other hand, firms might actually pay higher wage rates than the average market rates to avoid confrontation with unions.

In addition, the “principal-agent” problem faced by unions and their members also underlines the weakness of ‘rational actor model’ of neo-classical economics. Agency theory is concerned with the problems that can occur in the relationship/contract between the principal (i.e. the one who delegates the work) and the agent (i.e. the one who does the work) (Jensen and Meckling, 1976; Eisenhardt, 1989) when the agent has different goals with that of the principal and different risk preference (Eisenhardt, 1989: 58).

The agency problem can also be found in the relationship between the unions and their members, where union representatives are the agents to whom the members delegate their collective voice in negotiating with the employers. Unions, as part of their survival strategy, might choose a moderate approach of partnership in their bargaining which, as argued by Kelly (1996) may become too lenient and compromise their central role as management opposition to fight over their members’ interests.

The practice of discrimination in the world of work has also undermined the arguments supporting the rational actor model. Discrimination is defined as the treatment of individuals or groups of individual that is unequal and more importantly, unfair (Kaufman and Hotckiss, 2000: 471). Discrimination may take place among various race and gender groups. This practice is caused by personal prejudice, imperfect information, and market power.

Personal prejudice is a subjective feeling of dislike for a person or group, while imperfect information inhibits an employer’s ability to examine a worker’s productivity at the time of hiring. As a result, an employer could use personal

characteristics of the worker as the basis of sorting the worker into productivity groups. Some of the characteristics hence could be group characteristics such as race, gender, or nationality.

Discrimination caused by market power can occur when monopsonistic firms as well as trade unions set wage rates that discriminate between workers of various races, gender and other socio-demographic groups. In addition to the ability of monopsonists to pay wages below market rates, they could also increase their income by paying a certain group lower wage rate than others. On the other hand, trade unions may also become a source of discrimination by imposing internship programs and hiring and firing mechanisms which restrict the employment of minority workers in order to gain support from the majority workers (the “insider-outsider” model). This practice could take place where unions are strong enough to control the firm’s policy.

Thus, it can be concluded that there are several forces which shape the operation of labour market. Employers, trade unions, and even government have distinct and significant power in influencing labour market. The existence of these forces and their impacts are the central issues of ‘institutionalism’ which is discussed in the next section in this chapter.

### **3.3 The New Institutional Economics**

The definition of institutions is not straightforward as one would expect. There are two contrasting views in defining institutions. As Aoki (2000) stated, if a society is depicted by a game, institutions are defined differently by

institutionalists, either as the players of the game or the rules which should be followed by the players. The first view defines institutions as organisational establishments such as the government, corporations, universities, etc (Aoki, 2000:12). Thus, this view regards institutions as the players of the game.

The second view in defining institutions, on the other hand, in effect regards institutions as the rules of the game (Veblen's "habits of thought"). They argue that institutions are the rules of the game in a society which directs individuals towards particular behaviour. When it is successful, it provides structure for everyday activity and sets constraints that shape human interaction (Furubotn and Richter, 2005: 7; North, 1990: 2). In this thesis, the second view will be used in identifying institutions.

While neoclassical economics centres its argument in individual (free and rational) choice in shaping the market, institutionalists argue that institutions define and limit the set of choices of individuals (North, 1990: 4) – i.e., that preferences are not 'given' or 'exogenous'. Thus, institutionalists hold different views from neoclassical economists on how labour markets operate. Institutionalists argue that the labour market is shaped by institutional forces such as collective bargaining by trade unions, or a minimum wage set by the government, as well as by sociological factors such as class and gender.

Clark Kerr, one of the more prominent institutional labour market theorists, developed a typology of labour markets which consisted of five models or types: perfect, neoclassical, natural, institutional, and managed (Kerr, 1950: 279). The *perfect market* is where buyers and sellers have free entry and exit,

complete knowledge is accessible, and there is no collusion amongst or between buyers and sellers.

The second type, the *neoclassical market* was mainly based on the perfect market, with several adjustments to get closer to “reality”. This type of market, states Kerr, is one as viewed by Marshall whereby the supply of skilled workers is inelastic due to the time needed to gain skills, whilst unskilled workers are in a disadvantaged position because of the perishability of their labour; i.e. their labour cannot be inventoried for future use. Unions operating in this type of market can increase wage rates, which, like the perfect market, are mainly determined by the market. Workers have adequate information of alternatives, and can easily move from one job to another.

The *natural market* is characterised by an uneven distribution of wages, which is worsened by the non-wage conditions of unemployment. Unions are not present in such markets while employers, on the other hand, may exercise their market power over workers. Wages are not determined in a competitive manner. In fact, the market does not determine the wage rate at all. Rather, wages are set within a limit in which employers pay and the workers choose. Moreover, whilst economists believe that the labour market is “objective” in that workers could pick and choose between jobs, workers themselves see it as subjectively described. For the workers, they can only choose jobs for which they have adequate information mainly from their friends or which fit with their occupation and income level. Hence workers are passive players in this type of market.

The fourth type, the *institutional market*, is characterised by the presence of institutional rules and policies. These are developed by individual firms, trade unions, employer associations and government as the more important factors in wage and employment determination. In terms of wage determination, for example, market forces no longer solely set the wage bargain limit. Formal rules are set in place to restrict the lower limit employees accept as well as the upper limit employers pay: a single wage rate may occur as a result of institutional control rather than because of the equilibrium position of supply and demand in labour market. As such, in this kind of market:

*'Supply and demand do adjust and can be adjusted to the wage rate rather than wages adjusting to supply and demand. This is not to say that supply and demand have no effect on price, but only that their influence is often indirect and muted' (Kerr, 1950: 283)*

The final type of labour market in Kerr's typology is the *managed market*. This type of market occurs as a solution offered to reinstate the theory of market perfection. There are two distinct groups within this market; employers, who favour a return to competition (labour flexibility); and workers and unions, who support the positive participation of government. Correspondingly, there are two views of the 'managed market': compulsory individualism, which views that trade unions should be disbanded, or legislated against as they disrupt the workings of the market; and the second view, collective determination, which

argues that government should control prices and wages and use arbitration tribunals to resolve industrial disputes.

The above typology shows that Kerr was deeply aware of the role and power of institutions in shaping the labour market. The rising attention of economists on the effect of labour institutions in economic performance altered the classic attention given to macroeconomics in explaining and curing economic problems (Freeman, 2007: 3). Wage setting and employees' normative standards that are determined through collective bargaining between trade unions and employers are parts of labour institutions shaping the behaviour of the most prominent players within the labour market: employers and employees (which in this case, are represented by trade unions).

However, as economic theory does not provide clear guidance to the effect of labour institutions on economic performance (given their manifold nature and complexity), studies measuring the impact of trade unionism towards a nation's economy show somewhat inconsistent findings. There are clearly situations where institutions do affect economic performance and where they do not affect performance (such as when the market constraint is very high). However, institutions can also improve efficiency outcomes (such as communication channels between employers and employees) or on the contrary, hinder performance (like wage setting above the market price that leads to less employment) (see discussion in Freeman, 2007: 11-17).

As stated in the beginning of this chapter, trade unions are prominent players as labour institutions; and are often accused as being the 'trouble maker' which

raises labour costs and drives up unemployment. However, they also serve as employee representation channels, to which employers could communicate more simply and provide grievances procedures which could also prevent employers from losing employees. Therefore, in order to understand the role played by trade unions in labour markets and the workplace in the context of case studies in this thesis, the theories of union ideologies, purpose and strategy will be explored within the following sections.

### **3.4. Theorising unions strategy and strategic choice**

Trade unions can be defined as institutional representatives of worker interests both within the labour market and in wider society. They accentuate the collective rather than individual power-resources of employees (Bean, 1985: 20). The purpose of trade unions, as stated by Sydney and Beatrice Webb, is 'maintaining or improving the conditions of their members' working lives' (cited in Martin, 1989: 10). Hyman (1975) further states that the central purpose of trade unions is to permit workers to exert, collectively, the control over the conditions of employment which they cannot hope to possess as individuals (cited in Farnham, 2000: 275). As such, it has been argued that trade unions are able to shape their own destiny and thus have a responsibility to take actions for their survival and effectiveness (Huzzard, 2004: 20; Boxall and Haynes, 1997: 567).

In achieving their purpose, effective organisation, high-levels of membership, responsive leadership at a national level, and sufficient income are needed. The



absence of any one of these means will impair the representative function of trade unions. The effectiveness of unions has become more important as they are now facing a more challenging environment driven by globalisation and structural change (Olney, 1996, as cited in Huzzard, 2004: 21), often cited in the context of a more neo-liberal policy agenda adopted by states. As such, in this context, the use of sophisticated HRM tools such as the individualisation of employment relations (Jeffries, 1996: 180) and the use of ‘soft’ forms of joint consultation as well as the absence of state sponsorship for union survival (Boxall and Haynes, 1997: 567) have threatened the existence of unions across countries.

Therefore, union development and aspirations, to a great extent, depend on the ability to adapt to a highly globalised environment. This means that unions have to determine steps they can take for their adaptability; and hence, behave in a “strategic” manner.

However, unlike business strategy, union strategy is rarely linked with conscious and well-planned characteristics because of the defensive and reactive nature of unions. Despite this limitation, several studies (such as Boreham and Hall 1994; Gahan and Bell 1999) show that strategy is one of important determinants of organising success.

Union strategy has not been widely discussed in detail (Satrya and Parasuraman, 2007: 32). However, scholars such as Kochan, McKersie and Katz (1986); Gardner (1989); Boxall and Haynes (1997); and Gahan (1998) are among those who have attempted to define and explain union strategy.

In addition to the above attempts in explaining union strategy, a number of studies also examine the (strategic) choices unions might undertake for their survival. The strategy might be a straightforward choice between “moderation” versus “militancy” (Kelly, 1996). Militant trade unions are those which are strict with their traditional roles and rely on their strength to membership and willingness to act through industrial actions: i.e. strikes (Kelly, 1996: 88). Moderate trade unions, in contrast, emphasise “partnership” between trade unions and employers, and cooperation in achieving so called ‘common interests’, which are mainly organisational success and employment security (Clydon, 1998, as cited in Tailby and Winchester, 2000: 375). Other scholars, for example, Jeffries (1996) - argue that union strategy can be best described as a continuum ranging from conflict, containment aggression, accommodation, co-operation and collusion.

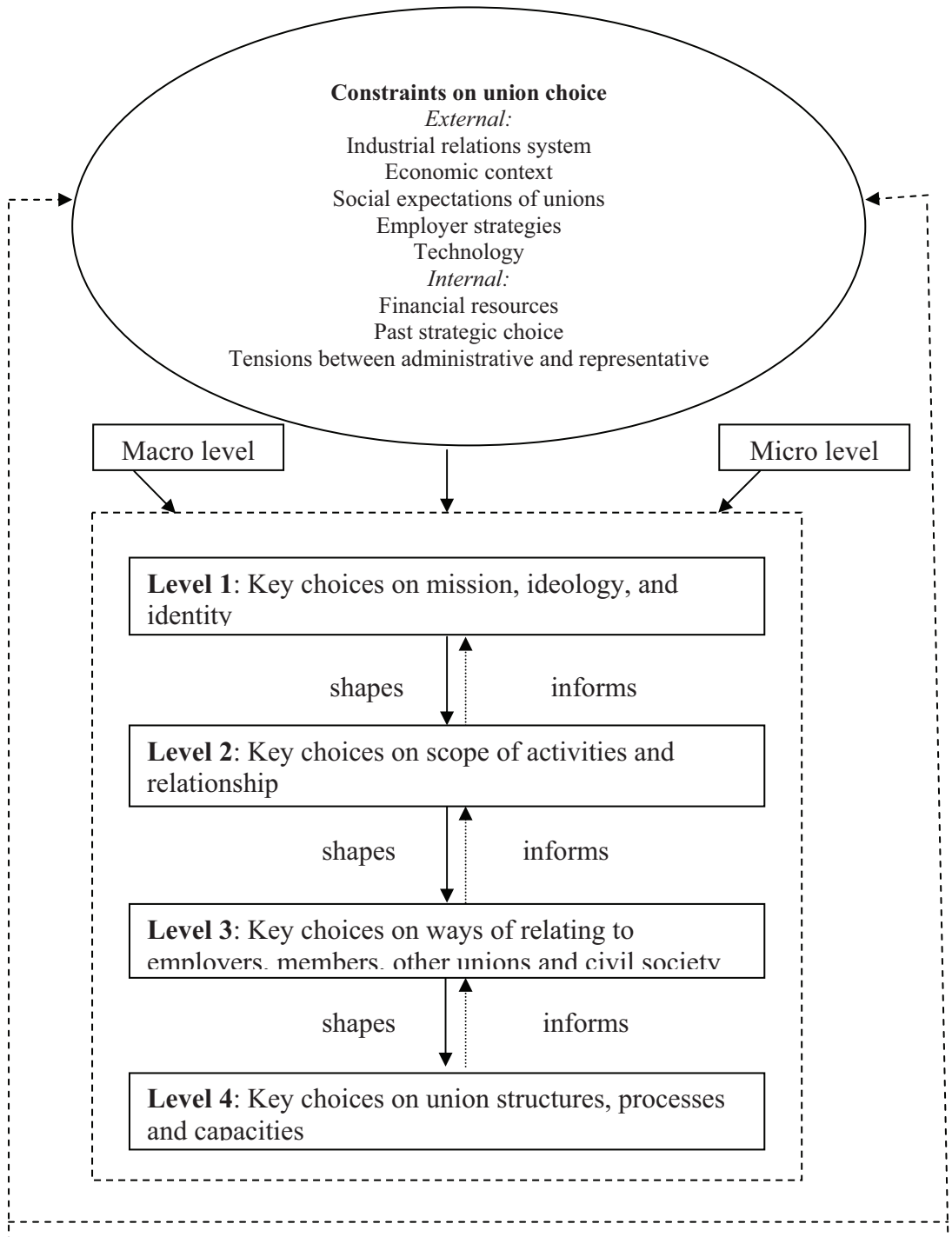
However, without exception, the arguments on a union’s strategic choice all suggest that unions are bounded in choosing their strategy. Jeffries (1996: 172-3) argues that both the external and internal environment of unions will affect their choice of strategy. The external environment includes the nature of the legal system, the labour market, labour process, and political factors, while the internal environment relates to the type of union movement in a particular country.

The aspiration by unions for higher wages, for example, is limited by economic constraints in the environment in which they operate and by resistance from employers. Those constraints sometimes convince unions that they could not win a strike or that wage increases will cause undesirable reduction in hours or

employment (Rees, 1978: 283). The interaction of political and economic pressures is quite different when employment is rising than when it is falling. When employment is rising, unions experience the greatest freedom from economic constraints. In periods of rising employment, employers are more willing to grant wage increases for at least two reasons. Firstly, their losses from strikes will usually be greater in this period; as competitors can increase output. Secondly, wage increases can be used by employers in tight labour markets in obtaining and maintaining adequate numbers of qualified workers. However, employers could resist raise wages under these circumstances if they think that it is only temporary and that they will not be able to reduce the high union wage rates once it is no longer useful. In contrast, when employment is falling, economic constraints become a very significant obstacle for trade unions to take any political manoeuvre in their attempts to raise wage rates. If unions are already strong during a depression, employers may continue to recognise them but try to negotiate (real) wage cuts instead.

A more comprehensive model of union strategic choice is proposed by Huzzard (2004). He argued that there are four levels of strategic choices that unions have to decide (described in the following material). The choice they make in a particular level will influence the strategic choice of the next level. As in Jeffries' model, these choices are also bounded by several constraints such as the industrial relations system, economic context, tension between administrative and representative systems, social expectations of unions, employer strategies, and technology as the external environment, while internal environment includes past strategic choices and financial resources.

**Figure 3.4 Huzzard's strategic choice model**



What is called as ‘level 1’ in Huzzard’s model is concerned with union decisions on identity and mission; that in turn will shape the union’s long-term decision making. Huzzard takes an example of the typology by Hyman (2001) in explaining the example of choices union can take at this stage. The Hyman model is depicted as a triangle of three apexes: class, society, and markets. Unions can be represented by one of these apexes in terms of their ideology and identity.

Level 2 in Huzzard’s strategic choice is where the decisions on what activities to undertake should be made. Ansoff’s (1968) product/market grid is used by Huzzard as an illustration of the choices of activities unions can implement. The grid suggests the activities of directing existing issues or developing new issues to existing or new members.

**Figure 3.5 Level 2 strategic choices for trade unions (adapted from Ansoff, 1968)**

	Existing issues/ service mix	New issues/ service mix
Existing members	Mobilization	Service development
New members	Recruitment/ recognition	Diversification

Level 3 of this model is to a great extent shaped by the choice in level 2. Unions which offer products to their existing members would tend to choose the traditional approach of collective bargaining and thus might choose to become 'militant'. On the other hand, if the union decided to offer new issues or services to existing members, they could become more moderate and would prefer the partnership model in their relations with the employers, as little evidence shows that this could be achieved by militant /traditional approach (Gustavsen et al, 1996 as cited in Huzzard, 2004: 31).

Level 4 demonstrates the implications of union choice in level 3 as it is concerned with union's internal structures and processes; which is sometimes referred to as 'union renewal'. For example, if a union decides to refocus on promoting gender equality, then it might have to change its structure if it is a male-dominated hierarchy.

Huzzard's framework is the preferred model used in this thesis. In demonstrating how union behaviour is shaped by internal and external factors, it provides a useful template on which to evaluate union activity and roles in the workplace; and, more importantly, provides a context from which to evaluate the key casual factors shaping union effectiveness; particularly in a volatile, changing economic environment driven by the imperatives of globalisation, multinational corporations, and 'competitiveness'. Accordingly, the next section seeks to provide a critical evaluation of the factors influencing trade union strategy and effectiveness, through an examination of the Indonesian experience

(focusing on the post-1997/Suharto period). It commences with a discussion on the theories of union purposes which in turn derive from a union's ideological preferences, in order to enable further explanation of the first level of the Huzzard's model.

### **3.5 Trade union ideologies and purpose**

In terms of purpose, Martin (1989) argued that the purpose of trade unions is derived from their ideological reference. As he cited the words of Richard Hyman and Bob Fryer (although he highlighted the use of the word 'function', not 'purpose'): 'Evidently... debates about trade union functions are typically mediated by ... ideological frames of reference' (p. 11-12). The ideologies explored in his book were described under the labels of pluralists, syndicalists, Marxists-Leninists, organicists, and authoritarians. These ideologies underlie the position of unions vis a vis employers under capitalism. It can be demonstrated that broadly there are two positions which trade unions may stand for: accommodate and therefore bargain with the capitalism - or seek to overthrow capitalism (although it is less clear what capitalism would be "replaced" with).

It is pluralists who view that trade unions should bargain with employers within capitalism on the behalf on their members; and confirms trade unions' purpose from the view of the pluralists which confirms the Webbs' definition of trade unions: '... maintaining and improving the conditions of their working lives'. One key advocate; Selig Perlman, argued that there were two themes that

constituted the central purpose of trade unions. The first is job security, involving both obtaining a job when needed, and holding it once acquired. Furthermore, workers also valued 'concrete freedom on the job', which is the second theme, which involve the ability of a worker to face his boss without fear. However, these two ultimate purposes will not be realised without the existence of job control. Job control is trade union's ability to control access to the job opportunities available to their members. Thus, job control is a prerequisite for the achievement of the purposes (Martin, 1989: 16-17).

In contrast, syndicalists and Marxists-Leninists argued that capitalism should be overthrown, though each has a different emphasis and approach. There are three variants within syndicalism; where each has a slightly different emphasis and approach in obtaining and administering workers' control. Anarcho-syndicalism and One Big Unionists emphasise the position of manual workers. They viewed that trade union struggle was a reflection of a class war between the proletariat – or the working class - and the bourgeoisie. The third variant, the Guild Socialists, on the other hand, assumed that control should be administered by all employees which constitute both manual and non-manual employees including those at professional and managerial levels (ibid.).

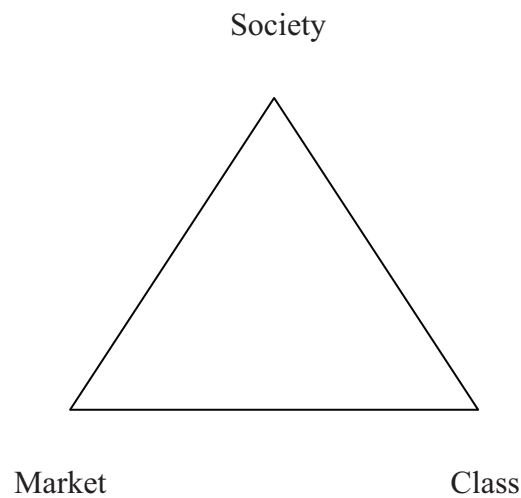
In terms of control, syndicalists argue that workers, through their trade unions, should not only control the employment relationship, but all aspects of the enterprise. Trade unions will then act as the controllers of industry, instead of employers or the state. Another principle that underlies this school of thought is the notion of 'industrial unionism', which stipulates that each industry should be covered by a single union, which recruits all employees within that industry.



Organicists reject the idea of conflicting interests and inter-group clash as they neglect the innate harmony and co-operation which generally characterise human society. Thus, this type of unionism promotes co-partnership, workers' participation (not control), profit sharing and other arrangements which favour corporatist arrangements in the area of employment relations. Authoritarians (who may also be thought of as statisticians, or state corporatists), the last category of Martin's, put an overwhelming emphasis on the role of the state or ruling political party and put trade unions in a subordinate position for the purpose of maximizing industrial production.

Hyman (2001), as outlined earlier, developed an argument of the ideological orientation of (European) trade unions, which centred on three aspects, namely: market, class and society, which he referred to as 'the eternal triangle' as no trade union strictly holds only one ideological orientation but rather contains a mix of two categories. The categorisation is actually not very much different with that of Martin (above). Instead, his categorisation is an extract for Martin's classification of union's ideology.

**Figure 3.6 Hyman's triangle of unions ideological orientation**



The first category of union ideological orientation is 'market'. As implied in the name, unionism within this category believes their main function is to serve the need of their members' needs maintaining and improving their members' welfare (i.e. higher wages, shorter hours and better working conditions) within the market where the employees are the seller (of skills and labour) and employers the buyer. Thus, unions which follow this ideology conduct collective bargaining with employers to set the minimum standard of the condition of employment of their members (ibid: 6-7).

This type of unionism is similar to business unionism in the US, which, according to Hoxie, is more trade-conscious rather than class-conscious and regards unionism as a bargaining institution in enhancing the member's employment conditions (ibid: 8-9). It can also be argued that pluralist unionism defined above by Martin is similar to this type of unionism, as it recognises the different interests between employees and employers where the latter is more

powerful again and thus unions need to bargain collectively with the employers to for their members.

‘Class’ is the second type of unionism where the difference of - and the continual conflict between - workers and employers, suggests that men and masters are the main themes. The advocates of this orientation do not believe that bargaining in the labour market is sufficient to defend (let alone improve) the workers’ welfare as the market forces is too strong. Furthermore, collective bargaining is believed to give advantage only to certain type of workers as it organises by occupation or sector while sacrificing other type of workers; particularly those weakest in labour market (ibid. 7). Thus, for the welfare of all workers, Karl Marx argued, workers need to unite in the face of their employers (Marx, 2004: 21-22). He further argued that unions have to deliberately act as organising centres for the working class in and bring forward the class struggle against the interests of ‘capital’. Regarding Martin’s work, syndicalism and marxist-leninism are types of unionism which hold the class ideology.

Finally, the ‘society’ type of unionism is similar to the organicist unionism of Martin, which on the other hand, emphasises on the cooperation of workers and employers to create a harmonious society as both trade unions and employers are embedded in society in which they are able to shape the development of (ibid. 39). The condition whereby workers and employers should respect each obligation applies in this depiction of unionism: workers should labour loyally to the employers and employers should respect the dignity of their workers. Whenever the standards for workers are not respected and upheld by employers, the state should intervene.

It is important to note that combining these three values is unlikely within a union organisation although some mixtures may exist (such as a market-oriented union broadens its role in creating industrial peace among the society) (Gospel, 2008: 15).

### **3.6 Trade union functions and activities in the workplace**

A trade union's ideology would substantially shape the strategy, and hence activities of the union in the workplace or within a broader scope. Trade unions might simply negotiate through collective bargaining to enhance the welfare of their members, representing their market orientation ideology. Unions which choose to negotiate with employers are often forced to compromise to the employers' agenda and avoid frontal approach. Institutionalists further believe that trade unions are trying to set 'the rule of the game' within the employer-employee relationship through collective bargaining. Other unions, on the other hand, choose to mobilize their members to do collective action to show their power to the 'ruling class'—the employers and thus represent their orientation of class struggling. Hyman (2001) argues that there are several conditions should be provided to enable mobilization, each will be explained in the next section.

#### **3.6.1 Union voice and governance functions in the workplace**

In the workplace, it can be argued that unions have two main functions in namely voice and governance functions. Within the *collective voice* function,

trade unions establish desirable working conditions for their members by providing discontented employees a communication channel to resolve the dispute and thus, avoid quitting (or *exit*) as the first source of problem solving (Freeman and Medoff, 1984: 8).

Freeman and Medoff further argue that collective voice would benefit both parties: employees and employers. For employees, collective voice would help them to disclose their true preferences; and put aside fear of dismissal as they are protected by other employees as well as the country's labour laws (p. 9). From the employer side, collective voice may prevent them from losing employees as problems and grievances would be reported and thus entail lower recruitment and training costs as well as prevent "quiet sabotage" or shirking by dissatisfied employees (p. 11).

The second function, the *governance function*, was initiated by institutionalists, as they viewed trade unions 'as a part of the governance structure of industry and a vehicle for promoting industrial democracy (or industrial citizenship) in the employment relationship (Kaufman, 2000: 195). Institutionalists believe that the collective action provided by trade unions is able to determine "the rule of the game" by which the economy operates. A firm is seen as a governmental entity as it manages certain resources and develops working rules that determine what members may and may not do (ibid. 196).

Within this function, trade unions are actively involved in collective bargaining with the employer in setting the rules of the game. Collective bargaining is explained in detail in the following section.

### **3.6.2 Collective bargaining**

Alan Flanders argued that collective bargaining is the activity in which trade unions devote most of their time; and constitutes the key means through which strategies are enacted. He defined collective bargaining as a process ‘...to ensure that when labour is bought and sold (the specific kinds of labour referred to) its price and the other terms of the transaction will accord with the provision of the agreement’ (Flanders, 1971: 14).

Thus, his view of what collective bargaining goes beyond the conventional argument, which states that collective bargaining is a means whereby unions try to defend and improve their members’ terms and conditions of employment. For Flanders, collective bargaining has a further function; it is also a rule-making process. Trade unions are interested in regulating employment issues that their members are concerned about. The rules made by collective bargaining provide protection for their members (as cited in McCarthy, 1978: 21).

The argument of rule-making function is the central theme that makes Flanders’ view towards collective bargaining is different with that introduced by the Webbs. Flanders argued that collective bargaining is not a replacement for individual contracts as proposed by the Webbs. Rather, he suggested that it regulates individual bargaining for employees when they sell their labour and for employers when they buy it. Thus, workers covered by collective agreements remain free to enter into a wage bargain with new employers,

provided that the rules in the relevant collective agreements are observed (by both parties) (Flanders, 1971: 16).

In developing his arguments on collective bargaining, Flanders also examined the work of Chamberlain and Kuhn (1965). Chamberlain and Kuhn argued that the various theories on collective bargaining can be summarised into three views, which are (1) the *marketing concept*; (2) the *government concept*; and (3) the *industrial relations concept*.

Their view on the marketing concept is similar to the conventional view of collective bargaining: it is a means of contracting for the sale of labour. It is a process which determines on what terms labour will continue to be supplied by present employees as well as newly hired employees in the future. Wage scale is usually the basis of the contract, though other terms may also be included, such as shorter hours, longer lunch periods, a vacation plan, and a seniority system (Chamberlain and Kuhn, 1965: 113-14).

The government concept views that the contract defined in the marketing concept is a 'constitution' for which government for the plant, the company, or the industry is based on. The industrial constitution is complied by a joint conference of union and management representatives and the agreement resulting from a conference generally results from a compromise by both parties. The main function of the constitution is to 'set up organs of government, define and limit them, provide agencies for making, executing, and interpreting laws for the industry, and means for their enforcement' (ibid. 121).

Collective bargaining, however, does not need to have an analogy of government by the state. In the industrial relations view, collective bargaining is a natural method of conducting a joint decision-making process on matters affecting labour. Employees can participate in the determination of policies which regulate their work lives through their representatives in trade unions. Thus, collective bargaining, by its very nature, involves worker participation through having union (or other employee) representatives in joint decision-making roles (ibid. 130).

Chamberlain and Kuhn further argue that these three views are not mutually exclusive. In fact, to some extent, these views represent stages of development of the bargaining process. They are also a representation of the stages of recognition of what collective bargaining is, as well as the different conceptions as to what collective bargaining should be (ibid. 137-8).

There have been several attempts to develop the concept of power in collective bargaining; one which has been developed by Chamberlain, who defines bargaining power in terms of the costs to each party of agreement relative to the cost of them of disagreement (Levinson, 1966).

Hence,

Bargaining power of A =

The costs to B of disagreement with A's terms

---

The costs to B of agreement with A's terms

Conversely,



Bargaining power of B=

The costs to A of disagreement with B's terms

---

The costs to A of agreement with B's terms

In a collective bargaining context, the greater the costs to the employer of disagreeing (sustaining a strike) as opposed to the costs of agreeing (granting the union's demands), the greater will be the bargaining power of the union. Conversely, the greater the costs to the union of disagreeing (calling a strike) as opposed to the costs of agreeing (accepting the company's offer), the greater will be the bargaining power of the company.

Chamberlain's model, however, has several difficulties in implementation. This model does not provide any clues in identifying and quantifying those variables affecting the power position of each party in actual bargaining situations. However, despite its weakness, this model is able to provide an overall framework within which to analyse the concepts and attributes of the union-employer relationship (ibid. 94).

It has been argued that when Collective Bargaining fails to reach agreement, industrial action such as strikes might occur. Nevertheless, J.R. Hicks, in his 'Theory of Wages' argued that settlement in a bargaining would be achieved when parties involved have adequate knowledge (Hicks, 1963: 146); industrial actions only occur the parties have acted 'irrational' which causes negotiation breakdown (Ashenfelter and Johnson, 1969, 36). Other scholars such as Zeuthen (1930) and Nash (1950) also emphasised on the rational behaviour in bargaining

though different approach was applied. However, Bishop (1964) argued that the rational model of bargaining could not estimate the expected benefit obtained from giving or not giving more concession towards the other party's demand.

In terms of union wage policy, there are at least two forces shaping policy. The first is generated from the wants and aspirations of their members for higher wages as well as the ambitions of the leaders. Pressure for higher wages, however, is contained by economic constraints in the environment where unions operate and by resistance from employers. Those constraints sometimes convince unions that they could not win a strike or that wage increases will cause undesirable reduction in hours or employment (Rees, 1978: 283).

### **3.6.3 Mobilisation**

Tilly (1978) refers to *mobilisation* as the process by which a group acquires collective control over the resources needed for action. Mobilisation is part of collective action commonly done by trade unions to show their 'root-based power' to the employers, or in Marxist language, ruling class. It is derived from the collective interests of workers who experience injustice in the workplace. One challenge faced by trade unions is how to bring forward the (individuals) feeling of injustice to become collective interest which will lead to member mobilisation. Hyman (2001) summarises the necessary factors needed to transform the sense of injustice to mobilisation, i.e., *attribution*, *social identification*, and *leadership*.

An attribution is an explanation for reasons and/or cause of an event. Hewstone (1989) classifies attribution into three dimensions of causality: personal (or internal) vs. external (or situational), stable vs. unstable and controllable vs. uncontrollable. Each attribution will result in different behaviour. For example: low workforce militancy can be seen as unstable; which can be changed with more campaigning, or as stable; which is a given condition within which the union should operate.

The second factor, social identification is based on the argument that each individual has a personal identity (personality/character) and social identity (categories to which an individual belong). Thus, the argument suggests that each person can think and act individually and collectively depends which facet of their identity is currently dominant. For example, the identity can be 'switched on' by the news about strike or by the sight of picketing line.

Leadership is important in order to shape the attribution of an issue which will direct the behaviour of the people within the group. For example, a union leader plays an important role in framing an issue (grievance) into the feeling of (social) injustice. The language used by the leader is strongly influenced by the definition of the people's interest. The language used by a union leader who espouses a market orientation will be different from that used by a leader of class-type unionism; while the first emphasis on the interests of particular workers, the latter would refer to all working class.

### **3.7 Union's relationship with employers: militant vs. partnership**

Militant or adversarial trade unionism, as Kelly (1996) argues, emphasizes mobilization as part of confronting employers and the state with collective power and seeking to impose costs on them. Industrial actions such as strikes, overtime bans, subordinates go-slow and work to rule are common methods used in achieving their objectives. Furthermore, militant unions will not accept the idea of non-union consultative committees and insist that the union is the only channel of bargaining. The other characteristic of militant unionism stresses conflicts of interests between workers and employers and promotes adversarial ideology.

Kelly (1996) also attempts to summarise the difference between militant unionism, which support the adversarial ideology and moderate unionism which emphasises partnership ideology, as depicted in table 3.1.

**Table 3.1 Components of union militancy and moderation**

Component	Militancy	Moderation
Goals	Ambitious demand (scale and scope) with few concessions	Moderate demands with some or many concessions
Membership resources	Strong reliance on mobilization of union membership	Strong reliance on employers, third parties or law

Institutional resources	Exclusive reliance on collective bargaining	Willingness to experiment with/support non-bargaining institutions.
Methods	Frequent threat or use of industrial action	Infrequent threat or use of industrial action
Ideology	Ideology of conflicting interests	Ideology of partnership

Many writers, either academics, trade union officials, or politicians, approach the term ‘partnership’ in various ways; therefore, it is difficult to define what partnership really is, since each definition covers different features and principles of partnership. Guest and Peccei (2001) argue that the benefits of partnership will be experienced more by management rather than by its partners. Trade unions, for example, adopt the concept of partnership because they have to ensure to employers that their existence will benefit the organisation, e.g. working together with management in applying working practices that give the organisation a greater chance to “win” the intensive global business

competition. In other words, it could be argued that unions seek to engage in ‘partnership’ when they are in a position of weakness.<sup>20</sup>

At the level of rhetoric at least, it is argued that the most important key feature of partnership is a constructive relationship between trade unions and employers and their cooperation in achieving so called ‘common interests’; which are mainly organisational success and employment security. These features mean that management should start to change their approach of cost-cutting measure, especially labour cost; develop and apply fair financial rewards to all of employees and share the ‘bad and good time’ of the enterprise together; promote two-way communication and recognise unions and/or employees representatives; and be aware of the need of investment on training in order to gain employment flexibility.

Partnership is believed to provide an opportunity to trade unions to regain influence in the workplace, since partnership requires employee representatives as one of the partners to bargain over the ‘distinct interests’. Hence, as Ackers and Payne argue, partnership implies a pluralist-voluntarist view (not unitarist), which means that conflict is one of its essential features, as well as trade union and/or employee representatives who have rights to bargain over the conflict (Ackers and Payne, 1998: 533).

However, Kelly (cited in Ackers et al, 1996) argues that partnerships can result in unions becoming too moderate and compromise their central role as management opposition who have to fight over employees’ interests. He further

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<sup>20</sup> And in this context “partnership” could be hence seen as antithetical to Marxian class struggle, as a joint commitment to the organisation (or region) under the auspices of “competitiveness” serves to fragment the labour movement.

argues that partnership will not result in higher power and influence in the workplaces, which are shown by increasing membership and collective bargaining coverage. Consequently, Kelly suggests that in order to enhance and protect their existence and influence, trade unions should remain their traditional roles, as militant unions.

### **3.8 Union structure**

Alongside with the work of Huzzard, Kochan and Katz (1988) argue that union's organizational structure is determined by the choice on goals, strategy and bargaining structure as well as influenced by the environmental constraints. Fiorito et al. (1991) argue that structures are functions of strategy, which is derived from goals chosen.

They further argue that there are two dimensions of union structure: the vertical dimension which corresponds with 'internal structure' and horizontal dimension which correspond to 'external structure' (Fiorito et al, 1991: 111-116).

Within the vertical dimension, the trade union should make two types of choices from two main features: the hierarchy (structuring) and locus of control (centralization) of the structure. In terms of structuring, a union may choose a type of organizational structure it would implement, whether it would affiliate to a national union (or international federation) or be an independent (company or national) union. The locus of control on the other hand, would tell the union whether the control of the organization is centralized at the national or

federation level or local/workplace union is given a complete authority over all activities.

The horizontal dimension, on the other hand, includes a range of decisions related to the boundaries that a trade union draws between itself and its environment, i.e., the choice of which type of workers should be admitted for membership. The membership decision may be based on craft/occupational, industrial or general lines (Farnham, 2000: 273-274). Occupational unions are exclusive bodies which recruit horizontally across industries. This is the traditional type of union organization that has emerged in the UK. However, this type is now relatively small in size as the effect of changing occupational boundaries, the widening scope of occupational classifications, the de-skilling of craftwork due technological changes and the growth of multi-skilling.

While industrial unions recruit vertically within an industry, general unions welcome all workers to become their membership. Their members are:

1. non-exclusive
2. from amongst both manual and non-manual workers
3. horizontally across industries
4. vertically within industries

Other decisions should be made as to the relationship among units in the same level of the vertical structure which may merge or disassociate with one another such as mergers or amalgamations among unions to strengthen their bargaining position and gain stronger membership bases.(ibid: 271). Hence, the discussion



on union structure, organisation and function is symptomatic of the choices facing unions in Huzzards's strategic choice model outlined in section 3.5.

### **3.9 Summary**

This chapter discusses the theoretical framework of the thesis by firstly outlining two economic theories which have two contrasting views toward trade unionism: neo-classical and new institutionalist theories. Neo-classical economics rejected the presence of trade unions and regard them as a disruption to labour market equilibrium. On the other hand, institutionalists suggested that trade unionism influence the labour market (through their collective bargaining) as well as other institutions such as government policy.

Thus, it is important to discuss and understand how trade unions can be effective in serving their function, particularly in a globalised environment which may threaten their bargaining power. Many scholars argue that trade unions should start to build a strategy for their own survival and suggest a model of union strategy while others suggest strategic choice by which union can choose among alternatives. The strategy can be a direct choice such as becoming a militant and moderate trade union (Kelly, 1996) or a systematic review/decision from their ideologies to their activities such as proposed by Huzzard (2004).

Huzzard argued that there are four levels of strategic choices that unions have to decide. The choice of each level will influence the choice in the following level. The levels are trade union's mission, ideology and identity; scope of activities and relationship; relation to employers, members, other unions and civil society;

and structures, processes and capacities. These choices are also influenced by both external and internal factors of the union such as economic context, industrial relations systems and employer strategies.

The emphasis on internal and external factors in Huzzard's model has led to a preference in this thesis. Huzzard's model will be used as a comprehensive model to examine the value, behaviour and approach towards the employer and their members of each multinational and how they develop union strategy by considering the union's internal and external constraints.

As research on workplace-level unionism in Indonesia is still very rare, examining internal and external factors influencing the strategic choice (or strategy) becomes paramount to give a clear understanding of the environment in which unions organise.

## CHAPTER 4

### RESEARCH METHODOLOGY

#### 4.1 Introduction

Chapter 2 suggests that there has been a changing industrial relations culture in Indonesia since the downfall of the New Order regime which was characterised by a repressive approach towards trade unions. This new-found freedom has generated a significant increase in trade union numbers. On the other hand, the 1997 financial crisis also resulted in higher unemployment, which could also have affected union operation, even though one could argue that the flexibility of Indonesian labour market was able to restrain the official unemployment rate (Manning, 2000).

However, as noted, there is very little information that actually explains how all these conditions have affected trade unions, particularly industry and workplace-level trade unions with a notable exception being the work of Satrya and Parasuraman (2007) on trade unionism in the postal industry. Much of current research mainly concerns employment and labour market issues at the macro-level. An example of such research is the survey conducted by Indonesian Statistics (Biro Pusat Statistik – BPS) whose data is then utilised by other researchers to explain particular phenomena (see for example ILO, 2002; Manning, 2000). Even though there are several more specific research on industrial relations in Indonesia, they are usually held in large numbers of

companies with different characteristics (for example, Smeru Research Report, 2003 by Rahayu, S. K. and Sumarto, S.).

Hence, existing information on industrial relations in Indonesia can show the changes that happen from time to time and the consequences that follow. However, this is not sufficient enough to explain the questions of how and why changes and consequences occur with respect to trade union development. Thus, this research is designed to enable a deeper exploration on what is really happening in a particular workplace in order to explain the 'how' and 'why' questions. This chapter outlines the particular research methodologies and methods used in this investigation.

#### **4.2 Ontological, epistemological and methodological perspectives.**

The ontological perspective taken in this thesis will be that of constructivism. Bryman (2001) states that this position 'asserts that social phenomena and their meanings are continually being accomplished by social actors'. It implies that social phenomena and categories are not only produced through social interaction but that they are in a constant state of revision'. Clearly there is scope for this to occur in case-study research, whereby knowledge is 'revealed' through an iterative, interactive process of interviewing respondents. What is understood about trade unions in Indonesia might change once research is undertaken as the participants might provide a new set of perspectives on the phenomena being assessed. The author also acknowledges that the interaction demonstrated in the research will be mainly based on the participants as well as

the author's own perceptions over the phenomena being assessed. This position is the opposite of objectivism, which asserts that social phenomena and their meanings have an existence that is independent of social actors (cited in Grix, 2004: 61).

There are two principal, opposing epistemological positions within the research paradigm. The first, positivism, is defined as an epistemological position that advocates application of the methods of the natural sciences to the study of social reality and beyond'. It believes that 'there are patterns and regularities, causes and consequences, in the social world just as there are in the natural world (Denscombe, 2002: 14, as cited in Grix, 2004: 81). The advocates of positivism assume that there is no dichotomy between what we see and how things really are; that the world is not socially constructed.

The attractiveness of this epistemological position is that it offers the precision and prediction promised by natural science. Nevertheless, positivists rely on analysing aggregate data whilst ignoring the context in which data is defined and constructed. As such, strict positivists tend to assume that there is no dichotomy between what we see (appearance) and how things really are (reality). Many positivists would acknowledge this criticism with the response that theoretical postulates based on deductive logic and aggregate data seek not to assess whether a postulate is "true" but rather, under what conditions would it be "true"?

However, these assumptions can fail to identify the context of a social phenomenon being analysed. Whilst there is an objective reality "out there", the

process of knowledge construction itself will involve an element of subjectivity in interpretation and as such, can be considered at best as a crude approximation of “reality”. One can take the phenomenon of ‘unemployment’ as a simple example. A positivist relying on simple aggregate measures could treat unemployment data in Indonesia as the same as in the UK. The context that they could fail to identify is whereas the unemployed in the UK receive benefits from the government, the unemployed in Indonesia do not receive such benefits. Thus, the unemployed in Indonesia might be actively seeking for jobs or even actually working in the so-called informal sector which is not accounted as ‘a job’.

Positivists also argue that experiments can be conducted in social research, abstracting from any outside influences (Grix, 2004: 80-81). Thus, positivists believe that regular relationships between social phenomena can be established by using theory to generate hypotheses, which can be tested by direct observation. An extreme example of this assumption is that of “*ceteris paribus*” in economic theories where the researcher examines one variable in isolation from all others. Positivist researchers also believe that the methods they use as well as themselves are neutral; thus they do not disturb the phenomenon under investigation.

However, as noted, it is difficult to be value-free in social research. As the ‘object’ being examined in social research is human being, to ignore the influence during the interaction between the researcher and the respondent is not possible. The researcher’s point of view might affect the respondent’s perceptions and the respondent’s reaction may also affect the researcher’s

understanding of a phenomenon. Thus, alternative approach is needed in conducting social research, which leads to the second approach, interpretivism.

Interpretivism is an epistemological position which views that a strategy is required that respects the differences between people and the objects of natural sciences and therefore requires the social scientists to grasp the subjective meaning of social action (Bryman, 2001 as cited in Grix, 2004: 64). The advocates of interpretivism believe that the world is socially constructed through the interaction of individuals. Social phenomena do not exist independently of our interpretations of them and these interpretations affect outcomes. Thus, objective analysis is impossible as the researcher's personal and subjective opinions attitudes and values will to some extent influence the analysis.

The argument held by the interpretivists implicitly has raised the question of generalisation of research findings. If the phenomenon being researched is neither time-nor context-free (Guba and Lincoln, as cited in Williams, 2000: 213), and the analysis is subject to the researcher's opinion, to what extent can findings be 'transferable' to another phenomenon? The answer of this question is not straightforward. While some interpretivists like Lincoln and Guba (2000) are explicit in denying the possibility of generalization of findings, others, like Williams (2000) argue that it is the meaning of "generalisation" itself that is problematic.

Williams maintains that there are three definitions of generalisation: total generalisation, statistical generalisation, and moderatum generalisation. While

total and statistical generalizations are mostly used in natural science, *moderatum* generalisations are the form that is used in interpretive research. It is 'where aspects of S can be seen to be instances of a broader recognizable set of features' (Williams, 2000: 215). However, he also notes the limitation of generalisation in interpretive research.

The first limitation relates to the sampling because the sample chosen is wished to infer to a wider population. If it is accepted that generalization of interpretive research finding is the goal, the researcher needs a sample that will reflect the relevant characteristics of the wider group that is to be generalized. The interpretive researchers have to make decision as to what will count as representative cases or relevant units.

The second limitation lies to choosing the categories which can be of very different kinds: people, physical characteristics, language, cultural artifacts and how these categories interact. While physical characteristics of particular place may give a familiar sight to other similar instances, cultural characteristics may be more difficult. Thus, interpretivists often maintain theoretical inferences where they draw conclusions from their data about necessary relationship amongst categories of phenomena rather than making empirical generalizations.

While total generalisation is impossible according to a strict interpretivist view of social science research, this research will address these limitations by attempting to interview as large a sample of respondents from both unions and management, across different levels of the hierarchy, in different industries. Thus, an iterative profile of union activity in Indonesia will be generated,



allowing a moderatum approach to generalization to be utilised. Wherever possible, standardised interview questions have been used, based on previous studies and large statistical surveys, such as the UK WERS, in order to ensure compatibility of the research epistemology with existing literature.

In addition to the debate on the possibility of generalisation in interpretive research, the importance of generalisation is also worth discussing. It is said that the aim of science is prediction and control, which cannot be accomplished without something to be based on. Thus, many scientists believe that generalisations are the be-all and end-all of inquiry (Lincoln and Guba as cited in Gomm et al, 2000: 27).

However, Stake argues that “good generalisations aid the understanding of general conditions, but good generalisations can lead one to see phenomena more simplistically than one should” (Stake, in Gomm et al, 2000: 23). In the case of interpretivism, Martins argues that interpretivists deny the possibility of generalisations and even ignore the issue, but they do generalise their findings.

Hence, in this research, an interpretivist epistemological position will be used. This perspective implies that interview participants will respond to the questions or statements given within the research according to their experience, understanding, and interpretation of the phenomena being assessed. Subjectivity thus becomes a key issue in the research process.

In terms of methodology, as such, while quantitative research will be conducted to identify aggregate trends and issues, the primary emphasis will be on qualitative research. This is because qualitative research enables the exploration

of complex phenomena pertaining to the labour process. Indeed, many industrial relations and organisational variables are difficult to quantify and are thus not readily amenable to aggregate data analysis. Barton and Lazarsfeld (1979) argue that qualitative research can initiate *exploration*, which helps to analyse research objects, identify indicators and establish classification and typologies (cited in Sarantakos, 1998: 6, emphasis added).

### **4.3 Research Methods**

Case studies were conducted on four industries where multinationals and unions were present in Indonesia. Case studies are one of most common ways to conduct qualitative enquiry, but they are neither new nor essentially qualitative (Stake, as in Denzin and Lincoln, 2000: 435). Yin (2003) defines a case study as ‘an empirical enquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident’ (Yin, 2003: 13). As such, case studies may comprise a mixture of qualitative (e.g., interviews) and quantitative (e.g., surveys) methods – the key defining characteristic of case studies as an epistemology is the emphasis on contextual, primary data.

Case studies may suffer from the problem of generalization and that the presence of researchers can affect the phenomenon that is being examined (Michelson and Baird as cited in De Ruyter, 2002: 105). As Denscombe (1998) states that the extent to which case study can be generalized depends on how far the case study example is similar to others of its type (cited in Bell, 2002: 11).

However, despite their weaknesses, case studies allow a researcher to concentrate on a specific situation and enable identification of the various interactive processes at a workplace that can be crucial for the success or failure of a system which may remain hidden in a large-scale survey (Bell, 2002: 10-11). Moreover, Yin also argues that the case study method would be used if contextual conditions are deliberately accounted for as an important part of the phenomenon being researched (Yin, 2003: 15). Case studies are needed in understanding industrial relations and organizational variables, as they can shed light on the labour process and thus help to penetrate the 'black box' of firms' practices. In this thesis, the emphasis was on qualitative (interview) research.

Interviewing was the most feasible method used for this research given the time, resourcing and distance constraints. Whilst surveys can be very helpful in gaining initial data, a survey was not feasible, as it was costly to send the questionnaires to the respondents in Indonesia from the UK. Another difficulty of conducting surveys would also have come from physically collecting the questionnaires from the respondents and hence ensuring a sufficient response rate. Initial data was obtained from telephone interviews with union leaders from each of the trade unions being studied in order to gain initial sight of the conditions and the context that influence the unions operations (and obtain further interview contacts).

In this research, case studies were conducted in four multinational firms from four different industries in Indonesia which recognise trade unions. Thus, it was expected to draw some comparison on trade union behaviour across industries, as distinctive characteristics may occur in each of those industries. Moreover,

given the shortage of the research on trade unionism in Indonesia, cross-sectional research may provide a preliminary insight of the nature of unionism in the industry being studied that could be explored further in subsequent studies.

Firm-level rather than industry-wide research was chosen as this would ensure the depth and richness of data generated in order to develop a fuller understanding of union behaviour in a given context. Main data was collected through in-depth interviews with trade union officials and members working in multinationals in addition to managers who dealt with labour issues to examine employer strategy towards industrial relations which is paramount for union recognition and freedom to organise as the support and protection for the government were still questionable.

. Thus, transcripts and tape recordings during the interviews were the main sources of data analysed. However, greater challenges were experienced when trying to interview union members and non-member employees for triangulation purposes. The main difficulties in interviewing union members and employees (according to union representatives) were the work load and permission from their direct manager to leave their jobs during working time (while they had limited break time). There was also a concern related to ethical compliance if the union members and employees were interviewed without the consent from the union and/or managers (and this research did not include employees as the respondents due to this constraint).

Contacting the International Labour Organisation (ILO) Jakarta was the first effort in obtaining trade union contacts. Information on trade union federations that affiliated with the ILO was provided, from which contact persons from several trade unions that operate in multinationals were obtained.

Furthermore, a preliminary literature review was conducted in order to provide insights on the phenomena on industrial relations in multinationals as well as trade unionism in Indonesia. Material analysed included labour regulations, Indonesian labour force surveys, historical documents on Indonesian trade unions, and documents outlining industrial relations practices in multinationals. The sources to gather these data were from the collection of Indonesia's labour laws and bills, ILO reports on Indonesian labour market, existing research reports on industrial relations (preferably in multinationals), and statements from trade union officials which were drawn from newspapers.

Furthermore, documentary analysis was also conducted as a complementary to the interviews. Each multinational's Collective Agreement as well as company profiles and news from newspapers and websites were read and interpreted to develop a clear understanding of the context within which the unions organised.

#### **4.4. Case Studies in Multinationals**

Case studies were conducted in four multinationals which are located in Jakarta, Bekasi, and Tangerang. As four case studies were conducted, time-management was very essential in order to be in line with the schedule. Thus, a preliminary approach to trade union officials and managers from designated multinational

firms was started simultaneously with the writing of early chapters of this PhD thesis. Another emergent problem was the access to participants. As noted in the problems involved in trying to interview workers, labour use is a sensitive issue. Hence, it was rather difficult to find managers who were willing to be participants in this research. Managers are important as they play a central role in trade union recognition; hence, their information would be used together with those from trade union officials from the same firms. In this context, cooperation was sought through guaranteeing confidentiality and anonymity in the case study research, in addition to stressing the impartial, academic, nature of the research.

The first multinational studied operated in the automotive industry. They have operated in Indonesia for more than three decades and have now become one of the biggest car producers in the country. Employing more than 5,000 employees, this company has had a long history of union recognition. The union in this multinational is affiliated with the All-Indonesian Workers Union (Serikat Pekerja Seluruh Indonesia – SPSI) federation, within the section of Metal, Electronic, and Machinery union.

The second multinational studied has operated in Indonesia for more than 40 years and is a well-established foreign bank in Indonesia, employing around 300 employees and recognizes union in its workplace. Organizing half of the total employees, the union in the multinational has been affiliated with All-Indonesian Workers Association (Asosiasi Pekerja Indonesia – Aspek Indonesia) since 1998.

A multinational operating in the textile industry was the third participant. This multinational has been operating in Indonesia since 1976. The union in this company is facing great challenges since the company has implemented a significant change in their effort to survive increasing competition. Currently organising more than 1,000 workers, the union has affiliated with the National Workers Union (Serikat Pekerja Nasional – SPN) federation since the democratization era.

The last multinational studied in this thesis is a manufacturer and supplier of vehicle parts around the world. It is also a key supplier to the first multinational in this research. It started operating in Indonesia in 1975 and now employs approximately 2,000 employees. The union is now an in-house (enterprise) union after detaching themselves from a union federation in 2000. It currently organises approximately 1,400 employees across both establishments in Jakarta and Bekasi.

The union interviews were semi-structured and issues were discussed around the following questions:

1. What was the relationship between the union and the management and how the respondents appraised this relationship in achieving union's objectives.
2. The respondents were asked to describe the union's strategy in dealing with management and whether this strategy has ever changed.
3. How the respondents assessed the Indonesian economic and social context as affecting union operation.

4. The issues that the union was concerned with and whether these were discussed in collective bargaining.
5. The type of consultative mechanisms that union use.
6. The description of union structure and the nature of the union's relationship with its members.
7. The attitudes towards, and procedures for taking industrial action.

Management was involved in this research for the purpose of information balance. Managers were approached by sending them a formal request letter or phoning them directly. A personal approach was followed after a response to confirm their willingness as well as for scheduling purpose.

The manager interviews were semi-structured with the key questions being as follows:

1. Why did the company decide to recognize a union in the workplace?
2. How did managers see union activity as affecting the success of the Company.
3. Management strategy in dealing with union and whether this strategy has ever changed.
4. How management reacted towards a hypothetical drop in sales in terms of labour force.
5. Respondents were also asked to provide reasons as to why they thought Indonesia was attractive as a receiver of FDI.



6. What improvements respondents wanted to see in Indonesia to maintain an attractive environment for foreign investment.

#### **4.5 Ethical Issues**

The nature of the research was voluntary and was fully explained to all respondents at the start of the interview. All of the participants were provided with the opportunity of viewing a draft of the interview transcript and recording to enable them to verify and edit their statements. Trade union leaders and management were also to be given the opportunity to have the copies of the final report of the case study for approval. Furthermore, all information was treated with the strictest confidentiality and anonymity which would remain during every stage of this research. All name and subject identifier data was kept in secure storage and destroyed at the conclusion of the research.

#### **4.6 Number of Interview Respondents**

For each of the multinationals studied, the number of respondents involved is shown in the following table:

**Table 4.1 Number of interview respondents**

<b>Case Study*</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Managers</b>	7	5	3	4
<b>Union Reps</b>	6	6	7	7

<b>Union Members</b>	--	1	1	2
<b>(workers)</b>				

\* Case study 1: Automotive multinational; case study 2: textile multinational; case study 3: foreign bank; case study 4: automotive component multinational.

The number of managers, union representatives, and union members interviewed in the research is not the same for each multinational as the access to managers was rather difficult in banking-service multinational; while union members were not accessible in the automotive multinational. The interviews covered all the issues being explored and thus, were expected to generate sufficient information. In addition, some interviews were also held with an ILO representative and two federation unionists from two key unions in Indonesia.

The first key union was a union confederation which was established in 2003 and currently affiliates with ten union federations from varied sectors, such as education, textile, mining, health, forestry, banking, etc. According to the verification by the Ministry of Employment, the union has around 2.9 million members, but the union claims that the number is actually higher. The difference occurred because verification needs to follow time-consuming highly bureaucratic procedures. Thus, not all union members have been successfully registered in the Ministry of Employment. This union has various types of members, from low-skilled manual workers like those working in assembly lines to skilled workers like those who work in education or banking sectors.

The second key union participant interviewed in this research was from a union federation which had actually been established since 1972 as a sector of the SPSI (the only union being recognised during the New Order period). However, in 1999, they detached themselves from the SPSI and formed an independent union called the Textile and Leather Union. They changed their name again in 2002 as the result of the union's general congress to enable them to recruit members from other sectors. Currently they have approximately 436,000 members, showing a significant decrease since the first time they became an independent union, which was about 700,000 members. According to the representative, the main causes of the contraction were massive dismissals and the increased use of contract workers that has been legitimated by Law No. 13 Year 2003.

#### **4.7 Case study findings: An Introduction**

Each multinational studied has long recognised unions and regarded them as their “partner”. There was, however, a different pattern of relationship among the companies. Both management and the union in the automotive multinational were facing hesitation as a change of ownership has altered the management system and thus their relationship. While the union in the foreign bank said that they will not conduct a strike as this is not what its members' preference in achieving its objectives, the union of the textile industry, on the other hand, has conducted several industrial actions as reactions to management's strategic

changes. The union in the vehicle-parts multinational prefer to avoid an industrial action as they had had experienced a negative affect of this action several years ago. It can be argued that the nature of industry will affect the union-management relationship.

These findings are examined and described further in the following chapters.

## **CHAPTER 5**

### **MULTINATIONAL IN AUTOMOTIVE INDUSTRY**

This chapter presents the findings of the case study in the automotive company. This multinational has recognised unions since it commenced operations in Indonesia. Section 5.1 provides the overview of the Company and the union, while section 5.2 examines the union-management relationship and the changes that have occurred in the relationship due to the change in ownership. Section 5.3 describes the Collective agreement process and coverage with some of the major clauses being listed down, followed by the union's internal and external constraints based on Huzzard's strategic choice model (Section 5.4). This chapter ends with an evaluation of the union's strategic choices given the internal and external constraints faced by the union.

#### **5.1. Overview**

##### **5.1.1 The Company**

The Company commenced operations in Indonesia in 1971 as a car distributor. To support its business in Indonesia, it gradually set up another three subsidiaries dealing with assembly, body components manufacturing and machine production. In every subsidiary, a union or employee association was formed and recognised by management.

The abundant population of Indonesia and the country's rapid economic growth in 1970s were the major reasons for investment. The sales of this company in Indonesia are one of the biggest sales around the world. As manager 1 claims:

“In terms of sales, this country is number six in the world. Last year we sold 180,000 units here. Our position is after USA, Japan, Thailand, Australia, and Canada. So you can see how important this country is for us. This year may be we'll be number ten. There is a slow down, but we're still one of the top ten.”

However, the Indonesian branch could not sell as many units as expected in 2006; as a result, the Indonesian market was no longer among the top ten markets for the Company. External factors such as lower purchasing power for many Indonesians, which was triggered by higher fuel prices; and more intense competition from China were suspected as the main reasons for reduced sales. These factors are discussed further in Section 5.4 (external factors: economic context).

**Table 5.1 Top 10 Markets in terms of sales (1 unit= 1,000)**

	2004		2005		2006	
1	USA	2,060.0	USA	2,260.3	USA	2,542.5
2	Japan	1,758.8	Japan	1,713.1	Japan	1,692.3
3	Thailand	234.2	Thailand	278.0	China	318.6
4	Australia	206.7	Australia	208.8	Thailand	289.1

5	Canada	170.2	China	183.5	Australia	221.0
6	Indonesia	140.0	Indonesia	179.1	Canada	195.8
7	UK	138.1	Canada	175.8	Saudi Arabia	152.0
8	Taiwan	135.3	Taiwan	151.2	South Africa	149.1
9	Italy	128.7	UK	138.5	Germany	141.1
10	Germany	120.4	Germany	130.5	UK	140.1
					Indonesia	123.7

*Source: company's up-close 2007*

Management also claimed that they have contributed to employment and industrialisation since then. They argue, however, that the advantages of investing in Indonesia are gradually disappearing, particularly after the financial crisis in 1997, which led to political and social uncertainty. Management concerns over the current condition of Indonesia will be discussed in Section 4.

In 1989, the four subsidiaries were merged into one operating entity for efficiency and competitiveness reasons. The majority stock owner for this company was the Indonesian partner company.

The automotive industry is one of the industries that have been highly affected by the major changes that have taken place in Indonesia since 1998. The 1997

crisis led to lower purchasing power for many Indonesians and hence also resulted in lower domestic demand for cars. This condition has been worsened by the situation where the political environment is still not stable; in addition to perceived problems of corruption and lack of economic infrastructure - which was revealed by manager 2:

“There are many things that Indonesia has to change.... corruption, for example. If you have those kinds of things, it means that you have to change them. Otherwise, overseas investors like us would be less attracted. The government should be clean and transparent and also fair. Another thing is that, when a country is becoming affluent it means that its social infrastructure; say, roads, electricity, gas and water supply - and from our perspective - industrial infrastructure, need to be improved”.

It should be noted that only one car model is manufactured by the company in Indonesia. As such, the Indonesian establishment must “compete” with establishments elsewhere in the SE Asian region. However, it is prescient to note that none of the CEOs and managers regard the union as a threat to continued operation in Indonesia and the company has invested new plant and equipment to produce a second model (given the still relatively large latent domestic demand).

In terms of labour costs, both management and the union agree that Indonesia still provides relatively cheap labour which can continue to attract multinationals. However, the CEO stated that as labour costs rise with development, a country such as Indonesia would need to develop other sources



of competitive advantage and hence increase productivity in order to maintain its attractiveness for multinationals.

A significant change took place again in 2003 in the Company, when it was split into two subsidiaries, each handling manufacturing and distribution. The majority owner of the distribution subsidiary is still the Indonesian partner company. However, 95 per cent of the manufacturing subsidiary is now owned by the Japanese parent company. The research for this chapter was done in the manufacturing subsidiary where the significant change of ownership took place. The union in the manufacturing company is the same union as before the split; and it affiliates with one of the biggest union federations in Indonesia, the SPSI. Management decided to recognise the union; as the union was a part of the company's history, because it has an integral presence in the establishment and the fact that they wanted a "partner" from the employees in order to more effectively manage the company. Management representatives stated that the union was a necessary presence within the Company; as the union provides a communication function, whereby the union communicates targets and changes from the management to the employees and communicates employees' aspirations to the management. As was stated by one manager (manager 3):

"Through them we speak to the employees. We also try to maintain a good working environment with them, so that the employees would be less likely to engage in dispute activity if they are not satisfied. I think it's the most effective way of communicating with the employees."

### **5.1.2 The Union**

Following the merger of the companies in 1989, the unions and employee associations from four (previous) companies were also merged into one union. According to a previous unionist, who then became the IR manager and has now retired, this merger of the unions took one year to settle down. Among the unions, two of them had already affiliated with the SPSI, while the other two were in-house unions. According to him :

“In 1988, the management told us about the plan to merge. We made a merger committee for the unions in 1988 and on April 1989 we declared a new union together. It was a new union, so each of the previous union dissolved after they report their activities and financial status to the members. And as agreed, the new union affiliated with SPSI”

After a negotiation among the unions, a new union was formed whereas the old ones were dissolved. In terms of hierarchical union structure, the new union was affiliated with the SPSI but the locus of control thus the authority was given to the work-place union.

The majority of employees in the manufacturing company are males; comprising around 98 per cent of the 5,400 workers. The union representatives were all males (at the time of writing). When asked whether female members were reluctant to become representatives within a male-dominated environment, one of the union representatives said that the work tenure of the female workers was the main reason. Most of the female employees had not worked in the Company for a long time. Indeed, most of them resigned when they got married.

However, it was not possible to further ascertain this view as interviewing female members was not possible during the field research.

Since the Company has a policy that all employees will automatically become union members except if they explicitly refuse it, the union currently organises around 5,000 employees in the workplace, or approximately 99 per cent of the workforce. With this policy, there is no recruitment program applied by the union for seeking new members.

Referring to the figure below, the union would choose mobilisation as they organised existing members and did not plan to expand their membership as technically they are a workplace union (given the authority to manage despite affiliation with a national federation) and there was new issues offered to their members. However, despite choosing a traditional militant approach, the union was the employer’s partner in creating ‘harmonious’ employment relations as will be further discussed in the next section.

**Figure 5.1 Level 2 strategic choices for trade unions (adapted from Ansoff, 1968)**

	Existing issues/ service mix	New issues/ service mix
Existing members	Mobilization	Service development
New members	Recruitment/ recognition	Diversification

Nonetheless, despite the high density of membership and company recognition, there are no full-time union professionals in this company - even though the Company has been willing to fund such arrangements. Concerns were typically expressed over career paths and income. As union executive committee member 1 stated:

“To be a full timer somebody has to be ready with the consequences. First, how his performance will be assessed; second, is about his income. Even in the CLA we mutually agree that 5 people can be full timers, the question is, how the company will guarantee the performance and income of the full timers. We actually can make an MoU (Memorandum of Understanding on the guarantee of income and career progression) with Human Resource Department but our career and income really depend on our direct manager. So, becoming a full timer here so far means that in a month we only come to our job site once.”

It can be argued that the union holds the ‘pluralist’ ideology in underlying their position vis a vis the company (Martin, 1989: 16). As implicitly mentioned in the previous paragraph, the union is involved in collective bargaining *‘to ensure that when labour is bought and sold (the specific kinds of labour referred to) its price and the other terms of the transaction will accord with the provision of the agreement’* (Flanders, 1971: 14).

The collective agreement includes both the substantive (e.g. salary, working hours, bonuses, allowances, overtime) and procedural (e.g. grievances, disputes, redundancies, negotiation) terms of agreement. The major clauses of the collective agreement will be depicted later in the section 5.3.

Although the union affiliates with the SPSI which organises employees based on sectors (in this case within the metal, electronic, and machinery sectors), the bargaining process is indeed conducted at the level of the enterprise and the (branch of the) union can be considered as an “enterprise union”. However, a unionist claimed that the union is independent from management control (union executive committee member 3).

## **5.2 Union-Management relationship**

Both management and the union suggested that their relationship in the workplace was relatively harmonious. However, it is apparent that this relationship appears to be under pressure, as seen below. The concept of “partnership at work” was initiated by both parties and has been codified in the CLA since the 1990s. The company representatives argued that they needed to have a union engaged as their partner; a posture indicative of the ‘sophisticated modern: consultant’ in the Purcell and Sissons (Legge, 2005: 76-77) typology of management styles.

However, both parties admitted that there were fluctuations in the relationship, caused by differences in expectations and in understanding the conditions of the Company. Management felt that gaps were widened particularly when a new union leader was appointed. In their view, how to deal with the union really depended on the style of the union leader. Whilst succession planning (or *regeneration*) in the managerial level is well-planned, some managers felt that the union did not have a clear concept of regeneration. Failure in appointing an

experienced leader would lead to widening the gap in expectations; which is happening currently. This dependence on the union leader's style in dealing with management was also admitted to by the union. However, the union leader was aware that leader-oriented dependency should be replaced by a systems-oriented approach (systematic policies and procedures in place). As he mentioned:

“So far the union's strategy really has depended on the leader's style; and every leader's style would differ, so this is the challenge that we unions have: to depend on systems and not depend on individuals. In the past as we have found the pattern depending on leader's style was not a problem. But in the future, the challenge in dealing with management is that they now want us to depend on a system; to have more formal procedures in place. This is what we have to work with now.”

The union argued that this was caused by the major change in ownership; the union suggested that there were changes in the way management communicated with them. The union representatives said that the relationship which was now more formal was not their preference. This was due to the fact that the Japanese parent company is listed in New York Stock Exchange, which requires good documentation of any information in order to be able to be monitored. However, the union argued that when they were willing to agree to a management proposal, management were reluctant to document every commitment and decision made. Management representatives claimed that they needed “guidance” from Head Office before documenting decisions. However, in practice, the parent company gave management considerable autonomy over

operational matters in Indonesia, apart from decisions regarding financial matters. This independency is guided by a regulation which is called ‘the article of associate’: that management in a branch is able to make decisions based on what is stated in the regulation.

Thus, despite the promotion of partnership at work, both management and the union have started questioning their strategy in dealing with each other. The union leader thinks that they will have to change their strategy in dealing with management. The leader, however, is still not sure what sort of new strategy they will take. Management also suggested that the union was becoming less compliant and not willing to compromise to the same extent as previously:

“There have been some changes. In 2001, with the previous representatives in the union... communication went well, the relationship was OK. But with the new representatives, sometimes all of us become silent in the middle of negotiations [because of disagreement]. The new representatives often advocate members who are non-performers who make mistakes. They gradually changed though, but there is still an impression that some of them ask us to negotiate on issues that we think are our sole prerogative” (manager 4).

Evident from the above is the important nature of personal contacts in the bargaining process (given the lack of involvement of professional union officers); and consequent informal channels of communication. However, more importantly, a less favourable product market post-1997 has translated into an erosion of “trust” and “partnership” in the workplace, as profit margins are squeezed and the Company hence seeks additional “concessions” from the

union. Also, as noted above, it is not yet apparent that the union appears to be adopting a more truculent posture in dealing with management.

### 5.3 Collective agreement process and coverage

Given the presence of a union and a management inclined to ‘partnership’, terms and conditions of employment are negotiated through collective bargaining, serving as the rules of the game in a society (in this case, in employment relationship) which directs individuals towards particular behaviour (Furubotn and Richter 2005: 7; North 1990: 2) while also representing the union’s market orientation as the substance of the CLA was mainly that of ensuring the welfare of the members. The scope of bargaining is establishment-wide; thus there is one collective agreement (CLA) covering all employees (excluding senior managers - their conditions are decided by the company but based on the CLA). The CLA is reviewed every three years by a committee that is approved by both the union and management. The length of CLA negotiation is usually 1-2 months given that both parties have made proposals and exchange them to be examined. The major clauses in the CLA are reproduced in Table 5.2.

**Table 5.2 Major clauses of collective agreement**

1(4)	The union	The union is The Metal, Electronic, and Machinery Union All-Indonesian
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		Workers Union (SP LEM-SPSI)
3	The coverage of the collective agreement	The collective agreement applies to all employees except employees levels VII onwards because of their functions. Some matters can be set solely by the company by considering the collective agreement. (e.g. functional allowances for managers)
5	Employer-union relationship	The employer and union work together in creating a harmonious industrial relations environment. Hence, they have regular meetings every 2 months to discuss about employment affairs and evaluate the implementation of the collective agreement.
7(3)	Union facilities	As requested by the union, the employer can give permission to up to five employees to organise the union on a full-time basis without lessening their rights as employees.
8	Assurance for the union	The company assures the union that a lockout is the last alternative when

		they find deadlock in negotiating with the union.
9	Assurance for the company	The union assures that strikes are the last alternatives they will undergo when they cannot reach agreement with the company.
13	Performance appraisal	Performance appraisals are conducted twice a year by the manager of the employees that evaluate the quality and quantity of work, initiatives, work relationship, and discipline.
14	Work classes and classification	<p>Employees are classified into 12 levels and the arrangement within the job structure is as follow:</p> <p>group head (IV-V);</p> <p>line head (V-VI);</p> <p>section head (VII-VIII);</p> <p>department head (IX-X);</p> <p>division head (XI-XII).</p>
19	Working days and hours	Working days are five days in a week Monday to Friday, except for security and maintenance officers. There are

		three shifts for the plant employees: Shift 1: 8 hours a day between 7.15-16.30; Shift 2: 7 hours a day between 16.15-24.00; Shift 3: 7 hours a day between 23.45-7.15.
21	Overtime work	Overtime work is voluntary in nature, except under special circumstances, such as: under an emergency situation that can endanger somebody's life, plant worker, when the worker who continues his work has not come, when there are works that have to be completed immediately.
25	Menstrual leave	Female employees have the right to take menstrual leave two days a month.
28	Productivity	Productivity improvement is a requirement to maintain and enhance company development and thus the company created a TQM Committee that involves the union.
35	Remuneration	Remuneration consists of base salary and allowances

36	Base salary	<p>Base salary is based on the classes of employees and hence, there are 12 levels of base salary whose amount is evaluated every year. The amount of the minimum and maximum amount of base salary is decided by the company by concerning minimum wage applied. However, the rate of wages for each position is not written in the CLA.</p>
37	Allowances and incentives	<p>Managerial-position allowance, transport allowance, meals, work-shift allowance, business travel allowance, and full-attendance incentives.</p>
39	Salary increase	<p>Salary increase as a reward of performance is given once a year in January based on the performance appraisal; salary increase as a adjustment of living cost is given once a year based on the change of the Consumer Price Index; salary increase as a means to increase employees' quality of life is given once a year on January, based on the negotiation with</p>

		the union.
43	Bonus	The company pays the bonuses to the employees every year as a share of profit. The amount of the bonuses is discussed with the union on November and is paid to the employees on December.
60	Employee of the year	The employee of the year is chosen by a committee that is formed by the company and the union.
95	Grievances settlements	Employees must firstly say their complaints to their manager. If the action taken is not satisfying they can consult their complaints to a higher manager. If the steps taken are still not satisfactory, the employee can report it to the union and the union will discuss it with the company. If no agreement can be reached, the settlement will be set based on Law No. 13 Year 2003.

The process of CLA negotiation is indeed one of the main union concerns of the change, which they regard as a very fundamental and worrying change. As the

parent company now has majority ownership, adopting a Japanese system is reasonably possible and indeed is starting to happen. The CLA in the parent company is only a general agreement that can last for 20 years, while the details are put in another agreement that can be changed anytime. Furthermore, as part of the requirements of being listed in the New York Stock Exchange, is the development of a “code of conduct”. The unionists believe the changes will be significantly different from the previous espoused values of the Indonesian partner company.

“Well, now the company is proposing that we gradually have to make a code of conduct; and separate the issues which are included in CLA and code of conduct. For example, we only talk about the amount of money in the CLA - but the guidance of implementation and rules will no longer be part of the CLA. And this is definitely not our previous environment anymore. We became aware of this in 2005 and the change has not been fully implemented yet because we don’t feel comfortable with this.” (union executive committee member 1)

Union representatives argue that a perceived breach of conditions outlined in CLAs can be brought before the Labour Court for a hearing. In contrast, they argue that breaches of a “code of conduct” cannot be brought before the Labour Court. This lack of a policing mechanism is thus a major cause for concern.

## **5.4. Union’s internal and external constraints**

### **5.4.1 Internal Factors**

#### ***Union strategy: past and current***

The union in the Company does not have a clear organising strategy. Rather, it tends to behave in a reactive and ad-hoc manner. Their actions are based on the so-called shared company value as well as the leadership of the union leader. As the leader said:

“Honestly, there is no standard strategy currently. Maybe it is more intuitive in nature; there is a guidance or commitment, but again, it is not written... HR.... when they have a strategy they don't share it with union. The union, when we have a strategy, it's not written; so it's a kind intuitive management, but is the spirit of value is that union can exist and go forward because of the company, the union grows because the company grows, and the company grows because of the union.... So, so far the union's strategy really depends on leader's style, and every leader's style would differ.”

However, unionists are aware that they have to create and implement a system and strategy to be able to face future challenges, which they predict will be more intensive, given that the Company is a global player.

The need of developing a new and clear strategy in facing management is more prominent after the ownership takeover from the Indonesian partner company to the Japanese headquarter. Union representatives suspected that there would be a new industrial relations pattern implemented under the new system. As noted, one their main concerns is over the difference between the Japanese and Indonesian CLA. The union is concerned that there would be a legal enforcement problem if a Japanese-style CLA were to be implemented in Indonesia and hence, they would have to develop a new strategy in facing this possibility. The union feels very uncertain in dealing with this situation.

“The main problem is, union reps needs competency to be able to understand this challenge, how this challenge will not make us forget the basic values. The environment will change, and so will the industrial relations pattern.... I feel so sad about this... we were going to move forward to the next level but now we are facing the downturn in industrial relations. We have to find the new adjustment to be able to reach new equilibrium and it will take lot of time.... Definitely, we have to be ready for a new strategy.” (union committee member 1).

### ***Tensions within levels of the union hierarchy***

In communicating with their members and providing the union voice function, union representatives have created a hierarchical system to ensure the effectiveness of communication.

The layer that communicates directly with the union representatives (branch executive) is that of the *'koordinator pleno'* (hereafter referred as coordinators). Coordinators are appointed in each department in both plants (Sunter and Karawang). During the research, there were 13 coordinators in both plants. Each coordinator is responsible for communicating with the *plenos*; whose numbers range between 6-27 people in each department (in total there were 175 *plenos* during the research); depending on the size of the department represented. The *plenos*, in turn, are responsible for communicating information to the rest of the members.

The efficiency of this hierarchical mechanism, however, is questionable. Union representatives said that the coordinators and *plenos* have done their jobs very well in conveying top-down information. However while top-down information flow is effective, there is less satisfaction over the efficacy of relaying bottom-



up information. The capability of *plenos* and coordinators and the preference of ordinary members are the underlying reasons of this condition.

Union representatives expect that *plenos* and coordinators try to solve any disputes that happen in the workplace before they bring it to the reps. However, according to one union representative (union representative 1), not all *plenos* and coordinators are able to do this effectively. Many of them do not have the ability to solve member grievances with the relevant manager(s). Rather, they often bring any problems directly to union representatives.

“When it is top-down information, we communicate through the relevant mechanisms, so they know from the coordinators who then inform the *plenos* then to members.... but when it is a complaint from the members, this mechanism is not effective. Members usually come to the union office directly rather than discuss it with *plenos* because many *plenos* are unable to settle the grievances. What we expect is that *plenos* are able to be the bridge between the members and management so grievances that can be settled do not have to go to the reps.” (union representative 1)

Furthermore,

“There are *plenos* and coordinators who are not confident in fulfilling their responsibilities. They actually have discretion to negotiate with the department managers on grievances issues. They have to be able to make judgment, when to handle a problem, and when to defer to the representatives. But no, some of them just directly talk to us without trying to solve the problem first” (union representative 5)

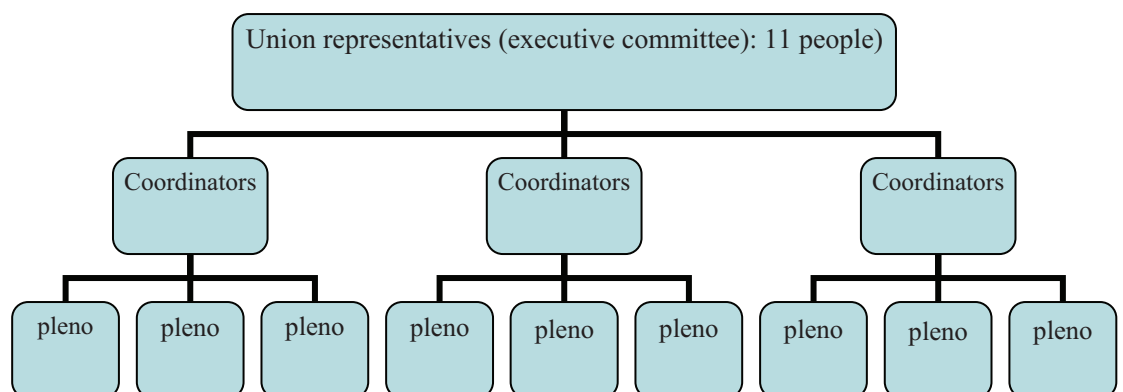
Some of the members, on the other hand, prefer to raise their grievances directly with union representatives rather than following the grievances procedures as stated in the CLA - where they should consult their problems with their direct managers, the managers in the higher level, and with the union representatives if

no solution met. Union representatives see this condition has created unnecessary responsibilities for them.

“Many members prefer to talk about their problem directly to the union representatives. I’m not sure....whether they are afraid to talk to their direct boss. But this practice gives us unnecessary responsibilities, as if the union office is a place to say their complaints” (union executive committee member 3)

The ineffectiveness of the *plenos* in assisting union members is argued as a factor creating the reluctance of union members in dealing grievances with their direct managers. Therefore, they prefer to seek for assistance directly from the union executive committees in solving their problems for their job security. However, the fact that no union members were able to be interviewed in the research has made it difficult to explore the reasons of such practice.

**Figure 5.2 Union’s information/grievances flow**



### *Financial Resources*

The union funds most of its activities from membership fees. The fees are paid by the members from direct deductions from their monthly salary. In other words, the human resources department, treasurer and the union work together in ensuring the payment of membership fee. According to the union's treasurer, the amount of fees collected every month is sufficient to fund union's activities.

“We fund our activities from the membership fees. Members should pay 0.25 per cent of their salary every month to the union. Because we have lots of members, including the directors and managers, our income from the fees is very sufficient. In average, we can get around 26 million rupiah every month” (union executive committee member 3).

As the union affiliates with a union confederation, it has to pay the so-called COS (Check off System) to its affiliate, which amounts 40 per cent of its income. The union representative admitted, however, that they actually pay the COS a significantly lower amount than the stated percentage. The reason is that the union does not believe that the confederation has been effective at representing their interests.

“Actually we have an obligation to give 40 per cent of our income to our affiliate. But we don't do it. We just give them 10 per cent. We feel that they do not contribute anything to us, so why should we pay them?” (union executive committee member 3)

Union representatives commented that the affiliate did not provide sufficient training for them. The previous training provided was very basic and not useful for them. The union themselves then conducted training for the coordinators and *plenos* as the preparation for regeneration. The training they conducted included training on the implementation of Employment Law No. 13. Moreover, the affiliate was never engaged in dispute settlement as the union preferred to exclude the affiliate for they were doubtful of the affiliate's objectivity, particularly because the branch leader of the affiliate is part of the management of the company.

After the reformation era, some of the representatives started to question the need of keeping the federation as their affiliate. However, when the research was held, there was no sign of detaching themselves for the current affiliate and have a new one. It might probably because the union leader thinks that all the unions in Indonesia do not really care about the condition of the workers; therefore, there is no need of switching affiliate.

“Every trade union claims that it is the most ideal, but actually they are just the same. They are close to the employer” (union leader)

#### **5.4.2 External Factors**

##### ***Employer strategies***

As seen in previous sections, management respondents stated that they regard the union as their partner in governing the company. One management

respondent even described the union, management, and employees as a “happy family” where all parties should work together for the sake of the family.

“A company is like a family. The company, union, and the employees are like father, mother and children. So if their relationship is not working, a family won’t be working properly, right? So for the company’s management, it is important that a union, as a good mother, has to do its best to protect its employees. The union as a mother and the father which is the company has to do a lot for their children, the employees. On the basis of that mutual trust, companies operate. (manager 2)

The union also said that partnership is a shared concept underlying their relationship with management, and this concept was built gradually since the merger of four companies in 1980s.

“When the union was formed in this company we tried to engender a relationship pattern with management. However, conditions were tough, the union was tough; and management was tough. The union sought recognition - however, the company didn’t want to recognize us. It was in ‘80s, ‘80s to ’90 we started to build the concept of a relationship. This was the time when we had the concept of tripartite to make the relationship go smoothly; from the ‘90s we have had the concept of partnership until now” (union executive committee member 1)

However, the union is apparently facing a problem regarding their relationship with their affiliate; caused by a strategy implemented by management. The leader of the affiliate branch in their regional area is a person from the company who was IR manager and is currently still a member of staff of the HR department. This dual position had created difficulties for the union in negotiating with the company. While the union expects the affiliate to support

them, they argue that in reality the affiliate's leader is against them as a representative of the company. As a representative said:

“We have a big problem with our affiliate. The leader of our affiliate's branch is a person from this company, a HRD staff member. The problem is, he supposed to protect and support us, but the reality is the other way around, he's against us. Well, he was a union leader when he got the position as a manager in the HR department, and I think it's the part of the company's strategy to put a pressure upon us (union executive committee member 3)

However, not all union representatives feel the negative impact of this management's strategy. One of them even feels that this is an advantage for the union.

“There was once when union leader of our affiliate was also an HR manager. It was good for us. We got advantage at that time as he often gave some 'signs' when we were negotiating.” (union executive committee member 1)

Despite the signs that he often gave, the management's strategy of deliberately forcing union to 'fight' against the union's own person has raised a question towards the person. Union representatives expected that he, as the leader of one of the affiliate's branch should provide assistance in bargaining; but in reality, the union had to negotiate over different interests with him. This case shows a indications of the agency problem; where the agent (the union branch leader) has failed to behave as expected by the principal (the union members) because of a conflict of interest and different risk preferences.

### *Industrial Relations system*

As noted, the industrial relations system in Indonesia has experienced significant change post-1997 after the downfall of Suharto. The formation and movement of unions are now free; which has generated a massive increase in the number of new union confederations, federations, independent unions and workplace unions. Many union respondents stated, however, that this freedom has not been augmented by sufficient protection for unions and their activists.

One example of the weakness of such protection was in the decision made by the government to replace the Dispute Committee (P4P/P4D), an institution where industrial disputes were settled, with a Labour Court. The dispute committee is no longer active. However, the Court has not begun to operate yet (interview with independent union 1). Hence, according to the union representatives, many industrial relations tribunal cases remain unresolved, creating an uncertain situation for workers. However, unionists said that IR conditions in multinationals are better than that in local companies.

“The employment conditions in multinationals are relatively better than in local companies because multinationals have monitoring systems. In contrast, many local companies do not pay the minimum wage, or they say they “pay the minimum wage” but actually it’s the amount of basic salary and benefits. However, I don’t say all multinationals are good; there are multinationals which have bad practices - Korean multinationals in the textile industry, for example.” (independent unionist 1)

The multinational in this case study has recognised unions since the 1980s. The managers stated that the decision for union recognition in the company is part of their history. The parent company in Japan experienced friction with the union movement during the 1950s. This forced both parties to negotiate and resulted to a joint declaration whereby they agreed to develop “mutual trust”. The experience of the parent company was interpreted by the Indonesian branch company that a union was needed. It was not merely an obligation from the parent company that a union should exist and be recognised:

“No, we’re not obliged to recognise unions, but then we see the need of having a union in the workplace. We have a history why we decided to recognise unions. First, because we have problems, second, it is a regulation stated in the Indonesian law, and third, a union provides a means of communication with employees.” (manager 3)

It is also prescient to note that none of the CEOs and managers regards the union as a threat to continue operation in Indonesia; and the company has invested new plant and equipment to produce a second model (given the still large latent domestic demand). However, in contrast to the general perception of unions that Employment Law No. 13 Year 2003 has favoured employers; management’s view that this law protects employees and unions. Management in this multinational, however, does not have any real concerns with the law, as they feel that wages and working conditions in the company are above the standard mentioned in the law. Indeed, management representatives commented that the employment system in the Company would work even if no employment laws existed.



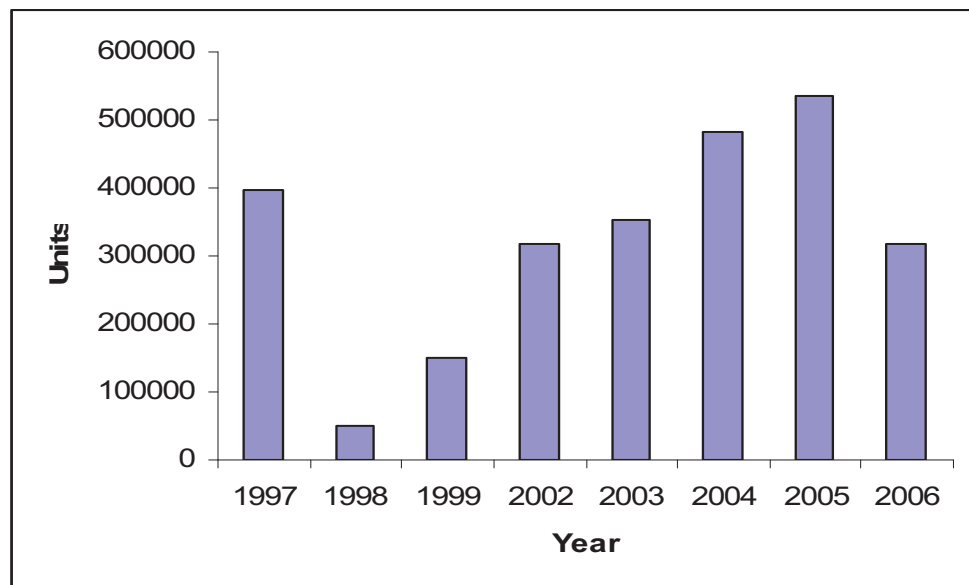
### *Economic context*

The automotive industry in Indonesia has been experiencing a slow down since the financial crisis in 1997. However, some business players have claimed that conditions are currently getting better along with improving economic conditions<sup>21</sup>. In terms of new cars being sold in Indonesia, the rate is increasing, particularly in 2004 where it was claimed that industry experienced the fastest sales growth in the world, 36.6 per cent from the previous year. However, car sales dropped again in 2006, due to the government's decision to increase petrol prices by 100 per cent in 2005. This decision has subsequently led to higher inflation and interest rates. As most Indonesian buy new cars by using financial services, higher interest rates discourage them to buy new cars. Sales in 2006 were 40 per cent lower than in 2005, showing that Indonesia is still suffering instability within its economy.

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<sup>21</sup> [http://www.jawapos.com/index.php?act=detail\\_c&id=281387](http://www.jawapos.com/index.php?act=detail_c&id=281387)

**Figure 5.3 The sales of new cars in Indonesia 1997-2006 (in units)**



*From various sources<sup>22</sup>*

The multinational in this case study is the market leader in cars in Indonesia, followed by four other Japanese manufacturers. Indeed, Japanese multinationals dominate the market, with a share of 93.37 per cent; the rest of the market is served by manufacturers from Korea, Germany, France, Sweden, Britain and the US. Korean cars, which were seen as potential competitors seven years ago, have not been able to compete successfully with the Japanese market leaders; their market share in 2003 was only 5 per cent.

The ASEAN Free Trade Area (AFTA) also impacts on the strategy being taken by the Company and its competitors. The present arrangement allows car producers to produce one model until achieving economies of scale; and

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<sup>22</sup> See for example: <http://www.sinarharapan.co.id/ceo/2003/0526/ceo1.html>;  
<http://www.majalahtrust.com/bisnis/strategi/706.php>

exporting it to other ASEAN countries, with a very low custom fee (maximum 5 per cent of production cost). Each country currently produces a different model, called the “production base”. AFTA can serve both as an opportunity and a threat for Indonesia. The multinational being studied chooses a country as a production base of one or more model(s) where it can achieve cost efficiency. One manager interviewed expressed his concern over this condition by emphasising Thailand as their closest competitor in producing new models, while the union leader was still optimistic that Indonesia will retain its position as a base for production.

“Currently this company makes a production base in each country it operates. So far in Asia, I’m sorry to say, Thailand is the best. There are no worker demonstrations and the infrastructure is very good. Thailand is the most comfortable production base; it makes our Indonesian employees and also the government very disappointed” (manager 1)

In contrast, a union respondent argued that,

“No, I’m still optimistic that they will stay because of three aspects: first, this company has been here from the 1970s; second, we are the market leader; and third we have an abundant potential market. If they were to stop their business here and then Indonesia’s economy recovered, customers would demand more cars; but if this Company were to have no plant in Indonesia they would still have to import, which would take valuable time. Customers would then prefer to buy other brands”. (union executive committee member 1)

However, China is also a competitor for the Indonesian car industry, as China has an agreement with ASEAN countries (Indonesia, Malaysia, Thailand, Brunei, Philippines, Singapore, Myanmar, Vietnam, Laos, and Cambodia) for a

free trade arrangement which will be fully implemented in 2010, for the six original ASEAN members and in 2015 for the other four<sup>23</sup>. This arrangement will then entail a level playing field within AFTA, with the removal of trade barriers.

The Company commenced its operations in China in 2003. They plan to develop a significant presence in China, with various models to be produced. The main reason is that China has a very huge domestic market. However, once the agreement is implemented, this multinational can export the cars it produces in China to serve demands from other countries. China has the potential to reach greater economies of scale, while also providing a compliant non-union environment that will be an advantage for multinationals.

### ***Public perception of unions***

The confederation and federation which the union affiliates with, on the other hand, is known as being very close to employer groups. It was the only union federation recognised by the government before the reformation era and most of the leaders were close to the leading political party at that time: Golkar. When the government enabled the formation of free, democratic unions, many of its affiliates detached themselves as an expression of doubting this federation's commitment to worker welfare. One of the previous affiliates is The National Workers Union (SPN—Serikat Pekerja Nasional), which currently is one of the

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<sup>23</sup> See: [http://www.bilaterals.org/rubrique.php3?id\\_rubrique=95](http://www.bilaterals.org/rubrique.php3?id_rubrique=95)

strongest union in Indonesia, organising more than 400,000 members (interview with 2 independent unions)

Developing strong unions, however, is not without challenge. There is a widespread perception in Indonesia that unions are provocative and militant (interview with an ILO representative). As noted, these perceptions are very much fomented by the media, which represents the interests of varied groups: nationalists, opportunists, and religious groups. As a result of reports on demonstrations and strikes organised by unions; and rare stories of positive union contributions for workers and employers, many Indonesians question the advantages of having strong unions, not to mention a lingering public fear of communism; as unions were seen to represent the Communist Party during the Sukarno period (“Old Order”).

Unions try to overcome such perceptions by showing the public that they can conduct peaceful, non-disruptive demonstrations. Demonstrations on the Maydays (1 May) have shown their intention to be acknowledged as non-provocative organisations. One confederation, the Indonesian Union Confederation, or KSPI (Konfederasi Serikat Pekerja Indonesia) is also trying to organise in the informal sector, e.g., immigrant workers and agricultural workers, in order to broaden the people’s understanding on unionism (interview with independent union 2). This effort is expected to switch the general perception of unions as being politically subversive, provocative organisations into strong, worker-oriented organisations. As one independent unionist said:

“Unions have to be strong and independent. If the workers are wealthy, they will have high purchasing power and thus, buy lots of things, and production will also increase. Who got the advantage? Of course, the workers will get the advantage as well. If the workers are strong and have an equal position in negotiating with employers and the government, then the level of welfare will increase and the economy will be better. So, the key is the workers!”

### ***Technology and Skills***

The parent company applies a system of production referred to as the Global Production Network, whereby each country produces certain model(s), rather than only final assembly; which requires considerable skills and training on the part of employees. Hence, a majority of the employees in the Company are high school graduates; comprising around 84 per cent of total employees. The division of work in the plants includes assembling and painting, welding, machining, packing, quality control, stamping, casting, and packing. As such, employees are aware of the need of improving their working lives, not necessarily only wages for their daily life. The research suggests that the coordinators, plenos, and members are actively involved in searching information regarding the result of union-management negotiation.

**Table 5.3 Employee profile by education (July 2006)**

<b>Education level</b>	<b>No. of employees</b>	<b>Percentage</b>
Elementary school	98	1.80
Junior high school	323	5.95

Senior high school	4,245	78.18
Academy	408	7.51
Undergraduate	354	6.52
Postgraduate	2	0.04

Employees are separated in two plants; in Jakarta and Karawang (about 2 hours from Jakarta). The union executive committees are mixed from both plants, and they conduct regular meetings to discuss issues at the union head office in Jakarta plant. Most of the union executive committees are academy or bachelor graduates, and they are expected to be able to form union's strategy in the future, particularly after the ownership change in 2003.

Unionist claims that the workers of the company are highly marketable in the labour markets; employees who have worked for the company will easily find a new job elsewhere (union executive committee member 3). Thus, it can be argued that the presence of firm-specific skills held by certain occupational groups within the company might be expected to confer additional bargaining power to such employees

### **5.5 Summary-- Evaluating Union strategic choices**

Despite the fact that the union in the Company affiliates with a federation in the Metal, Engineering and Machinery sector, it is a company-union type as it only operates in the Company as well as being sponsored by the Company (Lewis et

al., 2003: 138). The union negotiates over Collective Labour Agreement (CLA) as a means to regulate employment issues that their members are concerned about as well as to protect their members (Flanders, 1971). Thus, when the Company intended to change the substance of the CLA following the change of ownership, the union was strongly against it, as this would lead to a diminution of and indeed a threat to the CLA functions of regulating and protecting workers.

The union, in theory, has also had the advantage of a single-recognition (closed-shop) policy by the Company; which has led to them organising nearly all the employees, apart from managers. However, a membership of over 90 per cent of the employees does not automatically entail that the union is in a strong bargaining position. The union executive committees admitted that they often have to compromise to the Company's agenda at the expense of member interests. This is because management are adept at using the implicit threat of relocation as a moderating tool (given the perception that Indonesia is lacking in stability, good infrastructure and law enforcement). As union executive committee member 3 commented:

“Yes, we compromise a lot, because if we don't do so, we are afraid that they will relocate this business. They never explicitly say anything like this though; but the pleno, coordinators and the members are worried.”



Union compromises over the Company's goals are often complained about by ordinary members as they feel that the union has excessively compromised on representing their interests.

"We sometimes got complaints from our members as a result of our compromise over company decisions. There are targets that we cannot achieve. Well, we cannot neglect that this approach also has negative effects" (union executive committee member 2).

However, the same representative further commented that he and other union representatives thought that this approach was better than a confrontational approach; as he believed that a "win-win" solution could only be reached through partnership. The reaction from members towards the union's "compromise approach" to the management was not able to be explored as the access to union members was not gained. The union leader said that members should be approached through the management while the management response was negative.

The absence of full-time union officers in the Company is indicative of the hesitation of voluntary union representatives over their income prospects and career progression. Even though the union and management have mutually agreed over providing for paid full-timers (which is stated in the CLA), union representatives are not willing to take on this position. In terms of income, full timers might forego opportunities to get a higher income from doing overtime. As said by union executive committee member 1, income in Toyota is higher

than the average wage in the same industry because overtime is accounted as monthly income:

“We get high annual income from overtime. Their code of conduct is that they (the Company) will respect and will follow every country’s regulation. Our Law No. 13 2003 states that maximum over time is 46 hours every month excluding Saturday and Sunday. They treat this law carefully with this as they don’t want to be seen as exploiting cheap labour in Indonesia. However, so far overtime is seen (by the employees) as part of office hours (with overtime rate) and this has become an unwritten agreement between the union and the company. This to be thought by the union, how over time decreases but the income increases. We definitely need to negotiate. When there was crisis, there was no overtime. All employees complained. The Company does not want to be penalized because of unethical work practice.”

The importance of overtime for employees has prevented union representatives from becoming salaried full timers. They argued that not being in the job site means they would gradually lose contact with their boss and be unfamiliar with the jobs and thus lose the opportunity to do overtime.

“You know, union representatives, like other employees, are always back to our job site after office hours to do overtime. If we’re always here (in the union office), we’re afraid we’ll be neglected by our boss and lose connection with our job. Well, it’s just our own concern, may be it’s not true...We don’t know, because nobody dares to take the risk” (union executive committee member 4).

Even the company has guaranteed the same facilities for the full timers as for the other ordinary employees, there was no sign that they would raise union full timer’s wage for encouragement. The absence of full timers has become a

concern for management: one manager said that even if there are no full timers, the union office is sometimes used as a place to hide from work.

“Now the problem is, the union office is often used as a place to hide. They don’t go to work, but they’re not full timers. We told them that full timers will get full facilities as the ordinary employees” (manager 3).

The union was still mainly a responsive institution as the research suggests that it had no clear strategy in dealing with the employer. As such, the union was still experiencing difficulties in identifying the steps they should take in formulating a cogent, effective strategy. However, the union leader was aware that such strategy is needed for a more effective movement and survival, as has been suggested by some authors (Huzzard, 2004; Boxall and Haynes, 1997). In the next section, we evaluate the same issue in another setting that of textile industry.

## CHAPTER 6

### MULTINATIONAL IN TEXTILE INDUSTRY

This chapter presents the findings of a case study in the textile company. This multinational has recognised unions in the early years of its operations in Indonesia. The union in this Company can be argued as being the most frontal union among other unions being researched. Similar to the previous chapter, section 6.1 provides the overview of the Company and the union, while section 6.2 examines the union-management relationship and the changes that have occurred in the relationship due to the change in ownership. Section 6.3 describes the Collective agreement process and coverage with some of the major clauses being listed down, followed by the union's internal and external constraints based on Huzzard's strategic choice model (Section 6.4). This chapter ends with an evaluation of the union's strategic choices given the internal and external constraints faced by the union.

#### **6.1. Overview: Industry Profile**

The textile and clothing industry is an important sector within the Indonesian economy that it provides the largest source of employment by employing around 1.2 million workers and an additional 3.5 million workers in the textile-related areas such as distribution in 2005<sup>24</sup>. Thus, it comprises around 13 per cent of total workers in Indonesia. As a labour-intensive industry, the textile

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<sup>24</sup> <http://www.expresstextile.com/20050430/perspectives03.shtml>

sector has traditionally enjoyed Indonesia's advantages of low labour cost, adding to the advantages of low electricity and fuel costs. However, costs have been increasing since 1999 due to government decisions over annual increase on minimum wages and higher electricity and fuel prices, particularly in 2005.

In terms of exports, Indonesia is ranked tenth among the world's largest textile exporters and was number one exporter within the ASEAN countries in 2004. The US and European countries are the major destinations subject to textile and quota applied in 1980 under the MFA (Multi Fibre Agreement). When the agreement was abolished in January 2005, Indonesia had to compete with other textile and apparel exporters including China, which aggressively penetrates US and European markets. Other competitors are low-cost Asian exporters such as Sri Lanka, India and Bangladesh as well as from African Countries which enjoy privileged access to the US market under the African Growth and Opportunity Act (AGOA) (Athukorala, 2006: 200). It was predicted that Indonesia would suffer in the new non-MFA environment.

However, the prediction was not confirmed by the Indonesia's textile and clothing export in 2005 compared to the export in 2004 during the same period (January-November). There was a growth of 11.3 per cent of both exports, where clothing exports grew faster than textile exports, 13.2 per cent and 8.6 per cent respectively (ibid).

**Table 6.1 Indonesia's textile and clothing export growth 2004-2005**

	2004 Jan-Nov	2005 Jan-Nov	2005 Growth Jan-Nov (%)
<b>Textile</b>			
Volume (kg million)	1,052	1,118	6.3
Unit value (\$/kg)	2.73	2.79	2.2
Value (\$ million)	2,875	3,123	8.6
<b>Clothing</b>			
Volume (kg million)	346	391	12.9
Unit value (\$/kg)	11.75	11.78	0.2
Value (\$ million)	4,069	4,605	13.2
<b>Textile and clothing</b>			
Volume (kg million)	1,398	1,509	8.0
Unit value (\$/kg)	4.97	5.12	1.0
Value (\$ million)	6,944	7,728	11.3

Source: Athukorala 2006: 201

It is also worth noting that even with the trade quota, China has dominated the world's textile and clothing industry covering 23 per cent of textile exports in

2003. When the trade quota was removed in the beginning of 2005, China's textile export to the US increased 50 per cent in the first semester, leaving Indonesian textile exporters in a difficult situation. However, in November 2005, the US and China agreed to limit China's textile and clothing export to the US to only 10 per cent in 2006, 12.5 per cent in 2007, and 15 to 16 per cent in 2008<sup>25</sup>. The agreement was seen as an opportunity for Indonesian textile exporters to again increase the share within the US market. However, other textile business players also view that the agreement may harm the domestic textile market as China will shift its export to other countries including Indonesia.

It is believed that Indonesia's rigid labour market (as discussed in the chapter 2- literature review), low worker productivity and low investment in textile industry due to high interest rate of industry loan have also impinged its competitiveness towards other textile exporters.<sup>26</sup>

### **6.1.1. The Company**

The Company commenced operations in Indonesia in 1973 and in 1980 was listed in the Jakarta Stock Exchange. Its main business is producing polyester, staple fibres and filament yarns. This company is a subsidiary of a large Japanese multinational, operating in various industries worldwide. Indonesia's abundant population and natural resources, particularly oil, were the main

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<sup>25</sup> <http://news.bbc.co.uk/1/hi/business/4416858.stm>

<sup>26</sup> [www.fias.net/.../SFIDE/FIAS+-+Indonesia+-+Textile+and+Shrimp+Competitiveness+Study+vol+1+10-24.pdf](http://www.fias.net/.../SFIDE/FIAS+-+Indonesia+-+Textile+and+Shrimp+Competitiveness+Study+vol+1+10-24.pdf)

reasons for the Company's investment, as it required cheap, abundant workers and fuel to be able to operate cost-effectively.

Serving the domestic market, the Company is now facing difficult times in maintaining production levels and hence profit margins. Based on the Company's 2005 audited financial report, it suffered losses for four subsequent years (2002-2005). External factors such as increasing fuel prices and labour costs are believed to be the main reasons for these losses:

"Previously, Indonesia had very high competitive power. Firstly was the low cost of workers. Second, Indonesia had so many natural resources. For example, natural gas or coal, or something like that. But the minimum wage is something that always increases year per year. We cannot manage it; it's the government's decision. This condition is worsened by the (low) productivity of workers and the (increasing) BBM (fuel) price. Indonesia doesn't have much competitive power anymore. Labour law also makes it difficult to manage. Frankly speaking, I think Japanese companies do not now have much interest to invest in Indonesia." (manager 1)

Additionally, the President-Director views that textiles is not a promising industry anymore in Indonesia, given increasing labour costs:

"Unfortunately, the textile industry in Indonesia is no longer a growing industry. At present, not only us - but also all the other companies in the textile industry in Indonesia are faced with challenges... One of the challenges faced by us is the establishment of various institutions which are making labour costs higher." (cited from the Company Profile)

One very significant step taken by the Company in coping with rising costs was through outsourcing jobs - and hence cutting the number of employees.



Employing approximately 2,000 employees until 2003, it currently employs 1,100 employees (with the percentage of female employees lower than 10 per cent). Outsourcing is a business strategy used by management to achieve internal efficiencies; by keeping production costs as low as possible (Colling, 2005: 95). Outsourcing enables a firm to cut labour costs and maintain numerical flexibility of workers; a firm could employ more workers when needed, without having to increase its budgeted labour cost and ‘dispose’ them when production is slowing down (Legge, 1998: 288).

Additionally, outsourcing also threatens the interest of workers and unions. Whilst workers are losing their job security, unions would also be in a disadvantage situation of losing members. In this case, the Company outsourcing plan was initially rejected by the union but they were then forced to accept it, as their members were ‘happy’ with the plan driven by high severance pay. The discussion over the union’s reaction towards the outsourcing plan is explored further in the later section.

### **6.1.2 The Union**

The union was formed and recognised in 1975; affiliated with the only union at that time, the SPSI. When the freedom of union formation was introduced by the government in 2003, the union was affiliated with previously the textile sector within SPSI which for a new union, SPN (Serikat Pekerja Nasional—National Worker Union). The union now organises nearly all employees who

are eligible to be members according to the Collective Labour Agreement (CLA).

Similarly to the union in car manufacturer multinational in the previous chapter, this union also organised existing members. However, despite this, the number is decreasing due to subcontracting practices enacted by the Company since 2003. As the issues being addressed were not expanded either, the union tended to use mobilisation as their strategic activities. It can be argued that union mobilisation in the textile multinational was more prominent compared to the car manufacturer in the previous case study as union chose to mobilise their members for industrial actions to get the management's attention such as that in 2003 when they rejected the outsourcing plan, as stated by a unionist below.

“There were several occasions where we undertook industrial action; we couldn't see any other way to win, so we used our rights [of conducting industrial actions] - but only occasionally.” (union executive committee member 4).

The union does not have a specific recruitment program. The union executive committee introduce the union to the employees during the orientation program and those who are interested would have to register. New employees can be official union members if they pass the probation period of one year. However, the union will assist a new employee if they have problems even if they are still within their probation period by giving them advice and advocacy as the new employees pay their membership fee (deducted from the monthly salary) even when they just started working at this company and were not entitled to be union members.

The mismatched policy was discussed at the bipartite forum at the time of research. The union proposed that the new employees do not pay membership fee and cannot become union members until they pass the probation period. Their argument was that they want to assure that the new employees are ‘good employees’ and thus can be their members.

“The first year of work is a period when somebody has to perform very well for the company. So, the good and the bad of his performance, it’s measured during this period. It is a hard period. We want that this person (who will be our members) should be good. This good behaviour is examined within this one year.” (union executive committee member 2)

The decision for union recognition was based on the existence of the laws implemented in Indonesia (i.e. Law No. 21, 2000 and Law No. 13, 2003). According to management, however, the decision for recognition was based not only because of legal requirements; but also because they regarded the union as an effective channel for providing communication with employees, rather than wasting time communicating and negotiating separately with individual employees, representing the voice function of union which benefits both parties:

“We did not consider the law as the key factor in our recognising the union. Rather, we saw the union as a necessity. We can communicate with our employees more efficiently through their representatives and our policy is to be transparent with them. Every policy that will be implemented is discussed with them” (manager 2).

Thus, management regard information provision and consultation with the union as a means of conferring legitimacy on management policies and actions.

The current discussion over a proposed new HRM system is an example of joint consultation on a new policy. The old HRM system had adopted Japanese-style practices in which the longer the tenure of the employee, the more the possibility they would get a promotion. The proposed new system is one of performance-based management. As such, it would give a higher opportunity for high-performers to get faster promotion. However, the new system had not yet been implemented (at the time of the research), as the union did not agree with proposal. In a classic depiction of pluralism in the workplace:

“Conflicts happen because of different interests. For example, take the proposal of the new personnel system. This system will make increased recognition and remuneration (for high-performers) happen faster. This will create a condition where younger employees will have greater opportunity for enhancing their career. The union doesn’t accept it because for them, it won’t be that simple. We are still negotiating, and we brought it to the tripartite forum [an industrial relations forum consists of the government, the employer, and the trade union]. There was a suggestion but it’s not obligatory, the mediator suggested that it is the right of the company. The union didn’t accept the suggestion; and now management are planning to bring it to the labour court” (Manager 2).

From the union’s point of view:

“They are trying to implement a new system, in which in future, there will be no allowances...all allowances would be included in the salary, with no variable component. We’re a bit worried with this proposed system particularly for our future, as promotion would take longer (if we do not perform). We’re now facing a deadlock and it’s going to be brought to the labour court” (union executive committee member 2).

The CLA (when the research was conducted) did not explain how performance was being evaluated although it mentioned about the ‘performance standard’

when it regulates the reward given to employees who achieved the standard without describing it in details. In the CLA, the performance standard is implicitly set solely by the company and evaluated by direct managers.

The reward was given to employees when they achieve one of the several conditions as below:

1. Discipline: no absence, punctual, and no warning letters which are given due to serious mistakes such as being late for 3 days within 7 working days, leaving jobs during office hours without permission, sleeping during office hours and refuse to wear company's uniform.
2. Behaving within the community so that they maintain or improve the good image of the company.
3. Preventing accidents occurring at work.
4. Outstanding: finding new methods that improve the quantity and quality of production. The invention will then become the property of the company.

As with the case study outlined in Chapter 5, there are no full-time union professionals in the Company; even though the CLA has provisions for the creation of full-time union officers. The union representatives commented that it was more lucrative for them to remain working as full-time employees. Indeed, the concept of performing well at work is shared by all union executive committee members, to show the Company that union members are also good workers; in order to maintain and improve their career prospects:

“Even though full-time union officers are granted in the CLA nobody wants to do it as we work in this company, we also want our career.” (union executive committee member 2)

The absence of full time unionists because of performance and career prospect confirms the concern of the union on the implementation of the proposed HR system whereby performance is the means to get promotion and thus better career at work.

Additionally,

“We all work for a Company which pay us. Union, on the other hand is an employee organisation within the company. So, our main duty is to perform well in doing our jobs. We all agree that we have to prioritise our work duty as employees and that’s why there are no union full timers here. But we always have someone waiting in the office by developing a schedule for union executive committees and representatives” (union executive committee 4)

Thus, performing well and career progression are the main reasons of the absence of union full-time professionals. There is also a phenomenon that those who previously were union executive committees or representatives were promoted into managerial levels.

“Many previous union executive committees and representatives become managers after they finished their service. There were ten union reps (of my period) who are now managers” (manager 5)

Most of managers who were involved in the research were ex-union representatives. They often use the word ‘we’ when expressing unionism rather

than ‘they’. The reason is that they feel they are still workers who need union protection despite their position as managers.

“Well, I work here as an employee. Even now I’m a manager, I still feel I’m just an employee” (manager 4)

However, different interests between the union and management sometimes caused role conflict for managers who were union representatives, particularly when they had to implement a policy that affect the welfare of the employees. An example was described by a manager when he had to make an outsourcing proposal for a department under his responsibility. As he was ordinarily against outsourcing, he did not make the proposal on time to show that he actually disagreed with the plan. When the proposal was eventually submitted to the higher managerial level (only several weeks before the research took place), he expected that the proposal would be rejected.

## **6.2 Union-management relationship**

Similar to the automotive company in Chapter 5, management of the Company apply a ‘consultor’ (Legge, 2005: 76-7) employment relations style; whereby they regard the union as their ‘partner’ in the workplace and both parties engage in wide-ranging discussion. The concept of partnership, however, is not clearly stated in the CLA. The CLA stipulates that managers do not abuse union

executive committees and representatives and that the company will assist the union in organising their members as long as the union complies with the CLA.

Many union executive committee members were promoted to be managers. This condition, according to union reps, advantages the union as the managers who have the experience of unionism could understand better the expectation of the union. Furthermore, it is easier for union representatives to ask for permission to leave the job site for union affairs from such managers. Additionally, union reps feel that all managers are reluctant to say 'no' to union reps when they ask for permission as long as the HR Department has given written statement of permission.

“We never got complaints from the managers. I think the manager is also a bit reluctant to say no to the union rep, but the important thing is that we got permission from the HR department.” (union executive committee member 3)

The union, however, suggests that their relationship with management is changing. One of the union executive committee members commented that:

“I think the relationship currently is not so good, but saying it's bad is not also true....because there are cases where we agree with management, but compared with the previous years, our relationship is not that good anymore.”(union executive committee member 3)

The union leader suggests that the primary reason for the worsening relationship is related to appointment of a new President-Director of the Company:



“Basically, it is a Japanese company, so they bring their culture which ‘respects’ the union, although that depends on the top manager [CEO] and management... Well, I think his [the CEO] character is like a ‘superman’: what he wants to have done is what is to be applied, so that local managers become silent. Only the union can voice its aspiration, only the union”

Other union executive committee members, however, suggest that this change has also been caused by the characteristics of the union leader. As one of them stated:

“May be, well may be - different leader, different approach; so it depends on the leader. However, I think the current union leadership is a bit confrontational towards management and the people in the HR department cannot maintain this relationship either. The previous HR people always had ways to approach the union but not the current management.”(Union executive committee member 3)

The approach chosen by the union leader has created a more confrontational union strategy in dealing with management. Even if a confrontational approach is not the dominant strategy, union representatives said that they would become more radical if the Company does not want to cooperate anymore.

“Being radical is not our strategy as long as the company wants to co-operate. But sometimes they couldn’t answer our questions when we tried to look for solutions. When we can’t stand anymore, we sometimes walk out from the negotiation room.” (Union executive committee 2)

The perception of being frontal is more apparent after the industrial action conducted in 2003 when the union rejected the outsourcing program although the action did not disturb office hours. While the union could feel the difference

approach of the company after the action, the managers feel that the relationship has not changed.

“The indicator is usually from the personnel manager. They used to have formal and informal approaches to the union, but now we just directly meet in negotiation forums. Now the management thinks union as an obstacle, because we ignore all of their proposals, because we think we don’t have to take any concerns to all of those proposals.” (union executive committee member 3)

However, one of the managers said:

“This problem (conflict of interest) doesn’t make our relationship becomes stiffed, we still see them as a communication bridge to the employees.” (manager 2)

The major causes of the current management-union conflict are the rationalisation and outsourcing that took place three years ago. These issues will be discussed further in the next section.

### **6.3. Collective agreement process and coverage**

As in the case study detailed in chapter 5, the terms and conditions of employment are negotiated between the union and management through collective bargaining. There is one collective agreement in the establishment, covering all the workers in the Company and serves as the ‘rule of the game’. The union forms a committee whose responsibility is to prepare a CLA draft. The bargaining committee includes the union executive committee members

and the shop floor representatives. The shop floor reps distribute questionnaires to ordinary members, asking for their suggestions for the new CLA. The suggestions are brought to the bargaining committee, to be considered for formulating into a draft set of proposals to be negotiated with the management. The process of CLA negotiation usually takes around 2-3 months.

**Table 6.2 Major clauses of the collective agreement**

1(3)	The union	Union: is the National Workers Union (SPN-- <i>Serikat Pekerja Nasional</i> ).
3(1)	The coverage of the collective agreement	Management and union agree that the agreement covers and adheres to both parties
4(3)	Assurance for the company and the union	The management recognises the SPN as the only union in the Company.
4(4)	Assurance for the company and the union the union	The union has the right to negotiate with management in developing Collective Labour Agreement.
6(1)	Union's activity	The management can give permission for union

		representatives and members to conduct union activities during working hours.
6(3)	Union's activity	The management tries not to repress directly or indirectly, the workers who are appointed as union representatives
6(5)	Union's activity	The union will not conduct actions which can disadvantage the Company
11	Internal promotion	Promotions will be prioritised for existing employees who fulfil
13	Outsourcing	Outsourcing some jobs to other companies is agreed as a bipartite issue.
14	Bipartite committee	The bipartite committee is a communication, consultation, and negotiation forum whose members are from the workers and management.

25(1)	Daily workers	<p>a. Daily workers 5/2 are those who work during daytime, Monday to Friday and the days off are on Saturday and Sunday.</p> <p>b. Daily workers 5/1 are those who work on 5 subsequent days and have a day off on the sixth day. The day off is not necessarily Saturday or Sunday.</p>
25(2)	Shift workers	<p>a. Shift 4/1, consists of 4 groups and 3 shifts, each worker works 4 subsequent days and has one day off (further explanation below).</p> <p>b. Shift 5/1, where the workers work for 5 subsequent days and one day off. There are two shifts within this system.</p>
26	Working hours	<p>Daily 5/2: 08:00-16:30</p> <p>Daily 5/1: 08:00-16:00</p> <p>Shift 1 (Morning) : 08:00-16:00</p> <p>Shift 2 (Afternoon): 16:00-24:00</p> <p>Shift 3 (Night) : 24:00-08:00</p>
37(1)	Remuneration	Remuneration is divided into

		daily and monthly remuneration
37(2)	Remuneration	The amount of the remuneration is set by the company; by considering the company's [financial] condition and the worker's performance, knowledge, and skill.
37(3)	Remuneration	Remuneration includes: a. Salary: base salary, level allowance, position allowance. b. Allowances: shift, 5/1 daily/house/family and exceptional allowances.
49	Salary increase	Salary increase is given in January or in any other month as agreed by the union and management. The amount of salary increase is set by both parties by considering several factors such as the inflation rate, company's [financial] condition, and worker's performance.

51	Bonus	<p>Bonus is the amount of money paid by the company to the workers based on dividend or profit, minus income tax.</p>
83	Grievance settlement procedures	<p>a. Grievances should firstly be solved by the worker and his direct superior within a maximum of ten days.</p> <p>b. If they have not reached agreement, the problem should be brought to a higher management authority, who will try to solve it within 15 days.</p> <p>c. If the problem is not solved, it should be brought to a higher level of management; and the worker has the right to be accompanied by a shop floor representative.</p> <p>d. If it is not solved, the problem should be settled between the employer and the union within the bipartite forum.</p>

		e. If the problem is not solved in the bipartite forum, then mediation, conciliation and arbitration will be involved.
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The implementation of clause 6(3) on non-discriminatory treatment is starting to be questioned by union representatives, particularly after the union conducted industrial action (marching and demonstration), rejecting the first outsourcing proposal.

“Previously, there is no pressure to union representatives. But when the union organises employees for industrial actions, the pressure is not direct, but indirect, like their career promotion is very slow, or their points are not increased, or being rotated to other sections. Like there is an issue currently...the employees of administration and accounting departments (with particular positions) are not allowed to be union representatives anymore, but those of production, utility, its, are still allowed. So, when those from utility, etc, are seen as too radical, they will be rotated to the personnel department so they cannot be union reps anymore. Well, it’s not happened yet, it’s a rumour actually. But I know that they think that we are too radical now.” (union executive committee member 2)

This leads onto an analysis of internal and external factors shaping union strategy.



## **6.4 Internal and external constraints**

### **6.4.1 Internal factors**

#### *Union strategy: past and current*

Similar to that of the automotive case study in chapter 5, the strategy taken by the union is highly dependent on the union leader's style and management's approach. There is a shared value among the union officials that first priority of the union is negotiation with the company, or what they say as 'use the brain'. However, when negotiation does not work, they would revert to using other sources of power: i.e., conducting industrial action, or what they term as to 'use their hands and feet'. As stated by one union official:

“Yes...our first priority is negotiation, with our brain... but if this technique does not work, we can use our hands and feet. Well, what can we do? That's our source of power. There were several occasions where we undertook industrial action; we couldn't see any other way to win, so we used our rights [of conducting industrial actions] - but only occasionally.” (union executive committee member 4).

The union, additionally, argued that they have observed the clause 6(5) which guarantees that union would not conduct action that would disadvantage the company by conducting their actions in 2003 before office hours (and not disrupting production process). Furthermore, the view that union representatives have to perform in doing their jobs is shared by all the union executive committees to show that unionism is not an obstacle for productivity and continuous production.

Union officials felt that the union had become more confrontational since 2003, when a new union leader was appointed. By the time he was appointed, the company had eliminated jobs through its outsourcing program. The union reacted by conducting industrial action to ‘remind’ the Company that every decision related to the workers should be discussed with the union before being implemented. The union gathered the union members before office hours and they marched around the plants for then minutes. The union actually planned for further action; but the company then opened the chance for negotiation that the union withdrew their plan and negotiated with the company over the issue.

“We did it gradually. First, we just did kind of a sign, we marched for 10 minute; as we tried not to break the company’s rule, that action was executed before office hours, actually there would be another action, but because the management called us, we cancelled the action.” (union leader)

The union leader was then appointed to be an ad-hoc judge for the Labour Court in 2006. His replacement, the current union leader is also seen as a radical person, having led the union in rejecting the Company’s proposal of a new Human Resources System and hence brought the case to the Labour Court.

“The perception of radicalism has existed from 2003 until now. It depends on the characteristics of the union leader; as during the meetings, the union leader will dominate. So whether the union is radical or not really depends on the leader. I’ve been working here for 10 years, with 3 different union leaders with different personalities. The first leader I worked under – his character was soft.... but the latest 2 leaders, they are very tough, so their character really affects the organisation.” (Union executive committee member 2)

On the other hand, the current union leader argued that the union's strategy is now softer than before:

“Our strategy was frontal before, now it is almost entirely about full negotiation”.

The contrasting view of more frontal or co-operative relations between the union leader and other union executive committee was because the union leader compared the current condition (during research) with that in the late 1980s. At that time, the union conducted industrial action for bonus arrangements causing some union officials were brought to the regional security force to be questioned; and thus the company was seen as their enemy. This condition, according to the union leader is believed will not happen again due to the improved relationship between management and union.

However, unlike the case study in Chapter 5, the union leader in the textile multinational is not really concerned about developing a pro-active strategy for dealing with the Company. The union would react based on management's approach. If the Company still wanted to negotiate, the union would negotiate; however, they could also conduct industrial action and thus become more radical if they found deadlock. Additionally, the union sets an unwritten requirement for appointed union representatives that they should hold at least a

diploma to enable them to be educated and articulate in handling difficult problems:

“We expect that union reps are those who have a good educational background because we’re going to handle difficult cases. Well, at least D3 (diploma). It is a union requirement that the representatives should have a quite high educational background, as they will have learned systematic ways of thinking.” (union executive committee member 2)

### *Tensions within levels of the union hierarchy*

Hierarchical downward and upward communication systems also appear in the union, as in the case study in Chapter 5. However, as there are fewer workers in this multinational than the one studied in Chapter 5, there is also a simpler hierarchy. The representatives distribute information to so-called ‘member representatives’, representing union members in particular department; during the research, there were 25 member representatives and member representatives are selected directly by members in each department.

The union representatives’ executive committee invites member representatives every three months for a regular meeting at which they distribute information. Member representatives then distribute this information through their monthly meetings with ordinary members. If there is urgent information to be distributed, then the union representative executive committee can invite member representatives for an extraordinary meeting, or they can distribute circulars to members. The same mechanism applies for upward information.

According to the CLA, the grievances settlement has a different mechanism. Employees are expected to solve their problems with their direct managers at the first place. If no settlement made, the problem will be brought to higher managerial levels. The union is involved in bipartite forum if the settlement is not achieved. However, members prefer to directly come to the union office once they have problems rather than discuss it with their direct manager. Members are welcome to come to the office to talk with union executive officials. A schedule is set to ensure that there is always a union official (or volunteer from the member representatives) in the office for ordinary members, should they seek information or pass on grievances, as there is no full time union officer appointed. As noted previously, the reason for the absence of salaried union officials is because of concerns over career progression.

In the Company, female workers comprise not more than 10 per cent of total employees. The small number of female workers has led to the absence of female union executive representatives in the Company. Union representatives argued that the absence is not deliberately created, but rather is caused by the rejection of female workers to be union representatives and preferring to choose their male counterparts in elections:

“The way we choose union representatives is very democratic. We ask every department to choose their own representatives, but no female workers were willing to be one of them” (union executive committee 4)

Furthermore, union representatives argued that the low enthusiasm of female workers towards unionism is because most of the female workers are not supervisors who are able to ask their subordinates to cover their work if they have to leave for union job (female supervisors and managers only comprise not more than 15 per cent of total female workers).

However, there was one female member representative, who also participated in the research. She implicitly argued that low enthusiasm towards unionism was driven by the condition that female workers' rights were respected and implemented in the company such as period, maternity and miscarriage leaves. Female workers were also entitled to all allowances as male workers, except the family allowance which was under revision (at the time of research).

“We have good working conditions here and all the female workers' rights as stated in the law are implemented here. We have period, maternity and miscarriage leaves and we also get same allowance like the male workers except the family medical allowance. But the union is negotiating over this allowance for us currently” (female member representative).

The result of union negotiations over the family medical allowance is stated in the newest revision of the CLA. The current CLA allows female workers to get family allowance if her husband does not work or if he does not have a medical allowance.

“Previously, female employees were considered as singles and this was very disadvantageous for them. If they have children, then the children were not accounted. In the new CLA we are looking for a win-win solution, so that the

company will give them family medical allowance as long as her husband doesn't work, or if her husband does not have medical allowance. However, there are still requirements she has to fulfil (e.g., a letter confirming that her husband is unemployed), it's not automatic - and the new CLA only applies from this year" (union executive committee member 1).

### ***Financial Resources***

The union cooperates with the HR Department in collecting member fees by direct debit from a member's monthly salary. The fees paid by the members consist of three components: check off system, social fund, and incidental fund. Check off system is used to fund union and its affiliate (SPN) operations. According to the union's treasurer, the fee is sufficient in funding the union's operational costs. Thus, they are independent from the company in terms of financial resources. However, another union executive committee said that the union sometimes have to ask some financial assistance from the company by giving proposal to the company, which can be accepted or rejected.

The social fund is used when there are employees or family members who have passed away; whilst the incidental fund is distributed to the victims of natural disasters that have happened in Indonesia, such as the tsunami in Aceh and the earthquake in Yogyakarta. In distributing the incidental fund, the union cooperates with its affiliates and helps the victims, particularly the members of the affiliates.

### **6.4.2 External factors**

#### ***Employer strategies***

As a 'consultor' in employee relations, the Company 'recognises' the union in negotiations as the 'voice' of employees (Lewis et al, 2003: 111). Management also seek co-operation from the union as they regard the union as having an important role in contributing to managing the company. One strategy implemented by the company to gain union support is by sharing information on the condition of the company, including financial conditions. Hence, management use the provision of such information to expect the union to compromise (or be accommodating) on decisions taken by management in reducing costs and raising profit margins:

"I think we all agree that the union is very, very important. Without the union, we cannot manage at all. So I think management and the union have to co-operate and look for the best way. We work mutually and now we try to.... have an open relationship. For example, we share the information about our company situation. Not only in company report...but we also share this problem with them" (CEO)

However, the appointment of the new President-Director was seen by the union as an attempt by corporate headquarters to repress the union and thus unsettle the relatively harmonious relationship. Regarded by union representatives as a 'superman' or 'macho manager'; the new President-Director reduced the number of employees by nearly 50 per cent through the outsourcing and retrenchment measures mentioned previously, as a means of "coping with a difficult situation". The union leader said that the role of the union is thus more important currently to protect the interest of employees (members) as the local



managers are unable or unwilling to prevent the radical steps taken by the President-Director.

### *Economic context*

According to the CEO, higher operational costs and intense competition have forced the company to take various measures such as reducing the number of employees from 2,000 to 1,200 and outsourcing jobs. The higher operational costs were caused by higher fuel and electricity prices, particularly after 2005 – and the annual minimum wage increase. In terms of wages, however, the CEO stated that Indonesian employees received lesser wages than their counterparts in China. However, when cost per labour was calculated, Indonesian workers are more expensive than Chinese as the productivity of Indonesian workers are lower.

“We cannot compete with the Chinese companies. Now in Indonesia the minimum wage is around \$100 per month, but in China it’s already \$200. So actually Indonesia has more competitive power than the Chinese if we’re efficient. But our productivity is lower than the Chinese companies. The productivity of Indonesian workers is lower than Chinese workers. Indonesian workers are sometimes lazy.”

Management tried to enhance the productivity of workers by providing them with training and introducing a new HR system which rewarded high-performing employees with faster career progression. However, the new system was rejected by the union as has been described earlier in section 6.1.2.

Additionally, the CEO also implied that low productivity was also caused by the use of old machines as acquiring new machines were difficult due to high interest rate in buying those machines.

“Indonesia has lower productivity compared to other countries also because we use old machines. For example, compared to China, they invest new machines, while here we use mainly old machines. We cannot compete with them. Well... we are active in JJC (Jakarta Japan Club) and in an association in textile industry. We made a proposal to the government to increase the competitive power of Indonesia. We talked to the government through the Indonesian Ministry of Industry. They then allowed textile companies to invest or buy new machines, and the government reduced the interest rate for this purpose.”

Although wages are lower than in China, union representatives stated that the lowest wage in the company is higher than the regional minimum wage. However, unlike those in the UK, most of the CLAs applied in companies in Indonesia do not provide information on wage scales; therefore, the comparison of the wage scale in the company cannot be directly compared to the minimum wage applied in the region (where the company operates).

The management respondents argued that the redundancy program implemented by the company in overcoming the problem of cost were voluntary for employees; by providing them with option of an early retirement program:

“In three years, we have cut 800 people here. We now only have 1,200 people. At that time we offered an early retirement scheme. Those who wanted to retire from the company, we gave additional money...a golden handshake. It was voluntary; and there was no rejection at that time. Everybody was happy with the program” (manager 1)

Not surprisingly, the union reaction towards the plan was negative. They conducted industrial action (a demonstration) for a week in registering their dissatisfaction. However, many employees, who were also union members, reacted differently. When the Company opened a registration for those who wanted to take the voluntary early retirement program, many employees were queuing to register themselves.

“There were 3 periods of the redundancy plan: the first period, 3 years ago, when the outsourcing plan started – this was on a first-come first-served basis. There was a long queue to register... Some of them were very disappointed knowing they didn’t get onto the program. The second one... the mechanism was made better. It was like a gamble... so the company chose randomly, but all 370 employees that registered got the program. And the third one, it was an open choice for employees who did not trust management anymore: there were 250 employees.”(union executive committee member 3).

The union suspected that this apparent enthusiasm for voluntary departure by a significant proportion of the workforce was caused by the very high incentive given by the Company to induce volunteers.

“The situation is difficult for us. Difficult, because the amount of severance pay that is offered by the company is very big; many employees preferred to get it. Now what we do is, when the company wants to outsource a department, we ask the employees whether they want to join this program or not. We had experience when we defended them, they joined the industrial action, but two days after that, they accepted the company offer. They wanted the cash. Now, we talk to each of the employees. For employees working 1 year, they’re entitled to get 46 times of their monthly salary. For those working 8 years, they can get up to 130 million Rupiah (equal to approximately £ 7,200). This does not include income from the Jamsostek (Social insurance for workers—where workers pay a contribution) as they lose their job. So, it’s really a big amount of money.” (union executive committee member 2)

The Indonesian Law No. 13 Year 2003 regulates the severance pay in articles 156:

1. 2 (two)-month wages for years of employment up to 1(one) year but less than 2(two year)
2. 9 (nine)-month wages for year of employment up to 8 (eight) years or more

Thus, although Indonesian law is considered as quite generous in terms of severance pay, the amount of severance pay given by the company is far more than what is obliged by the Law. The union representatives argued that the large amount of money was the company's strategy to make the outsourcing program more palatable to workers.

Given that a considerable proportion of members were interested in the voluntary severance package offered by the Company, the union changed their strategy in dealing with this issue. They negotiated with the Company over the guarantee of the welfare of employees who accepted the package. Currently, when the Company wishes to outsource a job, there are three choices for employees:

1. Keep their work in the Company but move to another department.
2. Participate in the outsourcing program (with incentive and a guarantee of a job at the outsourcing company).
3. Participate in the early retirement program (with high pension incentive).

According to the HR manager, many employees chose the second option.

The law (Number 13 Year 2003 article 64, 65 and 66) states that company can only outsource non-core business as outsourcing practice is meant to enable the company to focus on its core business to maintain competitiveness. However, in this company, there is still a debate between core and non-core business as ambiguity arises when one tries to categorise core and non-core (Domberger, 1998: 35). One of the union's main concerns was when the company outsourced one department they considered as a core department in production: the testing department.

“One of the departments being outsourced was actually a core, it's the testing department, it's a crucial department.” (union executive committee 2)

However, concern was not only expressed by union representatives. Managers, on the other hand also had concerns about the quality of job done by the outsourcing company which may disrupt the whole quality of production. As he said:

“There are advantages and disadvantages of outsourcing. Well, we don't have many permanent employees in one hand, but in the other hand, employing new employees without experience can be a problem too. The management expects that the outsourcing employees are handled by outsourcing companies with their own quality control. This is the weakness, the outsourcing companies usually employ new employees who don't know anything about the job, so our employees have to go there to give trainings. So the problem of quality now is occurring. It's true the labour cost is decreasing now, but it's not the only thing we have to concern.” (manager 2)

On the other hand, some of the previous employees who chose to be redundant and get severance pay, work for the subcontracting companies while others started their own business. Those who joined the outsourcing company, according to the union representatives, cannot enjoy the 'privilege' they used to have such as high wage and union service as there are no unions organising the employees in the subcontracting companies at the time of research. As for those who chose to set up a business, many of them failed (but the respondent did not say how many of them).

The union representative suggested that the loss suffered by the company for three subsequent years is also a main reason of the successful redundancy plan. The loss has deteriorated the confidence of the employees that the company would be able to survive or relocate their business.

“They (who took the redundancy plan) don't trust that this company will survive because we have loss for 3 years. But in reality 90 per cent who took the program failed (in their life).” (union representative 1)

The deteriorating financial condition of the Company, however, has not made the union (at the time of writing) worry about the possibility of closure or relocation. Union representatives suggested that their optimism was based on the fact that the Indonesian market still had significant potential and that labour costs are still cheaper compared to other countries (despite the fact that managers expressed an opposite view):

“Worry? Of course I worry sometimes. However, the possibility [of closure] is small, because the Indonesian market still has lots of growth potential; so it’s now just how we can compete with others - and I think labour costs here are still lower.”(union executive committee member 3)

Moreover,

“Until now they [management] think that high labour costs are less important than low material costs; because the cost make-up is 70% material cost; 25% maintenance and operation cost; and 5% labour cost. They want to keep this business. When the price of oil was increasing, they thought that they could use coal, which is abundant in Indonesia. Now they’re installing new machinery. I’m still very optimistic. When I gave a speech during the company’s birthday ceremony, I said that this company will be able to keep this business with the support of all components.” (union executive committee member 2)

The manager said that the overall policy dictated by headquarters in Japan was to maintain a presence in Indonesia. However, he could not guarantee that the Company would keep its business in Indonesia in the future:

“Our business is slowing down. We serve the local market. But conditions in Indonesia... since the year 1997, the start of democratisation, or actually in 1998 have deteriorated. Many companies have not invested in Indonesia since 1997 - and Indonesia has lower productivity compared to other countries; for example, compared to China where they [the Company] are investing in new plant and machinery. Here, we use mainly old machines. We cannot compete with other countries. Our business condition is getting worse and worse. Frankly speaking, we’re now thinking how just to survive: if the business environment gets worse... well, I’m not so sure...” (manager 1)

### ***Public perception of unions***

The affiliate of the union in the Company, the SPN (Serikat Pekerja Nasional—National Workers Union) is known as one of the strongest unions in Indonesia,

organising more than 400,000 members. SPN traditionally organise workers from textile and apparel industries as it was previously the textile, apparel, and leather section within the SPSI.

However, with the removal of the Multi Fibre Agreement (MFA) in 2005, SPN lost many of its members as many textile and apparel factories were forced to close due to their failure in coping with more extensive competition from low-cost producer countries such as China, India, and Bangladesh. Based on this condition, the SPN started to organise new industries such as logging as well as non-formal workers from the sex industry.

Organising non-formal workers is a strategy implemented by SPN as part of a comprehensive strategy taken by its confederation, the KSPI (Konfederasi Serikat Pekerja Indonesia—Indonesian Workers Confederation) to persuade the community that the union contributes to the improvement of Indonesia workers rather than just being an anarchic organisation. As described in the previous chapter, the KSPI is currently trying to organise in the informal sector, e.g., immigrant workers and agricultural workers, in order to broaden the people's understanding of unionism. The service they give for informal workers are mainly in education, particularly health education for sex workers.

Also stated in the previous chapter, becoming a strong union in Indonesia is not without its challenges, due to the widespread negative perception towards unionism. Particularly unions which organise textile and apparel industry that traditionally serves the biggest employment for Indonesian workers<sup>27</sup>. The

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<sup>27</sup><http://www.expresstextile.com/20050430/perspectives03.shtml>



factory closures and business relocation of giant textile and apparel businesses are said to be caused by the emerging union development in the workplace that forces management to pay higher labour costs whilst facing increasing competition<sup>28</sup>. While the union has lost members because of relocation, Indonesian people also blame unions for job losses. Thus, the high unemployment rate, the possibility of losing jobs and widespread negative perceptions all serve to discourage workers from joining the union.

### ***Technology and skills***

Producing staple fibre, polymer and filament yarn, the general educational background of the workers in the Company are high school graduates to enable them coping with the production process.

**Table 6.3 Summary of workers' educational background**

<b>Educational level</b>	<b>No. of employees</b>	<b>Percentage</b>
Elementary School	48	3.90
Junior High School	178	14.47
Senior High School	903	73.41
Academy	53	4.31
Undergrad/Postgrad	48	3.90

<sup>28</sup> ([http://www.ksworkbeat.org/Globalization/Nike vs Indonesian Workers](http://www.ksworkbeat.org/Globalization/Nike_vs_Indonesian_Workers)).

The practice of outsourcing has created a challenge in providing workers who chose to keep their job in the company with the new job matched with their skill. The concern of skill was expressed by union members. They feel that moving from their previous job (which has been outsourced) was not easy as they might not have sufficient knowledge and experience required in the new job. Consequently, when the manager asked them to 'do the best' they were failed to do it. For such employees, they were usually moved again to another department.

“With outsourcing, we were moved to a new department where we might not have skill to do the job. I was in the delivery department but it was outsourced. Then they put me in the polymer department. I told the union that I did not have experience to do the job in this department. Then they moved me again to the inspection department, but it was again outsourced. Now they put me in the ESH (Environmental Safety and Health), and I think I'm OK now as it does not directly connect to the production process” (union member)

Additionally, as has been discussed previously, outsourcing has led the company to 'hire' new employees without experience (through their outsourcing companies). This practice has created concern among the managers; They commented that it would be difficult to guarantee high quality of product with the new, less-experienced workers, particularly because there was a core business was outsourced in the latest outsourcing program: the testing department where the quality of product are ensured.

### **6.5 Summary— Evaluating the union’s strategic choices**

The union in this Company has a quite strong tradition and bargaining power despite the condition that they operate in a highly competitive industry. As in the union in the automotive multinational, the union in this company also negotiates over the Collective Labour Agreement (CLA) as a means to regulate employment issues that their members are concerned about as well as to protect their members (Flanders, 1971). The strong position, it can be argued, is supported by the extensive involvement of its affiliate in giving advice and advocacy.

Although the union in the company does not enjoy the closed-shop policy like the union in the automotive multinational, union density in the company remains very high, nearly 100 per cent, except for certain levels (managerial level). Those who are interested to join the union have to pass the one-year probation period of the company and fill in the registration form. However, there was a mismatched policy where new employees within probation period paid the membership fee while they were not eligible to be union members. The union proposed that new employees do not pay membership fee and are not entitled to union service.

Similarly to the union in automotive multinational, the union did not have full-time union professional in giving service to their members despite the high membership density. Career progression and performing well at work are the main reasons of the absence of salaried union professionals. Instead, they

develop a schedule for the union executive committees and representatives to alternately picket in the union office to give service for the members.

The main challenge faced by the union is the outsourcing program implemented by the company since 2003. The industrial action they conducted in rejecting the outsourcing program has created an image of radicalism. However, the union leader commented that radicalism is not their strategy as long as the company is still willing to negotiate. The industrial action (demonstration before office hours) has attracted management attention and led to a new phase of negotiation towards the outsourcing program. Despite the union's struggle to against the program, the members were enthusiastic with the offer due to the generous severance pay. Nonetheless, the members are ensured that the union would always serve the interest of the members.

Chapter 5 and chapter 6 have examined male-dominated blue collar industries. In chapter 7, a contrast is presented, by examining a service industry: the banking sector.

## CHAPTER 7

### MULTINATIONAL IN BANKING INDUSTRY

This chapter presents the findings of the case study in a foreign bank. This multinational has recognised unions since it commenced operations in Indonesia. Section 7.1 provides the overview of the Company and the union, while section 7.2 examines the union-management relationship which mainly represents the unitarist value of industrial relations. Section 7.3 describes the Collective agreement process and coverage with some of the major clauses being listed down, followed by the union's internal and external constraints based on Huzzard's strategic choice model (Section 7.4). This chapter ends with an evaluation of the union's strategic choices given the internal and external constraints faced by the union.

#### **7.1 Overview: Industry profile**

The banking industry in Indonesia has undergone several changes from independence in 1948 to the post-crisis era. During the Sukarno period, the industry was dominated by state-owned banks. Suharto maintained this situation, though he allowed for the establishment of local private banks in 1966. However, the ease for new entries was suspended in mid-1968 when the number of local private banks reached 122. Foreign banks, on the other hand, were given permission to open their branches in Indonesia only in 1968, when the regime allowed 11 foreign banks access to the Indonesian market.

In October 1988, the Indonesian Government launched a new policy introducing liberalisation in the banking industry, by giving permission for the entry of private banks, the entry of foreign banks through joint ventures, and loosening the requirements for opening branches for all banks. Six years after the second liberalisation, the number of private banks doubled to reach 164 banks (Pangestu and Habir, 2002: 7).

However, the increasing numbers of private banks operating in Indonesia were not complemented by an adequate system of sound prudential regulation. The lack of monitoring and risk management systems towards banking operations, in particular, would later lead to the massive bankruptcy of private banks in the wake of the 1997 financial crisis. Local banks tended to fund high-risk sectors such as property by incurring foreign debts, which were highly sensitive to any changes of the exchange rate. When the Rupiah devalued sharply against foreign currencies (particularly towards the US dollar), the banks' debts multiplied. In turn, their customers were also facing problems of paying back their debts, worsening the impact of the crisis. As a result the sector was facing severe liquidity problems.

Trying to cope with the problem, the Indonesian government took several radical steps. First, they closed 16 private banks in Indonesia - which shocked people who assumed that the banks would always be propped up by the Government (as a lender of last resort). The closures, which were initially directed to rebuild the confidence of the people towards the banking system, actually made the situation worse – by generating a massive withdrawal in savings by the populace from banks, even from previously 'healthy' banks. The

reaction of the people, worsened by hyperinflation and further contraction on the currency exchange rate has exacerbated the banking crisis into an overall systemic crisis (see for example: Sato, 2005: 102; Pangestu and Habir, 2002: 17).

A banking reconstruction program has since been implemented by the new institution created by the Indonesian Government, IBRA (Indonesia Banking Restructuring Agency). IBRA then created a classification of banks in Indonesia based on the ability to survive. The classification was:

A Banks: Those banks which did not need to be recapitalised (healthy banks).

B Banks: Those banks which were worth to be saved but need to be recapitalised.

C Banks: Those banks which had to be liquidated.

All of the state-owned banks were in the category C Banks. Four of the banks were merged and all of the state-owned banks were recapitalised. Among the private banks, 72 were A banks, 40 were B banks, and 30 were C banks. The banking restructuring program has resulted to the merger of four state-owned banks, the closure of 67 private banks, the nationalisation of four private banks, and the recapitalisation of seven private banks.

The government spent 658 trillion Rupiah (around 35 million pounds) as public capital injection for the banks under recapitalisation.

**Table 7.1 Changes in ownership structure in the banking industry 1996, 2000 and 2002**

Number of banks before restructuring	Bank categories			Restructuring process	Number of banks after restructuring
	A	B	C		
State Banks	-	-	7	4 merged into 1  1 new  All recapitalised	5
Private national banks	7 2	4 0	3 0	48 closed  11 recapitalised  9 merged into 1	92

*Source: Pangestu and Habir, 2002: 24*

The structure and ownership of the industry has hence experienced major change in recent years, with foreign-owned banks becoming increasingly important as a category although foreign banks have not become sole owners of any Indonesian banks. Instead, they actively involved in the restructuring programs as major shareholders or consultants of the banks that were restructured.



Some examples might be of Bank Danamon, Lippo Bank and Bank Central Asia, three largest private banks in Indonesia. The new largest shareholder of Bank Danamon, Temasek Group of Singapore, took over control by appointing half of the directors and commissioners from Singapore. Lippo Bank invited a team of 12 advisers from ANG Bering Bank of Holland under a three-year contract, while BCA appointed Deutsche Bank as their consultant. Deutsche Bank played a major role in the internal development of the 'new BCA' (after the change of ownership) (Sato, 2004: 116)

### **7.1.1 The Company**

The Foreign Bank being studied operates in 75 countries worldwide since its establishment in 1870 in Europe and currently employs around 78,000 employees worldwide. Enjoying growing profits since 2002, it claims that it is the world's leading investment bank (Company profile 2006).

In Indonesia, it commenced business in 1969 when the Indonesian Government loosened the permission for foreign banks to open branches in Indonesia and currently has around 300 employees. They do not provide service for individual (retail) apart from what they call as "high net-worth", a very prosperous individual who has to keep his saving deposit as minimum as 5 billion Rupiah (around GBP 263,000) within his account. For this kind of client, they offer suggestions on investment plans as well as manage the client's wealth.

However, the main business of this foreign bank is within the financial market. In Indonesia, they have significant ownership of Government bonds which

generally benefit the holder as the Government would always pay the dividend and the interest; thus, this is called fixed income instrument. This practice is not solely dominated by this foreign bank; most of foreign banks have preference to buy Government bonds for the advantage they may obtain. Further explanation about this practice will be explored in the later section of the economic context of this bank.

The severe financial crisis which hit Indonesia in 1997 did not negatively affect this Company. Instead, the CEO claims that the business so far has been stable and that the growth of this multinational is always within the growth path. In 2006, they claim that their pre-taxed profit was 1,461 billion Rupiah (around GBP 77 million), mainly obtained from the profits of bond ownership.

As the CEO mentioned:

“We’re always on the growth path. Although decline happened, it was only for a short time. We only have resources that catch up with the growth of the business”.

However, the data on the Company’s profitability prior to 2006 cannot be obtained and thus, further explanation on the financial condition of the Company before, during and after the financial crisis is not possible.

On the other hand, banking restructuring in Indonesia also meant the introduction and encouragement of a new, more comprehensive banking system which requires efficiency. In order to reach the efficiency, management introduced an early pension programme in 2000 targeting the employees whose

qualification were non-university graduate (high school graduate). The reason of management offering the programme was that high school graduates would find it very difficult to cope with the efficiency programme which involves complicated and full computerised system. The reaction of the employees and unions will be discussed in later section.

Contract workers have been hired by the Company since 2003 when the new Employment Law No 13 that legitimised the use of contract workers was passed by the Government. Neither the permanent employees nor the union have reacted unduly negatively to the use of contract workers as the Company has assured them that contract workers will not replace permanent employees. The Company argue that many positions cannot be filled by contract workers as Company's confidentiality needs to be kept. Contract workers help the permanent workers in doing administrative and routine jobs. According to a union representative, contract workers comprises less than 10 per cent of total employees and that the Company has no intention to increase the number of the contract workers.

In terms of the continuation of their business in Indonesia, the CEO stated that the Company would definitely stay and expand their business in Indonesia for the emerging market in the future. He also believes that the Government is trying to make conditions better and thus, the people should start to think positively. Additionally, in contrast to the previous example, as a service industry company catering to domestic demand; direct contact with customers is essential and hence necessitates "producing" in Indonesia

### **7.1.2 The Union**

The union in the Foreign Bank being studied for this chapter has been recognised since 1977 as an in-house union. Formation was initiated by a group of employees who also convinced management that a union would assist communication between management and employees. In 1998, after the democratisation era the union affiliated to Aspek Indonesia (Asosiasi Pekerja Indonesia – Indonesian Workers Association), a union federation which organises mainly in the banking and retail sectors. However, the name of the federation was eventually changed in 2007 to become OPSI (Organisasi Pekerja Seluruh Indonesia—All Indonesian Workers Organisation) as a result of internal conflict among the executive committee of the federation.

Regarding the internal conflict within Aspek Indonesia/OPSI, a unionist who supported the Aspek Indonesia (not OPSI) stated that some of the (previously) Aspek Indonesia members were not satisfied with the result of the union's general meeting in 2003, particularly on the replacement of the union executive committee. The dissatisfaction led to some members detached themselves to the federation and formed a new federation with the same name although they changed it eventually into OPSI.

A contrasting view was raised from a union representative in the Company (who supported OPSI). Although he confirmed that there was a deadlock in the union's general meeting in 2003, he argued that the cause was because some of the representatives were trying to bring a political agenda to the union's

program which is against the (independence) spirit of the union. He also claims that around 50 per cent of the meeting's participants were leaving the meeting (walked-out). While the general meeting was continued and developed new programs, the dissatisfied representatives claimed that they were the 'true' Aspek Indonesia. Later, they announced that Aspek Indonesia has been abated and OPSI was formed. However, the Aspek Indonesia from the representatives who continued the general meeting still exists.

Similarly to the previous case studies, the union in this Company does not have a specific recruitment program. They are confident that workers would like to join if they could see the positive contribution of the union towards the membership. A 'personal' approach is used in recruiting new members. However, the success of this method really depends on a representative's willingness to approach their colleagues to make them interested in joining the union.

“For recruiting new members, we do not have any specific programs .The employees can see and examine what we do. Then they may be interested to join us. Of course, we're very welcome.” (union leader)

“What I did was, I looked at the employee data and I knew who hadn't joined us. I would try to approach her and explain all the benefits she could get to be union members, and that they would have to pay 3,000 Rupiah for the membership fee. Some of them complained why they have to pay and I told them it was for the administration fee” (union executive committee member 4)

Furthermore, they are confident that workers would like to join if they could see the positive contribution of union towards the members. Unionists in the

Company stated that many new members joined the union because they saw that the union has been successful in increasing employee welfare through the improvement of the CLA, such as the increase on benefits and medical insurance.

“For recruiting new members, we do not have any specific programs .The employees can see and examine what we do. Then they may be interested to join us. Of course, we’re very welcome.” (union leader)

Despite this confidence, union membership consists of less than half of the around 300 employees (including temporary workers) in the establishment. The majority of the union members are female, although the difference is not significant (77 females and 61 males by September 2007). The lower union density in the Company compared to the other companies being studied in this research is argued to be the result of the ‘comfort zone’ that the Company has created for its employees (union executive committee member 2). He further argues that the comfort zone is not only experienced by the employees of the Company but by most employees who work in foreign banks.

Within the “comfort zone”, employees enjoy relatively high incomes and a good working environment. Furthermore, unlike the local banks, foreign banks are more secure from the threat of restructuring and recapitalisation which may lead to employees lay offs. Job security, high income and the close relationship with the management would weaken the employee interest to join the union.

Furthermore, the large number of female employees compared to male employees can also be a reason of low level of union density in the Company.

Schur and Kruse (1992) argued that there are several reasons underlying the hesitation of female employees to join unions.

First of all, women are more concerned with home and family responsibilities than with conditions in the workplace. Additionally, women may confront additional barriers because of family commitments and time pressure (from the family members). Second, women are taught to be relatively passive and less confrontational than men; thus, they may tend to resign themselves to existing job conditions rather than engaging in union aggression activities such as strikes. They also argued that women may dislike the 'masculine cultures' (combative image) of unions - and that unions often failed to cater to the specific needs of female workers (Schur and Kruse, 1992: 90). However, subsequent research suggests that female workers' attitude towards unionism is similar to that of male workers and thus the number of members is insignificantly different between female and male workers for a given sector (see for example Benson and Griffin, 1988 for the case of Australia and Forrest, A., 2001 for the case of Canada).

In this Company, all levels of the employees are eligible to be union members, with the exception of temporary workers. The union leader themselves is female whose position in the company is also one of the senior managers. Although managers are allowed to be union members, a union representative said that only two managers joined to date. However, this respondent also argued that the term 'manager' in the Company is not clearly defined either in the company's rule or within the CLA. He assumed that 'manager' is similar to 'head of a division'.

In terms of contract workers, the union deliberately does not recruit this kind of workers as they argue that their (the contract workers') tenure would only be temporary. Unlike the union in the automotive components multinational which still give advocacy to contract workers, the union in this Company does not provide advocacy for non members; which means that contract workers and non-member permanent workers cannot consult their problem with union.

There are no full time union officials in this Company, as the CLA does not allow union executive officials to be full-timers. The CLA only states that 'the company will release one of the elected union officials who serve at the national/international levels, to work for the organisation everyday after 14:00'. This clause affects all union officials who work as employees for the Company; thus, the approval from the Department/Division Head where he/she works is required for union officials to work for the union.

The union also encourages their members to perform their work well and that union activities should not disrupt their main duty as employees. When a big demonstration took place in Jakarta in 2006 on the refusal of the Employment Law 13 (2003) revision, members who were willing to join were asked to take their annual leave or joined the march during lunch time.

“When there was a big demonstration in Jakarta several months ago, we told our members that if they want to join the demonstration, they had to take their annual leave so it won't disrupt their jobs. If they just wanted to see it like for only 15 minutes, they had to get permission from their boss; otherwise, they could do so during lunch time”. (union leader)



## 7.2 Union-management relationship

Given the above, it should not be surprising that the concept of ‘partnership’ is promoted in the workplace. Management regards the union as part of their team in creating a collaborative (‘healthy’) working atmosphere. However, the union leader argues that it is not actually 100% partnership; as there are a number of issues which are not discussed with the union, particularly those related to finance or the budget.

“We can’t say that there is 100% partnership between the union and management in this company. There are several matters where the management has sole prerogative to decide, usually those related with budget.”

Management and the union both favour negotiation in reaching agreements. The union leader stated that strikes are only entered into as a “last resort” and that they prefer to negotiate, even if it takes time. As she stated:

“We value negotiation... the ‘white collars’ in Indonesia are quite hesitant to get involved in industrial action. We prefer to argue with the management even if we have to do it overnight. When we cannot reach agreement or if they want to show their sympathy to their colleagues, we just wear special signs in our costume (e.g. black ribbon) or write our disagreement and put it on their desks - but we keep working.”

Management and the union suggest that their relationship is always “harmonious”. As such, the union largely accepts the agenda of the company and communicates it to members. The union in this company provides a

communication (voice) function which in turn, gives advantages to management and confers a degree of legitimacy to management actions. Both managers and union representatives stressed that the Company paid employees very well (office jobs typically entailed pay over three times that of the region's minimum wage) and that employees were generally satisfied with their pay rates. As such, jobs in the Company were highly desirable as formal service sector jobs.

### **7.3 Collective agreement process and coverage**

The terms and conditions of employment are negotiated between the union and management through collective bargaining, similarly to the automotive and textile companies which serves as the means to set 'the rule of the game' in employment relations. The CLA does not cover all types of employees, however; it only covers clerical employees. The officers have their terms and conditions of employment determined from the 'employee handbook', solely produced by the Company which is different for each branch, following local rules and norms. The union, however, does not appear to be concerned about the use of the handbook, as they say that the contents of the handbook are similar to the CLA, essentially covering the rights of the employees.

**Table 7.2 Major clauses of the collective agreement**

	Clause	Brief Description
6	Recognition for the union	<p>The company recognises that the union must be free of prejudice to carry out its business.</p> <p>The elected union officials will be treated as ordinary employees and they retain full opportunities to develop their career. The union and the company shall endeavour to settle any labour disputes by mutual consultation</p>
7	Union facilities	<p>The company may give permission to 1 (one) elected union officials/members who serves in the National and/or International levels, to work for the organisation (union) everyday after 14:00.</p> <p>The coverage of the CLA is for employees with Grade 7B and 8. For employees with Grade 7A and above (managerial level) the agreement within the employment contract would be applied.</p>

12	Overtime work	Overtime work is of a voluntary nature. However, in particular situations the company may ask employees to work overtime in accordance with the valid regulation. Calculations of overtime payments will be in accordance with the applicable labour regulation and its implementation regulation.
13	Shift work	The union and the company recognise that for certain types of work a shift system is necessary, e.g computer operators and other divisions/sections as may be required to perform a smooth banking operation.
14	Remuneration	Base pay is driven by local market factors with the aim of targeting the market median. Bonuses are targeted to rewarding individuals based on particular achievements. The company and the union agree to implement "clean wage system": every employee receives salary without guaranteed allowances.
18	Sick pay	Sick pay is regulated in accordance with the prevailing applicable labour regulation.

44	Breach of regulations and disciplinary measures	Employees who commit serious fault (gross misconduct) may be dismissed by the company without any severance and service pay. Employees who have failed in duties and responsibilities (general misconduct) will be given letter of warning twice before the final letter which may result in the termination of employment. The company shall inform the union before taking the aforementioned action.
46	Grievance procedures	Any employees not satisfied with the company's action or measures may make a written report to the union, which will open negotiations with the company. If no agreement can be reached, both parties agree to involve a third party (the government) in accordance with the prevailing applicable regulation.
48	Termination of employment	Termination of employment is carried out in accordance with the procedures in the prevailing applicable regulations. Upon the sole initiative of the company, an employee may be suspended from the duties.

**Table 7.3 Salary scale based on grade in Rupiah and in (GBP)**

Grade	Description	Minimum	Median	Maximum
8.1	Messenger	991,667 (GBP 52)	1,328,228 (GBP 70)	1,664,781 (GBP 88)
8.2	Driver	1,140,683 (GBP 60)	1,664,779 (GBP 88)	2,188,879 (GBP 115)
8.3	Junior Clerk	1,292,260 (GBP 68)	1,965,368 (GBP 103)	2,638,471 (GBP 139)
8.4	Clerk	1,441,270 (GBP 76)	2,339,173 (GBP 123)	3,237,076 (GBP 170)
8.5	Senior Clerk	1,739,286 (GBP 92)	3,012,278 (GBP 159)	4,285,272 (GBP 226)
7B	Secretary, Supervisor	2,638,471 (GBP 139)	3,985,969 (GBP 210)	5,333,466 (GBP 281)

The negotiation of the latest CLA (at the time of the research) was done in one day - the shortest amongst the companies being studied. Being “realistic and understanding the Company’s situation” and respecting the prerogative rights of

the Company were the main reasons for the one-day negotiation. Furthermore, the union only negotiated over an increase in wages which is indicative of a market-oriented union, without revising or changing any other substantive terms of the agreement.

“Our latest CLA negotiation was done only in one day. We were being realistic: we did not want to have a hard negotiation... Realistic with the condition of the Company and that we were aware which parts are the management’s right to decide” (union executive committee member 3).

Before the CLA was negotiated, a draft was made by the union representatives and was distributed to the members for their comments. However, only a few members actively responded to the draft, while most of them did not appear to be concerned with the CLA negotiation process. When the CLA was finally distributed amongst the membership, some members started to complain about the changes in the agreement. Union representatives, on the other hand stated that as long as the complaints were not “formally submitted” to the union, there would not be any steps taken to counter them. On this point, one union official commented that

“Our members generally are not responsive; they even don’t care about the CLA negotiation. I don’t understand why.... the CLA regulates our rights and obligations, but they don’t pay much attention to it. When they have problems, they come to us, but when they are save players, they just ignore the union” (union executive committee member 6)

Additionally

“I’ve heard that some members complained about our latest CLA. For us, as long as they do not make a formal submission, we will not take any actions to respond to the complaints” (union executive committee member 3)

The union suggests that the Company always pays respect to the implementation of the CLA. However, when the latest CLA was being implemented, there was an occasion when the union considered it to be in breach. The negotiations agreed that the non-absence reward would be removed and replaced by an increase in the meal allowance. The complaints were made during the first days of the implementation of the new CLA, that the meal allowance had remained the same while the non-absence reward has been actively implemented. When the union confirmed the practice to management, management said that there was some time needed to effect the increase of the meal allowance, but it would be implemented very soon. The union was satisfied with the explanation and communicated the explanation to the members.

## **7.4 Internal and external constraints**

### **7.4.1 Internal factors**

#### ***Union strategy: past and current***

In contrast with the other case studies, the union’s strategy in this Company is clear and consistently implemented. The strategy has been more established since the union affiliated with its federation, OPSI. The federation hold a



philosophy that they and their affiliation have to be dialogue partner for the Company in regards of employment issues.

In order to express and communicate their philosophy to their affiliates and companies in which they operate, they make an abbreviation of their basic values: SIDURE (Solidarity, Independence, Democracy, Unity, Responsibility and Equality). With this philosophy, the federation urges their affiliates to negotiate with the Company using complete and accurate data to support their argument. Demonstration and strikes are the last actions they would do in achieving their purpose.

The federation has an economic analyst who is active in writing his opinions in newspapers as their leader and a banker as the secretary general. The combination is expected to show to the employers as well to the members and prospective members that the union's strength is using accurate data and analysis in negotiating with the management. Thus, their demand would always be realistic and not counter productive and achieved through comprehensive negotiations. For this federation, demonstration and strikes would lead to investment uncertainty which would disadvantage the work.

The banker who became the current Secretary General in this federation is also a union leader in the Company being studied. Thus, the value of the federation is strongly maintained and implemented within the union's operation in the Company. According to a unionist, there have been no significant industrial actions in the Company since he was employed in 1998. He claimed that all

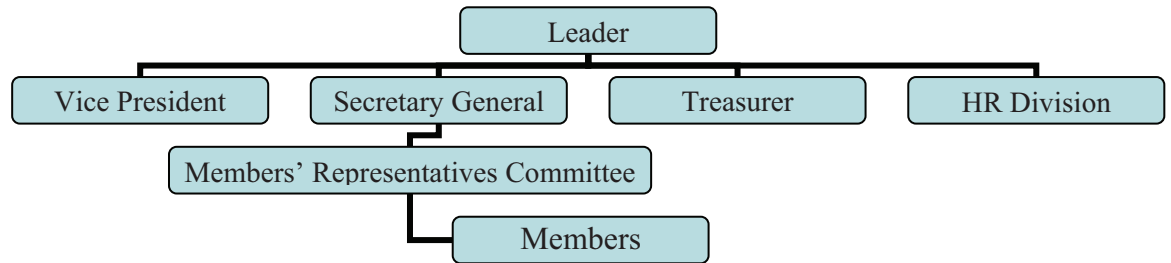
problems and grievances were settled through negotiations (union executive committee member 2).

Thus, it can be argued that OPSI (and consequently the union in this foreign bank) tried to combine the values of a market, class and society- oriented union. The regular collective bargaining over employment terms and conditions provides an activity of a market-oriented union. However, the union also consider themselves as the employer's partner in creating industrial peace and as white-collar employees whose preference are comprehensive negotiation as opposed to industrial action—represent an identity as a community and society-oriented union

### *Tensions within levels of the union hierarchy*

A hierarchical system of downward and upward communication also appears in the union although it is less-layered as the number of the members is fewer than the unions in the automotive and textile companies. The executive union officials consist of a leader, secretary general, vice president, treasurer and HR division are helped by the so-called DPA (Dewan Perwakilan Anggota—*Members' Representative Committee*) in the communication system.

**Figure 7.1 Union's information/grievances flow**



The effectiveness of the DPA function is questioned, particularly by the union executive committee. They argued that the DPA does not do their function effectively both for downward and upwards communication. In terms of downward information, the DPA does not actively seek information from the union executive committee nor does it distribute it to members. As for upward information, members tend to directly report their problems to the union leader or secretary general rather than to their representative. It can be argued that the non-responsiveness of the committee has led to a hesitation of members to come to them to seek advice.

“The DPA are supposed to distribute information to the members. But sometimes even when they know the information, they do not communicate it with our members because they are too busy with their jobs. When I was only a member, sometimes I asked them some questions about issues the union is negotiating, but they could not answer them; they even didn't know what was going on in the union organisation” (union executive committee members 4 and 5)

### ***Financial Resources***

The union funds all their activities from the monthly membership fee paid by the members, which is 3000 Rupiah per member. Similar to the other unions researched in this thesis, the union cooperated with the HR Department in collecting member fees by direct debit from a member's monthly salary. Some of the fees were contributed to the federation, which is 500 Rupiah per member.

Despite the relatively more limited funds this union had compared to the other unions in this research, a union representative claimed that the funding resources were sufficient for their activities. It can be argued that unlike the other unions which sometimes conducted big events out of the establishment which entailed transportation and accommodation costs, the union in the Company conducted their activities within the establishment, except for the training provided by the federation. Training, meetings and negotiations are always held in the office and thus adequate funding was not perceived to be an issue.

Furthermore, in contrast with the union in the Automotive Company, the union willingly provides funding to the federation, as the federation provided useful training and advice for them.

### **7.4.2 External factors**

#### ***Employer strategies***

Similar to the previous case studies, the employer chose to be a ‘consultor’ in employment relations, by recognising the union as the ‘voice’ of employees; thus, the union provides a communication channel from the management to the workforce and *vice versa*. The CEO stated that the union was part of the team in creating a healthy work environment. The union is involved in negotiation over the issues which are not clearly stated in the Employment Law No. 13 Year 2003 and are not concerned as part of management prerogative rights. Therefore, the union has an extensive limitation on the issues which can be discussed with the management.

### ***Economic context***

It can be argued that foreign banks operating in Indonesia are “safe players” resulting from the nature of their operation which is more limited compared to (conventional) local banks. From an interview with a bank expert, the arguments of safer environment of foreign banks compared to (conventional) local banks are:

“First of all, unlike local banks which provide credits both for retail (individual) and (any kinds of) business, foreign banks do not allocate their loans for individual and small business. Foreign banks have mainly focused their operation on the corporate sector, particularly to multinationals operating in Indonesia and top domestic corporations which have more extensive credit-risk profile (see also Pangestu and Habir, 2002: 14). Furthermore, all foreign banks require high amount of deposit in their customer’s account, usually more than 20 million Rupiah (around 1,100 pounds) while local banks usually only require 50,000 Rupiah (3 pounds) for the deposit. Thus, only ‘selective’ people can be customers of local banks”.

Foreign banks also have very limited branches all around Indonesia, usually only in big cities, leading to easier monitoring mechanism compared to local banks which have many branches. The data in the table 7.1 above shows that the number of (conventional) local banks was 119 with 8,996 branches while the number of foreign banks was 11 with 114 branches. The foreign bank studied in this research only has two branches in two big cities in Indonesia.

Additionally, one of the advantages of foreign banks is that they have offices and branches all around the world. The advantage is sometimes used to do a practice which is called 'carry trade'. Carry trade is a practice where a foreign banks buy a currency of a country when the price of the currency is low, converted onto another currency and put it as a short-term government deposit of a country which offer high interest rate. They will withdraw the deposit and gain the interest and use their money for another carry trade. Thus their money is safe as they will always get the return from the short term deposit, unlike local banks which use the money to fund businesses or personal loans.

As noted above, the banking restructuring in Indonesia requires efficiency from all banks operating in this country. In order to achieve efficiency, the Company offered an early pension package for non-university graduates (high school graduates) as the management argued that there would be difficulties for them to cope with the innovations on the system which involve complicated instruction and are fully computerised.

Not all of the employees who were offered this package voluntarily accepted it particularly those who had worked more than 10 years in the Company. Union

members who were offered this package tried to seek support and advice from the union. The union advised them to accept the package as it would benefit them in long term as the career progression for high school graduates would be very hard as many were recruited by the Company. The union also argued that the lump sum given by the Company was very sufficient, enabling those who took the package started their own business. A union representative further argued that their advice was accurate as there were hardly any complaints after the programme was being implemented.

“When the Company offered the early pension package in 2000, not all of the employees being offered accepted it. Our members asked for our advice. We told them that this is a good offer from the Company. They have to think that the work in the future would be more complex and involve high technology. It would be very difficult for them to cope with the innovations and they would experience a stagnant career. So, we advised them to take the package and start a business” (union executive committee member 2)

Apart from the early pension package introduced in 2000, there were no other programmes introduced by the Company to reduce the number of employees. According to a unionist, the efficiency program affects positively to increase of the number of clients and transaction which result to higher workload to the employees. In order to cope with the growing business, the Company started to hire new workers; however the type of workers hired by the Company is contract workers instead of permanent ones.

However, a union representative stated that he had concerns over the use of contract workers for the sustainability of the Company business. He argued that contract workers may perform poorly as the nature of their contract is

temporary; they have a weak attachment to the Company and thus they would think that their termination for their mistake would not be a big problem. In contrast, their poor performance might result to the Company lose its clients and business. Although it has not happened, the unionist argued that the company has to think about this possibility.

### *Reaction to external challenges*

As noted above, low labour costs are not the main attraction for multinationals operating in the banking industry. Rather, they try to recruit and retain highly productive workers. As such, one of the main concerns of the CEO has been Employment Law 13 (2003). The CEO argued that this law gives too little discretion to the company to dismiss or demote poorly performing individuals (severance pay for example, must be paid, even if it is the dismissed employee who has committed gross negligence) and thus is a constraint on the managerial prerogative of “hire and fire”:

“I think the law is not good for the spirit of competitiveness. We should stick to competitiveness. For example, the spirit of the law currently doesn’t allow us to penalise non-performers. Some will stay and perform poorly and get paid rather than perhaps getting a better [for them] job elsewhere. The law guarantees a comfort zone for non-performers”.

Despite believing that the government of Indonesia is trying hard to make everything better, managers also want to see improvements in the legal system,



stability of the currency, public infrastructure, and labour quality. But the company has assured employees that they will stay in Indonesia.

### ***Public perception of union***

The federation to which the union in the Company affiliate (OPSI) mostly organise white collar workers from the banking and telecommunication sectors. Their philosophy of becoming management's partner and pursue their demands through negotiations is expected to remove the negative public perception over chaotic unionism. They claim that their approach in winning the 'fight' with the employer by comprehensive analysis, negotiation and shaping public perception through publication is the most effective as the community have been tired with aggressive action of trade union (such as strikes and demonstrations).

However, despite the effort of showing a "non-chaotic" approach of unionism, the OPSI-Aspek Indonesia case is a general phenomenon of unionism in Indonesia. Many unions in Indonesia are formed based on some of the members' dissatisfaction of the union organisation. Tjandraningsih (2007) argues that the dissatisfaction is usually led by practical issues rather than ideological problems; thus, these unions tend to compete in gaining members. Members usually choose the union which they have close relationship with the representatives. Competition among unions has created an exclusive

environment whereby unions are reluctant to cooperate among them and that their concern is just over the welfare of the members where they operate.<sup>29</sup>

### **7.5 Summary—Evaluating Union’s Strategic Choice**

The union in the foreign bank is the only union in this research which has a clear definition on its value and approach: SIDURE (Solidarity, Independency, Democracy, Unity, Responsibility and Equality). The union implements this value by promoting the partnership relationship with management and emphasises on comprehensive negotiation while avoiding ‘hard’ industrial actions such as strikes and boycotts.

As quoted previously:

“We value negotiation... the ‘white collars’ in Indonesia are quite hesitant to get involved in industrial action. We prefer to argue with the management even if we have to do it overnight. When we cannot reach agreement or if they want to show their sympathy to their colleagues, we just wear special signs in our costume (e.g. black ribbon) or write our disagreement and put it on their desks - but we keep working.” (union leader)

Despite the clear value of union membership, the union suffers low interest from employees to join, as well as low participation by union members. As noted, one of the main reasons is that this union operates within a ‘comfort zone’ where employees receive a relatively high salary as well as job security.

The workload given to each employee has also prevented them from having

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<sup>29</sup> See the article of Tjandraningsih, I in <http://indoprogess.blogspot.com/2007/08/serikat-buruhserikat-pekerja-di.html>

more time for union activities. Thus, it is not surprising that the union does not have full time unionist to serve the members, given the additional fact that the CLA does not allow union executive officials to be full-timers.

The low interest toward union activities can also be described by the low response on the CLA proposals distributed to members before they are formally approved and signed by the union and the management.

“Our members generally are not responsive; they even don’t care about the CLA negotiation. I don’t understand why.... the CLA regulates our rights and obligations, but they don’t pay much attention to it. When they have problems, they come to us, but when they are save players, they just ignore the union” (union executive committee member 6)

However, the union leader and the general secretary did not show any concerns neither over the low union density nor the low interest among the members on participation. There is no specific recruitment program to attract new members to join the union. The recruitment of new members depends highly on ‘internal’ willingness of employees to join when they see the positive contribution of the union in improving the work condition.

The next chapter will again discuss the union strategy in a manufacturing company, i.e., an automotive component multinational. While the other unions described previously affiliated with a union federation, the union in the next case study chose to be an independent in-house union as a result of disappointment over their previous affiliation.

## CHAPTER 8

### MULTINATIONAL IN THE AUTOMOTIVE COMPONENT INDUSTRY

The previous case study has demonstrated the behaviour of so-called ‘white-collar unionism’ operating in a foreign bank, whereby the union has consistently maintained ‘partnership’ approach towards the management as their strategy. However, despite having a clear strategy, the union membership is relatively low. Working in a ‘comfort zone’ with high salary and good working conditions is argued to be the main reason of the low interest among employees to join the union. Furthermore, the union did not have a recruitment program and believed that employees would join the union if they see the union’s success story in defending the aspiration of its members.

This chapter again presents the findings of the case study in a manufacturing company; an automotive component multinational. This multinational has recognised an in-house union which was founded in 2003 following dissatisfaction over the previous union affiliate. The in-house union is the majority union while the union which affiliates to a federation still exists although the number of its members keeps diminishing.

Similar to the previous chapters, section 8.1 provides the overview of the Company and the union, while section 8.2 examines union-management relationship following by the collective agreement coverage which will be explored in section 8.3. The final sections (section 8.4 and 8.5) discuss the internal and external constraints based on Huzzard’s strategic choice model and

the evaluation of the union's strategic choice given the constraints previously explored.

## **8.1 Overview**

### **8.1.1 The Company**

The company was established in Indonesia in 1975 as a joint venture between a Japanese company and an Indonesian company. The main business of the Company is manufacturing automotive components in its two plants in Sunter (Jakarta) and Bekasi in West Java. The Sunter plant was built in 1978 and at the time of research employed around 930 employees. The Bekasi plant, which was built in 1996, provides larger and more complete facilities and employed around 950 (at the time of research).

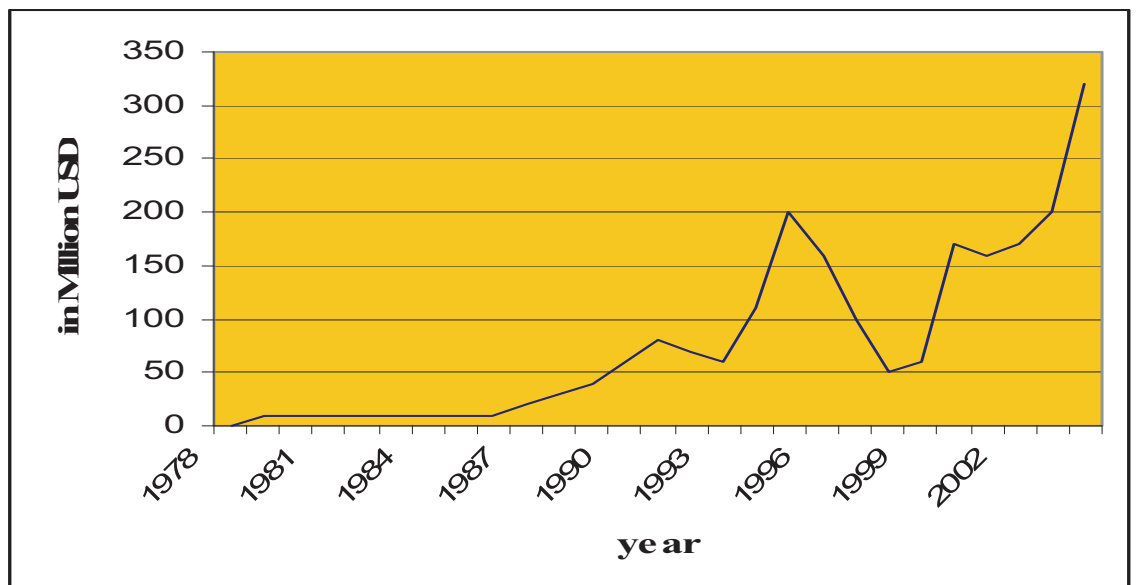
The majority of employees in the Company are males: around 85 per cent. The employment of females in the plants was actually just started no sooner than in 2003, when a new President Director was appointed. He viewed that the absence of females in the plants is a practice of discrimination in the workplace. Thus he started to hire female employees to work in the plants as short-term contract workers. Most of female employees are contract workers and work in the plants; only 2 of them are managers (permanent workers).

The use of contract workers in the Company began when the government legitimised this practice in Employment law No. 13 Year 2003. The reaction of the Union towards the use of contract workers will be discussed in the subsequent chapter. The management argued that contract workers enable them

to cope with production uncertainty and hence provide numerical flexibility. When the domestic market is slowing down, they usually cut the number of contract workers. At the time of research, contract workers comprised 18 per cent of total employees.

In terms of sales, the Company has enjoyed an increasing trend, except in 1998 when the regional financial crisis hit Indonesia severely. As the growth of the business highly depends on the growth of automotive industry, the highest sales was achieved in 2004 when the domestic car industry reached its highest sales volume after the financial crisis.

**Figure 8.1 Sales Growth 1978-2004**



One of the Company's biggest customers is a giant Japanese car maker which dominates the Indonesian market. Thus, management and the union were

optimistic that this multinational will remain in Indonesia as long as the Japanese car maker still operates in Indonesia. The Japanese car multinational itself is the market leader in Indonesia which adds to optimism for the Company.

Moreover, this multinational has advocated the concept of a global production network whereby each country it operates in produces different products. In the South-East Asian region, Indonesia is one of the main subsidiaries of the multinational.

“I think this company is great, they like distributing profits. So in Thailand they make this, in Indonesia they make that, in the US they make something else...so they shouldn't close their plant here as it is an integral part of their network”.  
(manager 4)

However, managers also demonstrated their concerns over the continuity of the multinational's business. They noticed that the multinational chose Thailand as the production centre in the ASEAN region. There was a competition between Indonesia and Thailand before Thailand was chosen, but Indonesia lost it. Managers assumed that it was because of the lower discipline of Indonesian workers as well as external factors such as political and economic stability.

“They (the Indonesian workers) are smart...but the discipline is low... Before they chose Thailand, our competition was fair, and our quality was better. Well, may be Thailand's strength is their stability” (manager 4).

Managers were also concerned with Indonesia's labour laws and infrastructure which according to them, were not adequately supporting business and were discouraging foreign investment:

“The labour law is protecting the labour so much. The government tried to change the labour law but it was postponed. One of the inconvenience, that contradicts is that when employees want to go to a demo, the company has to provide the bus so they can reach the place where the demo takes place... And also what important is the infrastructure in Jakarta is very bad. The car in Indonesia is only 500,000 units. Compared to Japan, this figure is far much less. But why we see lots of traffic jams here; it's because the infrastructure is bad.” (manager 1).

### **8.1.2 The Union**

The union in this multinational has been recognised since the 1980s and previously had an affiliation with the SPSI. However, by 2003, many union executive committees and members were no longer satisfied with the SPSI and decided to detach themselves. An independent in-house union was then formed and run by an (ex-SPSI) executive committee. However, there are several SPSI members that still maintain their membership in SPSI; thus there are two unions in the Company although the membership of SPSI in the Company accounted not more than 5 per cent of total union membership.

Union membership in this company is voluntary. However, approximately two-thirds of the employees who are eligible to be union members were registered as union members (at the time of research). Those who are eligible are employees



of level 1-5 out of 12 levels in the Company. Level 1-5 employees are attributed as 'workers' while level 6-12 are 'managers'. The managers argue that the limitation adhering to the Law No. 13 Year 2003 that introduced the concept of 'employees' and thus are eligible to be union members; and 'employers' or managers in the Company's term.

The Union, on the other hand, expects that managers can also be union members, at least managers at level 6. They believe that having managers as part of union members will enhance their bargaining position as managers will have a better view towards the condition of the Company and thus better information useful for negotiation. However, management rejected their proposal; it is likely that the current limitation would still remain in the future.

It can be argued that the relatively high density of union membership in the Company was generated by the generous membership benefits (e.g., a loan) provided by the union. With this loan, union members were able to buy a house, motorbike, and electronic goods as part of this mortgage arrangement.

“Well, so far they (the employees) come to the union office and say they want to be union members. I think they are interested to be union members because we have loan facilities for members. It's a loan to buy a house, motorbike and electronic items. And yes, it's exclusive for our members” (union executive committee member 2)

In providing the loan, the union co-operates with other employee co-operatives as well as with other companies. For example, in providing motorbike loans, union co-operates with the ASTRA employee cooperative while in providing

electronic goods, it works together with Federal International Siemens (at the time of research). The union launches its programs regularly, and interested members could register themselves by fulfilling all the requirements (e.g. proof of identity, letter of agreement of deducted wages every month for the payment, etc). However, the personal loan works in a different way. The union uses the membership fee in providing a personal loan for the members who will pay it back in several terms without having to pay the interest.

Union representatives argue that providing loans for members gives the union double advantages: first, as discussed above, it is one of the main reasons for employees to join the union; second, it generates income for union from the loans/mortgages interest union gets apart from the personal loan.

The loan is eligible only to the in-house union members although accessible for level 6 upward employees who, according to the company's regulations, cannot be union members. The previous union leader argued that this policy is to support their preference of only having one union as it will strengthen their position towards the management. As he stated: 'our power lies on the coherence among us. When we have disagreement among each other, how can we face the Management?' Additionally he also stated that giving access to level 6 upwards (to the loan) is because they are not in any of the two unions' side.

The union had also expressed their concern over the practice of hiring contract workers. However, under Indonesian labour law the Company can hire contract

workers; despite union opposition. The Company was successful at negotiations though, by using the law as their argument.

“The first time we heard of the company’s plan to use contract workers, we thought about the advantages and disadvantages. I remember 5 years ago, we had a debate with the management over the use of contract workers and we won, we did not use contract workers. But the minister changed, the president changed, the law changed...and the new president director then decided to use contract workers as it is common in other countries. And he recruits female workers which is also a new phenomenon here...about 4 years ago. We tried to negotiate, but we lost” (Union executive committee member 3).

The union argued that female contract workers working in the plants have created an unexpected negative moral impact among the fellow male workers. They had received some complaints from employees and the families of employees about the suspicion of ‘love affairs’ at work, particularly from the wives of the employees. The union has discussed this problem with the management; the solutions the Company has offered to minimise the problem include providing a separate place for male and female restrooms as well as working together with the union in giving advice or warning to employees involved in such problem.

“One of the problems we’re facing now is the love affairs among the employees. If both of them (the male and female) are singles, it’s ok for us. But the problem is, the love affairs also involve employees who already have a family. We got a letter from a wife of an employee, asking us to solve the problem. Usually their productivity is also disturbed when they have problem in their family. We’ve discussed it with the management” (union executive committee member 4)

The contract workers were previously ineligible to be union members as the union; union executive officials argued that the administration of contract workers would be very difficult as they work temporarily (maximum 2 years). As union members have rights to have membership identity card and loan facilities, implementing the same rights to contract workers who wish to be members would be a problem; providing membership cards would be costly and would be used only for a short term, and loan facilities would have higher risk as the duration of the employment is uncertain.

“We were debating among us whether contract workers can be our members. First, our administrative matters would be more complicated, like providing the membership cards. But when they have problems with their boss and they ask for our advocacy, we do help them” (union executive committee member 4)

The union had proposed that management hire a full-time union professional who was in charge of day-to-day union operations. The proposal was granted by management; and a union full-timer was hired as the Company’s contract worker and paid by the Company. However, despite the dependence of the union towards the company in terms of financial matters, one manager thought that the union was tough during negotiations; they did not merely compromise to the company’s interests (manager 1).

## **8.2 Union-management relationship**

The management in the Company also implements a concept of ‘consultative employment relations’ in the workplace, similarly to all the previous case studies. Management cooperates with the union in creating a good environment in the workplace in order to try and ensure high productivity. The condition of high productivity is seen as necessary; because in Indonesia, the company does not have any competitive advantages but high quality and on-time delivery products.

“Their (union) contribution is in providing a good working environment. As I said, the items we manufacture are not designed here. Our contribution towards the business success is actually very low. So our contribution is creating a good and supportive working environment, that’s the most important thing. We develop this company to be an efficient one, customer oriented, and deliver good quality products. If we improved technology, then we could significantly improve our performance. But we don’t have it; as the government does not support us (in implementing technology transfer from the multinational). So the union’s contribution is definitely on increasing labour productivity by creating good working conditions. (manager 2)

As such, management feels that the union is generally cooperative in helping them to achieve a high-productivity environment; on the other hand the union also feels that management treat them as partners in the workplace. According to both parties, the implementation of partnership concept is through regular meetings between union and management where they discuss issues and try to look for solutions for any problems occurred. Management also decided to disclose all information including financial information to the union in order to gain union’s trust and support:

“The Union is very co-operative. But it may be because it’s the president director’s policy to disclose all information including financial data to all managers and the union, so they can understand the situation of the company right now. When the company provides information, the union can understand better the situation of the company, so that they’ll be more co-operative”. (manager 1)

In 2003 the union conducted an industrial action called ‘red ribbon action’ for a week. It was not a total strike; rather, there were orations for a week to canvass a plan to refuse overtime on the subsequent Saturday. In the CLA, overtime is voluntary; therefore, refusing overtime did not violate agreed conventions. However, refusing overtime in this Company is considered as a serious action as it will affect the production continuation of the Japanese car company which is their main costumer. Their products are continually delivered to the car maker every two hours; thus, stopping the production for even only two hours will cause production chaos at the car maker company.

The issue that led to a ban on overtime was salary adjustment for senior employees. The Indonesian government increased the minimum regional wages in 2003, in order that new employees would receive an income that was the same amount as established employees. The union proposed an adjustment but it was rejected. As one management respondent argued:

“Management did not stop the negotiation in the first place, so when they undertook industrial action, first, they left the negotiation table. Second, the loss because of the action was suffered by both the company and employees. Third, they damaged the relationship which had been built so far and so we also had

right to take some actions. If they stopped working we would say it was a disturbance.” (manager 2)

Furthermore,

“We gave them two alternatives. First, go back to negotiations, or we involved the police. We gave them time to decide. They chose to negotiate, and then we achieved an agreement. We told them again that the loss was suffered by both parties. We also told them that the major investor is Japan and that the local partner could not produce this product without them. So, if we don’t play our role properly, they might relocate their business as what is happening currently. We reminded them that we have competitive advantage internationally: not technology - but cheap labour costs.” (manager 2)

Therefore, before the strike was conducted on Saturday, management and the union were back to the negotiation table. A solution was then agreed by both parties, where the company paid the established (senior) employees 0.75 of one month’s wage. Even though the union did not get what they proposed, they said that they were satisfied with the result.

“The compensation was actually an effort to calm down the employees. If they didn’t give anything, then employees would always remember the unfairness. But with this compensation, I think it’s better...at least the union didn’t totally lose on negotiation.... It was just to show that the employees were with us. (union executive committee member 2)

Although there were no direct effects from the action such as employee dismissals, indirect effects were felt by their members, particularly by those who actively supported the action such as more strict performance appraisal and

slower career progression. The previous union leader who led the action had to resign as the result of pressure from management.

According to union and management respondents, their relationship soon “recovered” after this incident was resolved. Union executive committee members argued that their bargaining position towards the management was stronger after the action as the management could see that the union was supported by the majority of employees. In gaining the union’s support and avoiding a frontal approach in the future, the management currently allows the union to have access to the company’s financial reports, which can be used for bonus negotiations. The union feels that this is a positive outcome from the action.

However, union executive committee members prefer not to conduct such action in the future as long as negotiations can still be done as they cannot avoid the possibility of victims from such action as have been discussed above (resignation and slower career progression)

“Although at the end we got the money we’ve struggled for, everybody could still recall the bad environment in the workplace between the managers and our members. As for me, I hope this won’t happen again in the future. As union executive committees, we have to negotiate as hard as we can, don’t involve our members if possible” (union executive committee member 2)

### **8.3 Collective agreement process and coverage**

As in the previous case studies, the union in the Company negotiates over the terms and conditions of employment with the company through collective



bargaining. There is one Collective agreement in the Company, similar to the other multinationals, covering the terms and conditions for employees in level 1-5. The terms and conditions of employment from employees in level 6-12 are governed in the Company's handbook, created solely by the Company.

The negotiations over the CLA usually take about 6 (six) months including one-month's intensive negotiation. The union forms a committee for bargaining, which first analyses and lists the regulations governing employment implemented in Indonesia. The Laws and rules are the frames necessary to make any changes in the CLA. They also seek for information from other companies in their neighbourhood or in similar industries to about the CLA they have and compare it with their previous one.

They develop a proposal and distribute it to their members and ask for their suggestions. The union leader stated that their members are active in giving suggestions, particularly in terms of amounts of money. The management also makes a proposal and each party examines the other party's proposal. The one-month full negotiation is conducted after the union and the management have observed the proposals.

**Table 8.1 Major clauses of the collective agreement**

1 (4)	Employment Status	(a). Permanent employees: have no time limit and are paid monthly. (b). contract-based employees: are hired
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		for a definite time, based on a contract, as regulated in Law No.13 year 2003 clause 59.
1 (7)	Majority trade union	Trade union which has the most members, and act as the name of the workers level 1-5 in bargaining with the company.
1(9)	Trade union members	The workers who are not in managerial positions.
3	The coverage of the collective agreement	The collective agreement is for employees in level 1-5.
5	Company-trade union relationship	The company and the union are obliged to cooperate in creating harmonious industrial relations environment.
8 (4)	Negotiation principles	Negotiations between the company and union must be based on good wills of the two parties; the company tries to avoid lockouts, while the union avoid the strikes.
13 (1)	Performance Appraisal	Performance appraisal is conducted at least once a year. The mechanism

		should be explained to the union before being implemented.
14	Job ladder and level of employment	Job ladder is set by the company based on the function of the employees within the organisational structure. Those employees who do not hold any positions is call 'non title'. There are 12 positions apart from the non-title within this company: leader, foreman, sub section chief, assistant section manager, section manager, department manager, assistant general manager, general manager, deputy director, director, vice president director, and president director.
15 (3)	Right to refuse promotion to managerial position	The employees who are promoted to managerial positions will automatically lose her right to be union member. Thus, she can refuse the promotion by writing a letter to the employer no more than one week after the promotion.

20	Work hours	Work hours is 40 hours in 5 working days per week. Work schedule is arranged by the employer and the union.
21 (2)	Work calendar	Work calendar is the plan of working days in a year, set by the employer and the union.
23 (2)	Overtime pay	Overtime pay is calculated based on hourly wage (which is 1/173 of monthly income) as follow: 1 hour: 1.5 X hourly wage; 2-7 hours: 2 X hourly wage; 8 hours onwards: 3X hourly wage.
24 (1)	Remuneration components	Salary components are: base salary, fixed allowance, non-fixed allowance, incentives, overtime pay.
25 (1)	Base salary	Base salary is set on the basis of agreement between the company and the employed worker.
28 (1)	Annual wage increase	The company will increase the wage once a year, on January 1. For the workers level 1-5, the amount of the

		wage increase is on the basis of the agreement between company and union.
28 (3)	Special wage increase	Special wage increase can take place if there are unforeseen factors that significantly increase the consumer's price index or if there is a change in government policy. This special increase is discussed by the employer and the union.
42	Annual bonus	Annual bonus is awarded to the employees if the company gain profit in a budget year. Employees in level 1-5 will receive the bonus based on the company profit and their performance appraisal. The bonus for the managerial positions is set by the employer.
63	Menstrual leave	Women employees have right to take 2-day menstrual leave every month.
75	Disciplinary sanction	The company and union work together to enforce the discipline among the employees. Hence, employees that

		violate the collective agreement can be sanctioned
76	Spoken notification	Employee who has done a non-significant mistake will be given this kind of notification by his manager. His manager however, takes a note about this notification where the employee has to sign the note.
77	Written notification	Written notification is a kind of punishment for employees who violate the company's rules. The written notification should mention the mistake the employee has done. There are 3 steps of this notification: 1. First notification, applicable for 3 months; 2. Second notification, applicable for 6 months; and 3. Third notification, applicable for 6 months.
80	Employment dismissal	Employer may dismiss an employee if he: 1. Conducts a serious mistake or violation such as being dishonest, being drunk in workplace, reveal company's secrets; 2. When he still

		breaks company's rules after the third written notification; 3. Being absent for more than 5 days without notification and authorised proof.
85	Grievances	Employees can say their complaints directly to the employer or through the union. If they do not satisfy with the action taken by the company / union, they can go to the government agent.

#### **8.4 Internal and external constraints**

##### **8.4.1 Internal factors**

###### *Union strategy: past and current*

The union regard themselves as the partner of management, as an institution that balances the governance of the Company. In implementing the partnership concept, the union and management held routine meetings every two months to share each party's concerns. The union does not want to be seen as an obstacle to the company's growth.

Hence, the union prefers negotiation with management. The union leader, who was newly appointed at the time of the research, said that the union would rather avoid strikes or any actions that would lead to a chaotic condition in future.

“Even we had lots of differences, but we solve them in negotiation forums... well, no strike... Yes, (we emphasise negotiations) as long as management wants to negotiate, negotiation will be done.” (union executive committee member 1)

However, management think that the level of union’s cooperation with management depends on the leader.

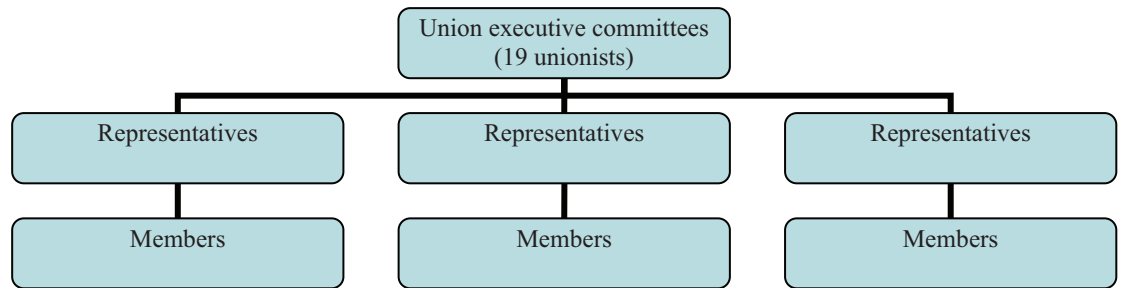
“It depends on the leader. The previous representatives demanded too much, for example, salary. But the current one is more co-operative. For example, they want to become involved in patrol system activity. This activity is conducted every month to examine potential dangers and hence improvement in the work environment. This is conducted by a committee involving related managers.” (manager 3)

### ***Tensions within levels of the union hierarchy***

As the number of members is relatively high in the Company, a hierarchical downward and upward communication system to ensure the union’s voice function is also implemented by the union in the Company, similar to the previous case studies although it is simpler than that in the automotive company. The union executive committee which comprises 19 unionists are helped by around 60 *wakil seksi* (section representatives, which will be termed representatives accordingly) in distributing downward information and handling upward complaints and suggestions and grievances.



**Figure 8.2 Union information/grievances flow**



Union executive committee members argue that the effectiveness of this system has to be improved, due to the different shifts applied for the factory workers which have created communication gaps among the representatives. As the union meetings are held during the daytime, representatives who have to work night shift would find difficulty to gain information and thus in distributing the information to the members.

In trying to overcome the communication problem in the night shift, the union had proposed to the Company to have two representatives in each section to cover both shifts. However, the proposal had been rejected as the two representatives might have to leave their jobs if the union conducted activities and thus, might disturb the production process. The union has also tried to provide a note book in each section where they write the minutes of meeting that can be read by night-shift union representatives. However, not all representatives would read the book and as night shift workers rarely held meetings, the distribution of information is still a problem. The union has also tried to provide a notice board where their members can read any announcement

and information. This means has not overcome the problem either as members prefers to take away the information attached on the notice board for his own use rather than make a copy or make a note.

Upward information or grievances procedures on the other hand, hardly follow the hierarchical system, similar to that in the automotive company. Members prefer to talk directly to the union executive committee members by sending text messages or visiting the union office in discussing their complaints and problems. However, unlike their counterparts in the automotive company, the union executive committee members in this company do not feel disturbed by such practice.

“Our member can contact us directly when they have problems. They can ring us or text us, anything they prefer. They even sometimes just text us saying they are having a problem and we call them back to help them. Otherwise, they can come to our office and talk to our full timer or the union executive committee officer who is in the office.” (union executive committee member 1)

### ***Financial Resources***

The union members pay the monthly membership fee of Rp 2,500 regardless of their level of employment. When the union was still affiliated with the SPSI, half of the membership fees gathered was allocated to the SPSI as the COS (Check Off System). The custom of paying the affiliate had been one of the main reasons of the union’s detachment with the SPSI. Union executive committee members argued that the union did not get any advantages of having affiliation despite their COS payment. The union executive committee further

argued that it would be more useful if they could manage the membership fee for union's activities without allocating it to their affiliate which had not given any service for their members.

“We used to allocate half of the member fee gathered to our affiliate (the SPSI). Let say, if we've got 2000. Let say, if we've got 2,000, we give them 1,000. But they never provide us trainings. They also never involve in any negotiations; we did it just with the management in the bipartite forum.” (union executive committee member 2)

Furthermore,

“Actually, we sometimes still ask for financial assistance to the Company, particularly when we hold big events such as annual general meetings which need millions rupiahs. Union can only fund 10-20 per cent of the total money needed for such events, and the rest is from the company. This funding assistance has been like a tradition... When we conduct general meetings the Company would provide accommodation and so farm we are still independent in making our own decision.” (union executive committee member 3)

However, despite the current authority to manage all members' fee without allocating it to an affiliate, the union has not been independent in funding their activities, particularly their big events such as their annual meetings. In gaining financial support from the Company, the union submits a proposal by which the Company decides whether to provide the proposal with financial support. The union argued that the financial support has not weakened the union's bargaining power over the Company.

## 6.4.2 External factors

### *Employer strategies*

The Company in the case study also apply ‘consultative’ employee relations in their relationship with the union, similar to the other case studies. The Company recognises the union as their partner in communicating to the employees as well as ensuring the quality of work among the employees. As the CEO stated:

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“The union is important for the quality of employees. We communicate that with union so union can control the employees.”

Furthermore, one manager argued that a strong union is preferable rather than several small informal groups led by a leader which would make the Company difficult to communicate with the employees.

“Before the reform era in 1997, unionism was restricted; there was only one union, the SPSI. But the reform era has brought euphoria, lots of unions are formed. In the Law No. 21 Year 2002, 10 people can form a union. Company thinks that it will be more difficult to communicate with lots of groups with no certain formation. They just make small groups or they have informal leaders. And it makes difficult for us to talk. So for us, a strong union is needed to support our business. We have to have the right partner, a group of people who are the representatives of all employees. So, they are very important for us, rather than if they feel dissatisfied working in this company and handle that in a wrong way, unions in this company for us and for myself is very important. One of the functions is to communicate with the employees.” (manager 2)

Management also stated that employees are more open to the union when they have problems which affect their work performance. One of the management

respondents stated that when the management could not handle a disciplinary problem of an employee, the management would have a discussion with the union where they ask the union to find out the problem of the employee.

“I had an experience where there were some employees who were often absent from work. I’ve warned them but they didn’t change. Well in such case, the union is always the last resource to help me find out what the real problem is. The employees always talk any problems they have with the union but not with the managers. One of the employees admitted to the union that he had a big debt that he had to find other source of income; other said that they had problems with their managers. When the union could not find a solution to make the employees work better, they would let the Company to take action towards the troubled employees” (manager 3)

Thus, management would be granted a ‘justification’ of the action they undertake towards employees. Management also tried to convey messages of the importance of good working behaviour by discussing the Company’s business condition and the needs of the employees to perform to support the business growth with the union. Furthermore, the CEO has also decided to enclose the financial report to the union in order to gain union’s co-operation and support.

“The Union is very co-operative. But it may be because it’s the president director’s policy to disclose all information including financial data to all managers and union, so they can understand the situation of the company right now. When the company disclose the information, the union can understand better the situation of the company, so that they’ll be more co-operative.” (CEO)

### *Economic context*

The growth of the automotive component industry is highly dependent on the growth of the automotive industry as the first is the supplier and sells their products to the latter. However, as mentioned before, the parent company of the Company being studied has a policy of global production network where each branch from different countries in a region manufactures different products to avoid a competition among the branches.

Thus, the CEO of the Company has argued that although the domestic automotive business in Indonesia had been declining, the business of the Company would be sustainable as they also export their products to other countries. The CEO further argued that hiring contract workers is needed in coping with the uncertain domestic automotive industry.

“Now we hire some contract workers. So we just cut the number of contract workers. As I also explained about the Asian complementation, we have export products. So, if our Indonesian market drops 50%, but our export products are stable, it’s not really a problem for us. Like what is happening currently. We have contract workers; we’ll have cut some of them if something happen. Contract workers comprise only 18% of our total employees”

Similarly to the Company being studied in chapter 6, contract workers have been hired by the Company to provide numerical flexibility. Contract workers allow the Company to become more adaptable to the changes in price, quality and variety of goods and services they produce to cope with the increasing (global) competition (Marginson, 1991 as cited in Legge, 2005: 181-182).

In terms of the company’s production continuation, managers show their optimism due to a historical reason. One of the major customers of the

Company is the biggest car manufacturer in Indonesia discussed in Chapter 5. The managers argue that the car manufacturer would maintain the relationship with the Company as loyal customer as both companies has a historical bond: The Company was previously part of a division within the car manufacturer before separation and became an independent business entity. Thus, most of managers and union officials are optimistic that the Company would not relocate their business from Indonesia as the car manufacturer has a significant market share in car sales in Indonesia and thus, would choose to stay.

“The parent company’s strategy is that the production should be placed nearest to the customers. And we are in a group with the biggest car manufacturer here and they have the biggest market share of car sales in this country. So if there are 10 competitors who can be suppliers for the car manufacturer, they will choose us. It’s not because we offer them the cheapest price. Rather, it’s because of historical reason. We were previously the car manufacturer’s parts division.” (manager 2)

Furthermore,

“From my experience, we’re not worried with relocation... I think this Company is great, they just like distributing profits among branches. So branch in Thailand makes this, in Indonesia makes this, in US makes this...so they won’t close their plant here as we are part of their network” (manager 3)

The managers also consider Thailand as the Company’s toughest competitor in the region as has become the production centre in the Southeast Asia and the Pacific regions. However, managers argue that the less advantageous position of Indonesia towards Thailand is not because of the quality of skills of the

employees; but rather because of the less disciplined behaviour of Indonesian workers compared to Thailand's. Thus, a disciplinary problem has to be solved together with the union.

“Our workers are smarter, even smarter than the Thai. My boss told me about this. But our discipline is very low, and we are lost at this point. We've asked the union to raise the discipline issue to their members. Welfare is not an issue anymore here. The union leader challenged the company. He said 'Ok, if the employees are discipline, what are the compensation?' Well, we haven't answered.” (manager 3)

### ***Public perception of unions***

The union in the Company have shown a degree of militancy when they planed to refuse overtime as part of their industrial action against the management. It is important to note that this action was done when the union was still affiliated to the SPSI, a union confederation that is said to be close with the government and employers. This action became a trigger for the detachment with the SPSI as the previous union representatives (when the action happened) argued that there was no support from the SPSI at that time. Rather, the SPSI negotiated with the management over the issue that had caused the action (adjustment payment) without involving the union. Thus, the union representatives perceived the SPSI as 'stand on the management's side, not ours'.

The existence of more than one union in a company is indeed legalised by the Law No. 21 Year 2000 on trade unionism. This law not only allows more than one union organises employees in a company, it also allows the formation of a union by a minimum of 10 members. However, many argue that this may



weaken the unions rather than give them stronger bargaining position. While in this Company there are two unions, there are companies where six unions organise the employees or even more.

According to an ILO officer who was interviewed by a reputable newspaper in Indonesia, having more than one union in a company may cause a chaotic and non-productive situation as they would not focus on bargaining with the management for welfare of the members. Rather, each of them could only focus on increasing their member's income and conduct demonstration if their proposal was being rejected to gain sympathy from the employees.<sup>30</sup>

### ***Technology and skills***

Management argued that the technology they use in their production process is not country-specific although the parent Company implements the global network production system where each country produces different products. One of the managers argued that the parent company can easily get the products the Indonesian branch produces from other countries. This was shown in 1996 when heavy floods restricted the Company's output for two weeks. However, their biggest customer (the Japanese car company) was still able to maintain their level of production in the absence of supply from this Company.

However, the non country-specific skills and technology has also served as an advantage for this Company when the severe financial recession hit Indonesia in

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<sup>30</sup> See <http://www.kompas.com/kompas-cetak/0205/21/jatim/seri46.htm>

1998. Despite the extremely low revenue from domestic market, the Company was able to give quite big bonuses for the employees as the parent Company gave them new foreign markets which used to be served by other countries; and thus, the Company was able to survive.

As one manager said:

“In 1996, we couldn’t run the production for two weeks because of heavy flood. Our customers could still get what they need from other countries. However, in 1998-1999 during the recession, when domestic revenue was nearly zero, we could still give the employees big bonus because the Headquarter in Japan gave us new foreign markets to help us which used to be served by other countries.” (manager 2)

However, a certain level of knowledge and skills are needed to be able to adapt with the production system as the Company applies global standards in product’s quality, quantity, delivery and service. The global standard is set by the parent Company in Japan. Additionally, regardless the concept of global network production system, the quality of the product manufactured in Indonesia has to be maintained in order to cope with the indirect competition from other countries (such as ordering more products to be produced in Thailand or India).

The majority of the employees are senior high school graduates, comprising around 80 per cent of the employees.

**Table 8.2 Employee figure based on educational background (August 2006)**

	Primary	JHS	SHS	Diploma	UG
Sunter plant	18	42	759	50	68
Bekasi plant	5	19	854	35	43
Total	23	61	1613	85	111

*JHS: Junior High School*

*SHS: Senior High School*

*UG: Undergraduate*

In addition to the minimum educational background or working experience for employees to be able to adapt with the production system, the Company also provide trainings on the introduction of the production's machineries, finishing techniques and process, and also on the waste treatment process (source: Company profile).

### **8.5 Summary—Evaluating Union Strategic Choice**

The majority union and thus the one being recognised for collective bargaining in the automotive component multinational is an in-house union. This union is relatively new, founded in 2003 as a result of dissatisfaction over the previous single union which affiliated with the SPSI (union federation). Offering an

exclusive loan service for union members, the union has attracted two-thirds of the eligible employees (employee levels 1-5) to join the union.

The union values negotiations with the management and try to avoid 'hard industrial actions' after experiencing an unfavourable result from an action of boycotting overtime in 2003 which led to the resignation of the union leader. However, they do not have a clear strategy and their approach to the management is highly shaped by the style of the union leader.

A key challenge faced by the union is the increasing use of contract workers. The union chose not to organise contract workers because of the possible administration difficulty; considering than once an employee becomes a union member, she is eligible to apply for the loan program, whereby the tenure of contract workers are only temporary. However, at the time of research, the union executive committee members were considering this choice as many contract workers were interested in joining the union to gain protection.

“We were debating among us whether contract workers can be our members. First, our administrative matters would be more complicated, like providing the membership cards. But when they have problems with their boss and they ask for our advocacy, we do help them” (union executive officials 4)

Union representatives also stated that there is another 'serious' problem related to the use of contract workers. As all contract workers hired by the Company were females (at the time of research), 'love affairs' started to become a

problem at work. The union often received complaints from the wives of the workers who involved in the affair.

“One of the problems we’re facing now is the love affairs among the employees. If both of them (the male and female) are singles, it’s ok for us. But the problem is, the love affairs also involve employees who already have a family. We got a letter from a wife of an employee, asking us to solve the problem. Usually their productivity is also disturbed when they have problem in their family. We’ve discussed it with the management” (union executive official 4)

It can be argued that the use of contract workers is an opportunity used by the Company when the Government legalised the practice in 2003 rather than a pure business strategy. Both the managers and the union were optimistic that the multinational would maintain their business in Indonesia for historical reason as well as a grad strategy of the parent Company to distribute profits among the branches.

In terms of union strategy, the sustainability optimism did not result to a clear strategy of ‘militant’ type of trade union either when the union was affiliated or when they became an independent in-house union. Similarly to the unions in the automotive and textile multinationals, the approach of the union is highly shaped by the union leader.

“It depends on the leader. The previous representatives demanded too much, for example, salary. But the current one is more co-operative...” (manager 3)

The next chapter will discuss and summarise the key findings from the case studies and try to explore the most influential aspects in shaping union strategy of the unions studied.

## **CHAPTER 9**

### **DISCUSSION**

#### **9.1 Introduction**

This thesis has explored the strategic choices of unions in multinationals in Indonesia in balancing their roles between negotiating for a better quality of working life and preserving job security. For a developing country like Indonesia where a high population offers an abundant labour supply and where, as seen, economic and political stability is questionable, balancing this role has not been a simple issue, particularly when the bargaining powers of multinationals are taken into account.

This chapter will summarise and discuss the findings of the case studies done in the four multinationals; seeking to make critical comparisons of the internal and external constraints that combine to shape unions' strategic choices.

The first section revisits Huzzard's union strategic choice model, which was used as the key theoretical framework in this thesis for analysing the case studies. This section is then followed by a deeper discussion of the internal and external constraints faced by unions; which determine their choice of strategy in their relations with the employer, as well as with their members and society.

## **9.2 Theoretical framework and research questions**

As noted in Chapter 3, trade unions have been widely regarded in many countries as raising labour costs and hence driving up unemployment. This view is largely based on the arguments within the neoclassical model of economics that the activities of unions would disrupt the equilibrium of the wage determination in the market which would lower employment (employers decrease the number of employees and undertake factor substitution) or see undercutting of the wage rate by the unemployed (given substitutability of workers). Suffice to say, both of these outcomes would be non-preferable for unions. Neoclassical economists argue that trade unions disrupt labour market equilibrium which is characterised by free individual choices to enter and exit the labour market, assisted by the perfect information provided to make his decision.

However, as seen, institutionalists have a critically contrasting view to this simple model of supply and demand regarding the operation of the labour market. They argue that the labour market is shaped by institutional forces such as collective bargaining by trade unions and minimum wage set by the government, not merely by free individual choices. Their studies also show inconsistent findings on how institutions affect economic performance: there is a condition where institutions do affect economic performance and where they do not indeed affect the performance (such as when market constraints are very high). Moreover, institutions can also improve outcomes (such as by providing a more efficient communication channel between employers and employees) or on the contrary, hinder the performance (like wage setting above the market



price that leads to less employment) (see discussion in Freeman, 2007: 11-17). This should not be surprising, given the complexity and variety of institutions shaping the economic and employment relationship.

As seen, collective bargaining and communication channels are forms of institutions provided by trade unions at the workplace. However, to deliver the 'service' effectively, trade unions are bounded to develop a viable operating strategy; particularly when confronted with the use of sophisticated HRM tools such as the individualisation of employment relations (Jeffries, 1996: 180) and 'soft' forms of joint consultation by the employer, as well as (the generally accompanying) absence of state sponsorship for union survival under a more atomistic IR system (Boxall and Haynes, 1997: 567).

Although 'strategy' is a familiar term in business and management field, it is somewhat less familiar when union strategy is discussed and explored. Child (1972) defined strategy as a framework of critical choices about the ends and means of an organisation. The choices are then very critical when they play a decisive role in the success or failure of the organisation (Boxall and Haynes, 1997: 569)<sup>31</sup>. However, the notion of union strategy is not that well understood and more difficult to develop. One of the reasons is the locus of control where leadership plays a very important role. It is more difficult to identify the locus of leadership in a union, as a union is typically a "voluntary association" of employees who believe that acting collectively will benefit them (ibid: 570). Thus, leadership 'power' (and thus bureaucracy) should be balanced with the

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<sup>31</sup> In a similar fashion, Porter (1996) defined (competitive) strategy as a deliberate action of choosing set of activities to deliver a unique set of value; in contrast, Mintzberg (1978) defined strategy as 'a a pattern in a stream of decision' and classified strategy into intended and emergent strategies.

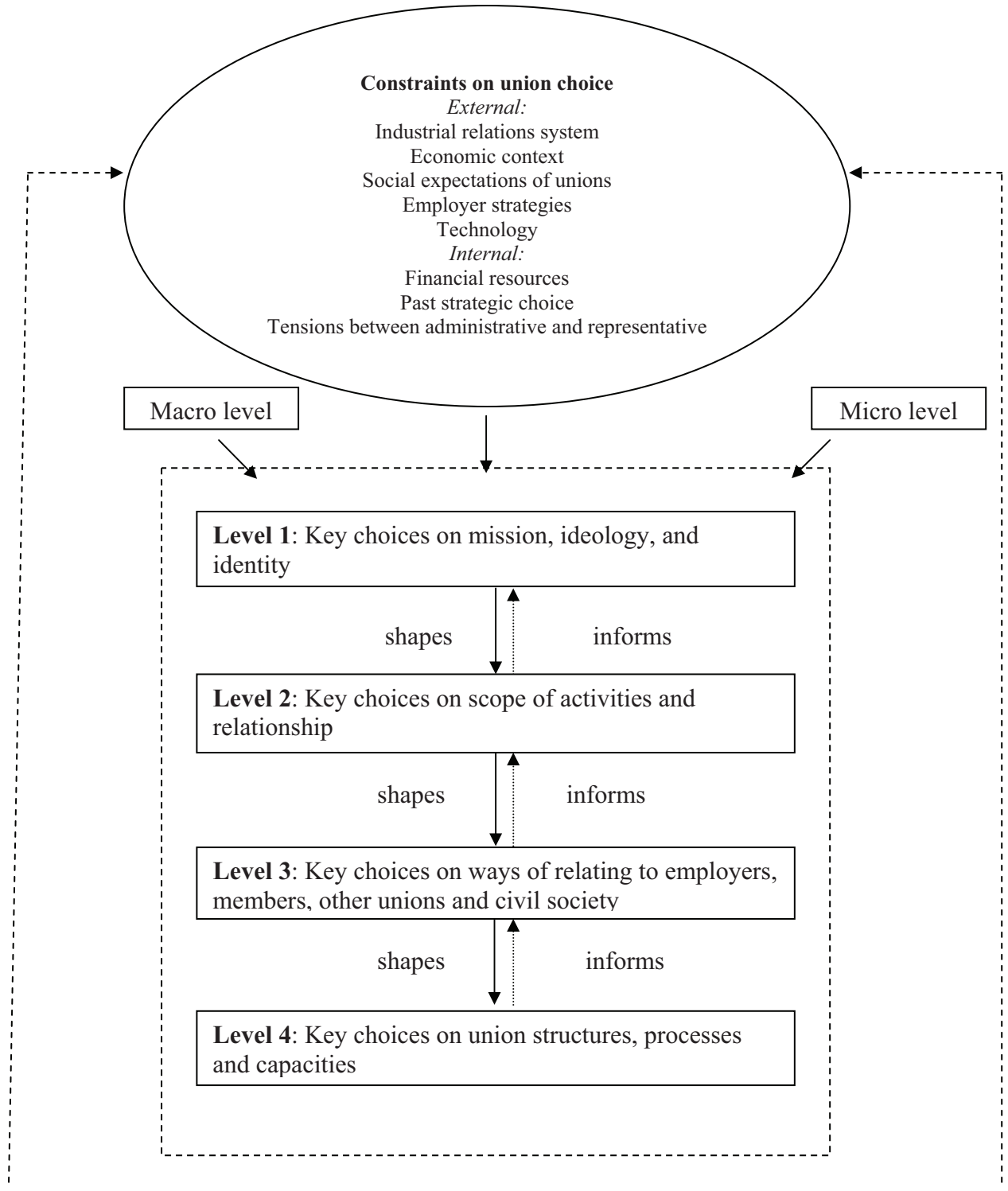
representation function; the effects of which in practice will entail that a union leader can find themselves in complex (and even contradictory) decision-making situations, potentially resulting in a situation of the principal-agent problem where the agent (union leader) could experience difficulty in addressing the ‘tasks’ from the principals (the members).

Despite these issues, as described in Chapter 3; there have been several approaches suggested by scholars in developing trade union strategy (Kelly, 1996; Jeffries, 1996; Huzzard, 2004). Through identifying various constraints that shaped the effectiveness of union activities and exploring the important context of ideology (pluralist, Marxist, anarcho-syndicalist etc.) in shaping union strategies; and the influence of external factors such as the state and general labour market conditions, it was possible to arrive at the use of a preferred theoretical framework to conduct the analysis of the case studies. Hence, in this thesis Huzzard’s model of unions’ strategic choice was arrived at as the preferred theoretical model. Huzzard’s model was chosen as it provided a comprehensive conceptual tool via which the various factors that shape union strategy could be depicted and integrated – and importantly, enables the identification of key causal relationships. To recap, Huzzard’s model argued that strategy is developed through several levels where the choice in each level will influence the choice in the next level.

As noted, ‘level 1’ was concerned with union decisions on identity and mission; that in turn will shape the union’s long-term decision making. Level 2 in Huzzard’s strategic choice was where the decisions on what activities to undertake should be made. Level 3 of the model was to a great extent shaped by

the choice in level 2. Unions which offer products to their existing members would tend to choose the traditional approach of collective bargaining and thus might choose to become 'militant'. On the other hand, if the union decided to offer new issues or services to existing members, they could become more moderate and would prefer the partnership model in their relations with the employers, as little evidence shows that this could be achieved by militant/traditional approach (Gustavsen et al., 1996 as cited in Huzzard, 2004: 31). Finally, Level 4 demonstrated the implications of union choices in level 3, as it was concerned with a union's internal structures and processes; which is sometimes referred to as 'union renewal'. For example, if a union decides to refocus on promoting gender equality, then it might have to change its structure if it is a male-dominated hierarchy.

**Figure 9.1 Huzzard's strategic choice model**



Hence, based on the theoretical and literature review, there were two research questions that this thesis attempted to explore were:

*What is really happening in the workplace in terms of union-management relationship?*

*Do unions enjoy greater freedom after the reformation era and how have multinationals reacted to the changes?*

These questions are now revisited first through a critical comparison of how external constraints have shaped union strategy in the case studies analysed.

### **9.3 Union's external constraints in developing strategic choice**

#### **9.3.1 IR system and employers' strategy**

All of multinationals being studied recognised unions and the management stated that the unions were their partner in creating a harmonious workplace. Considering that the manufacturing multinationals were Japanese, this feature of unionised workplace is similar to Japanese manufacturing multinationals in Australia, and the UK (however, Japanese service multinationals are hardly unionised). Unions were treated as communication channel between the management and the employees. Nevertheless while in the Japanese multinationals in this research unions were the only communication channel,

Japanese multinationals in Australia tend to create an alternative communication channel through a company representative body.

Enterprise unions have been the common form of unions being studied in this research, particularly within the (Japanese) manufacturing multinationals where collective bargaining emphasised on the terms of employment of the workers of the particular enterprise (despite their affiliation with national federation). This model of enterprise unionism – where all of the eligible workers can be members regardless of their occupation or job status-- is consistent with the type of unionism within Japanese companies (Tachibanaki and Noda, 1996; Benson, 2008: 28)).

In the case of Japanese (manufacturing) multinationals operating in the UK, the type of enterprise unions was chosen to adapt UK's strong (occupation) unionism traditions within manufacturing companies - whilst conforming to Japanese single-unionism to ensure flexibility across jobs. Noting that traditionally UK unions were occupational/craft unions which address occupations demarcation, single enterprise unions would allow the multinationals to move workers across jobs and avoid occupation solidarity awareness which potentially disrupt productivity (Reitsperger, 1986: 77).

Enterprise unions provide both advantages and disadvantages for the unions and the management. Tachibanaki and Noda further argued that the advantages of enterprise unions include their ability to discuss firm-specific matters with the management and find suitable solutions for problems. Firm-specific information, argue Freeman and Lazear, would help management in getting

workers' concession in difficult time and thus avoid industrial actions and reduce turnover (Freeman and Lazear, 1993).

Furthermore, Tachibanaki and Noda also argued that Japanese management listens to union and accept a union's 'voice function' as being advocated by Freeman (1980) and Freeman and Medoff (1984). As explained in Chapter 3, voice function allows trade unions to establish desirable working conditions for their members by providing discontented employees a communication channel to resolve the dispute and thus, avoid quitting (or *exit*) as the first source of problem solving (Freeman and Medoff 1984: 8). The voice function is believed to provide advantage to both parties: employees would help them to disclose their true preferences through union and the management would be able to prevent losing employees and possible sabotage as a result of dissatisfaction. However, the management strategy to listen to the union as well as disclosing firm-specific information to unions to get workers concession can also be a disadvantage of enterprise unions as unions may become too moderate and fail to address their members demand.

Most of the companies studied appeared to operate within a pluralist industrial relations system, whereby the employer and unions were well aware that each party effectively had different interests in the workplace and thus, collective bargaining and negotiations were the main tools used to try and achieve agreement as the rules of the game, as well as represent the unions' preference towards market-oriented value.

Only in the Banking Case Study was there more overt evidence of a unitarist outlook by the participants; both management and union representatives stated that they shared common interests and view the company as a happy family — surely indicative of a unitarist approach. The union in the foreign bank avoided ‘hard’ industrial action such as strikes or demonstrations and the union representatives argued that the ‘white collar’ employees preferred comprehensive negotiation in achieving agreement with the employer—and therefore a class-oriented union is also indicative for this union.

Given the workforce was predominantly female; there was also a distinct cultural dimension (Hofstede, from <http://www.geert-hofstede.com/>) which would suggest a more traditional subservient outlook by female workers in Indonesia (though not exclusively so), which in itself could generate a tendency for a more compliant workforce to emerge in the banking study.

Collective bargaining is a distinct characteristic of pluralist industrial relations; and collective bargaining and collective agreements were present in the companies, even in the banking study. However, the union representatives in the banking study stated that they only needed two days to renew a collective agreement. In contrast, the process took about three to six months in the other companies. Despite the difference, it was evident that the collective agreements in all of the companies studied had similar substantive and normative clauses, i.e., covering the employer’s, union’s and employee’s rights and obligations.

Collective bargaining was conducted at firm-level in all of the multinationals studied, involving the management and the (majority) union at the workplace.



Although collective bargaining was conducted by the union on behalf of their members, the collective agreement was applied to all (eligible) employees regardless of whether they had union membership..

The coverage of the collective agreements varied between each multinational, from limited levels of employees (car manufacturer, foreign bank and car component multinational) to broader levels of employees (textile multinational).

In the car manufacturer, foreign bank and car component manufacturer, the CLA covered employees only up to a certain level. Employees beyond this level were categorised as ‘managers’ whose employment condition was determined solely by the Company (in the foreign bank, it is called ‘employee handbook’). On the contrary, although there was a restriction on who could become a union member, the CLA for the textile multinational covered both employees and managers, as stated in the CLA.

The management of all the companies studied could be said to have applied the approach of sophisticated moderns: “consultative” in their relationship with the union and seemingly engaging in willing union recognition; in practice through promoting the concept of “partnership” – symptomatic of the traditional Japanese company approach to industrial relations (and of course, three of the multinationals studied were Japanese in their origin). However, it could be argued that this approach only applied to unionised occupations; or core workers. Evidence from the case study in the automotive component multinational suggested more of a “standard modern” approach of engaging in different practices for different sectors of the workforce.

As was discussed in chapter 8, the automotive component multinational started to employ contract workers in 2003 when the Government legalised the use of fixed-term contract workers in business establishments. These contract workers were not eligible to be union members, mainly because the union declined to organise them (rather than a restriction from the Company). The main reason of the exclusion was the nature of the tenure of contract workers which is only temporary, potentially created undue administrative complexity for the union (particularly as the union had a loan program for its members). Thus, contract workers could not benefit from union protection and services at work although they could report grievances to union and seek some advice.

On the other hand, there was also an expression of reluctance to join the union from contract workers, despite the feeling of the necessity of union protection. Given the high unemployment rate in Indonesia, contract workers have a great pressure to keep their job by performing well and being non-unionised. Although managers stated that they gave their blessing to all workers (level 1-5) to join a union, the public perception that unions are the enemy of employers has impinged on the motivation of the contract workers to join union.

Thus, despite the presence of contract workers in the automotive-component manufacturer and subcontract workers in textile multinationals, all the multinationals being studied, unions organised only the existing members and had no real plans to expand membership. Only the union in the automotive component multinational provided a new (differentiated) service—the loan service —the other multinationals served the members with an existing service mix. Consequently, the main activities chosen by the unions were mobilisation

to show their 'root-based power' to the employers; however, the unions also chose to cooperate with employers and negotiate whenever grievances occurred.

Despite the standard sophisticated modern approach applied by the management, management representatives from the multinationals being studied generally argued that they needed to have the union engaged as their partners at the workplace and thus, management placed greater emphasis on joint consultation and joint problem solving, particularly in terms of employment affairs (Farnham, 2000: 37).

Hence, to reiterate, the concept of partnership was introduced within the management-union relationship at all multinationals being studied. Management representatives stated that they needed the unions to become their partners in order to create a harmonious, productive work environment. In this context, it could be said that unions and collective bargaining were seen primarily in having a governance function; and thereby providing greater legitimacy to management decision-making if a process of "consultation" and "negotiation" was seen to be entered into.

Some of the multinationals (the automotive component and textile multinationals) provided financial support for the union, in order to demonstrate management's goodwill; and further involving the unions in contributing to discussion on the business of the companies and hence as per the legitimacy argument outlined above, to gain union support in for their agendas.

However, some union representatives felt that partnership in the workplace was deteriorating as the trust between the two parties was declining. This was

particularly evident at the car components plant where a change in ownership in 2003 was accompanied by a shift in management attitudes to a more explicit focus on cost-minimisation (further exacerbated by a fall in market share); which in turn has strained the traditionally cosy relationship with the union. The management at the car manufacturer stated that the problem with trust was caused by the lack of union “succession” strategy whereby a new union leader was installed who did not have enough experience in “negotiating” with management. However, this could also be interpreted in terms of management (apparently?) targeting workers who had conducted the “red ribbon” action in terms of more rigid performance appraisals for example – i.e., that partnership is acceptable when workers are largely compliant to management’s agenda. The union representatives, on the other hand, blamed the uncertainty of the implementation of the new system. This example shows how external market constraints can change employer attitudes and practices; and it is to this that the discussion now turns to.

### **9.3.2 Economic context**

As noted, multinationals operate in more than one country and serve global markets. Therefore, the economic context influencing a union’s strategic choice can be defined as being the global market and competition that the multinationals are facing, as well as economic conditions in the local market and industry development where the multinationals operate - in this case, in Indonesia. The global market and competition are particularly prescient for

unions in multinationals, whose products/services compete globally (with multinationals from other countries) in a relatively saturated market where sellers and buyers are abundant.

The textile multinational in this research appears most indicative of a multinational that operates in a saturated market. With cheaper Chinese textile products flooding the market in recent years, this multinational has been facing severe financial difficulties for several years. The management stated that their strategy is now one of survival and in securing their market. The message of this financial difficulty has been clearly noted by the union; which in turn has made the union more concerned about the possibility of closure of the plant by this multinational. However, despite this concern, the union in this multinational is the most militant union, when compared with the other unions studied in this thesis - although the union representatives in the textiles case studied did state that active unionism should “not disturb their work performance”. It was also evident that the “frontal” (i.e., more willing to disagree and engage in confrontation with management) union approach used by this union was also influenced by the union’s affiliate which is also regarded in Indonesia as a frontal union federation. The discussion of the union ideology and approach will be deepened in the section of unions’ internal constraints.

On the opposite continuum of market competition, is the banking case study; the foreign bank enjoyed a relatively secure (domestic) market and thus it could be said had a low possibility of business closure (the continued viability of its portfolio pending, particularly given the current world economic downturn at the time of writing). Serving high profile customers within the domestic market,

the foreign bank had survived and expanded its business when the banking crisis was deteriorating Indonesia's economy during the downturn at the end of 1990s. The union in this multinational regarded themselves as a close partner of management in creating a compliant "healthy environment", which could be argued to be a distinct characteristics of (predominantly female here) white collar employees. Furthermore, as might be expected in a comfortable work environment and relatively high incomes, the employees in this multinational were not enthusiastic about joining unions and getting involved in union activities.

Although the automotive component multinational also served a secure market (as their main customer was the biggest car manufacturer in Indonesia; and historically was part of the division within the car manufacturer), the economic context of this multinational was different. There was a mixed view from respondents of optimistic and pessimistic expectations from both the management and union representatives regarding business sustainability in the future. The pessimistic view was that the products manufactured in Indonesia could actually be produced by another branch of the multinationals, e.g. by the Thailand branch. The fact that their customers were still able to operate when this multinational had to close because of severe floods, has only served to add to the pessimistic view.

On the other hand, some managers and union representatives were more optimistic as to the future of the multinational, stating that the parent company had a policy of diversifying production and profit distribution amongst its branches, known as a 'global network production system' – so as to spread the

risks of operating across several countries. They also believed that as long as the biggest car manufacturer in Indonesia remains operating in Indonesia, this multinational will continue their business in this country (the impact of the current world economic downturn notwithstanding).

Given this spread of expectations, the union in this multinational applied a relatively moderate approach in conducting negotiations with the management. After conducting a 'hard industrial action' in 2003 where they boycotted doing overtime, the union preferred to engage in comprehensive negotiation with the company, so as to avoid strikes. The union tried to present a good image to the management, that unionism was not an obstacle to growth; but rather, that the union could assist the management in creating a good work environment for business development and sustainability.

A long production history and secure market were also mentioned as reasons for optimism amongst the union representatives and management of the biggest car manufacturer multinational studied for this thesis. Serving the domestic market as the market leader, both management and union representatives believed that the business of the multinational would be very much sustainable for the foreseeable future. However, there was also concern expressed by management over the declining domestic market after the Indonesia's economic downturn and tighter competition from other branches, particularly from the Thailand enterprise. Economic stability and higher productivity of Thai workers were mentioned as having given Thailand an advantage of becoming the centre of production in South-East Asia region whereas Indonesia has lost out in terms of becoming the centre of production.

### **9.3.3 Labour use policy**

Evident from the previous sections is that the economic context faced by each of the multinationals studied has directly affected their labour use policies and practices. The most pronounced example evident in this research was the labour use policy of the textile multinational. Being hit by severe financial problems, the management of the textile multinational decided to cut operational costs (i.e., a policy of cost minimisation) by reducing the number of employees significantly and outsourcing some jobs to subcontractors. Suffice to say, the employee reduction plan was successfully implemented. Although the union initially rejected the plan, their action was not fully supported by the members because of the big cash compensation (severance) package that the company was offering as an inducement to employees.

As a result, the union changed their strategy from rejecting the redundancy plan to seeking to moderate the impact of the implementation of the plan, by obtaining assurances that all employees joining the early pension plan obtained their compensation as promised. Some of the redundant employees chose to work with the subcontractors, but the union representatives stated that their work environment was not as good as when they were employees for the multinational and that the union could not assist them anymore as technically they were no longer union members.

A similar approach of numerical flexibility of labour use was also adopted by the automotive component multinational in dealing with fluctuation of domestic



automotive demand. Management decided to hire contract workers since 2003, when the Government legitimised the use of contract workers in the Employment Law launched in that year. The union stated that they could not do anything about this policy as the Law legitimised this practice. However, they did not organise contract workers for administrative reasons (as contract workers' tenure is only temporary) - although at the time of research, the union was considering revisiting this policy.

While the aforementioned multinationals decided to externalise their labour use, the car manufacturer multinational and foreign bank maintained distinct approaches of upholding internal labour market structures and thus providing higher level of job security to their employees. With a more predictable and stable market, the car manufacturer and foreign bank saw no particular need to make drastic changes to their labour-use practices, although some changes had occurred. At the car manufacturer, fixed-term contracts were offered to new employees during their probation period (three months). The foreign bank, on the other hand, had implemented an early pension program for under-qualified employees (those who did not have college/university degree) in dealing with a more comprehensive banking framework introduced by the Government. The union supported this program, convincing their members and employees that this decision was essential for long-term business sustainability. Apart from this program, there were no other measures introduced by the management to reduce the number of employees (at the time of research). However, in responding to a growing market, management started to hire fixed-term contract workers for more peripheral jobs i.e., those jobs that did not require knowledge of the

company's particular systems and commercial-in-confidence material). However, a union representative was concerned about the quality of work of contract workers as their tenure was only temporary which could in turn result in temporary workers as having lower productivity and potential poor performance, given the lack of incentive of permanent work.

Thus it can be concluded that externalisation in labour use has been chosen as a strategy in the textile and automotive component multinationals chose in dealing with lower/uncertain production demand. The externalisation strategy has created the feeling of job insecurity for a particular occupation: operators. Job insecurity is an opposite of the traditional 'Japanese' practice of lifetime employment. It has been argued that the practice of Japanese lifetime employment appears to be diminishing, particularly after the 1997 Asian financial crisis – where it exists it seems to be mainly applied for male employees who work for the government or big companies (Hirakubo, 1999).

However, empirical research has shown mixed evidence on this diminishing practice. Despite the downsizing or restructuring that has taken place within Japanese firms, layoffs were hardly found and thus this practice is still an ongoing practice (Jackson and Tomiyoka, 2004: 122). In Australia, for example, Japanese multinationals had guaranteed lifetime employment for Japanese expatriate managers and technicians while many Japanese multinationals in that country provided high level of job security for local employees (Purcell, W. et al, 1999: 6).

It has also been evidenced that If a Japanese employer cannot provide long-tenure employment within the company, (permanent) labour transfers among subsidiaries or related companies were more common would be chosen as an alternative; expanding the definition of lifetime employees: it is not only a long tenure (lifetime employment) in a company but includes its subsidiaries and related companies (Kato, 2001: 510).

Form the discussion above, the various external constraints and how they differ across the case studies are described in Table 9.1 below.

**Table 9.1 Union’s external constraints in developing strategic choice**

<b>Constraints</b>	<b>Union 1</b>	<b>Union 2</b>	<b>Union 3</b>	<b>Union 4</b>
<b>IR system</b>	Pluralist, partnership	Pluralist, partnership	Unitarist, partnership	Pluralist, partnership
<b>Economic context</b>	Market leader,	Declining market, difficult financial condition	Stable and expanding market	Secure market as long as their biggest supplier operates in Indonesia
<b>Management</b>	Internal	Job cuts,	Internal	Contract

<b>Labour use practices (internalise/externalise)</b>	labour market	outsourcing	labour market	workers for production
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#### **9.4 Union internal constraints in developing strategic choice**

As noted, a union's strategic choices are also shaped by the internal constraints it faces. In this section the internal constraints facing the four unions in the case studies are critically compared and contrasted.

##### **9.4.1 Union ideology and goals**

Invoking Hyman's (2001) typology of trade union identity and ideology, the unions in all multinationals studied could be classified as 'market-oriented' unions; whose focus was on bargaining over labour market issues such as wages, working hours, etc. The unions in all the multinationals studied devoted most of their time negotiating with the management in improving their member's welfare; i.e., through engaging in collective bargaining regularly.

It can be argued that the market-orientation identity held by all unions studied in this thesis is a general identity of Indonesian trade unions. As Isaac and Sitalaksmi argued, the Indonesian trade unions seek to engage in collective bargaining, to improve employment condition, to provide grievances channel

for workers, to secure membership and to persuade the government to secure terms to assist the achievement of these objectives (2008: 247).

However, as Hyman also noted, unions seldom identify themselves with only one ideology. Thus, he described this typology in a triangle of apexes, where each union would fit in one side of the triangle. For example, he identifies British trade unions as being indicative of the aspects of “market orientation” and “class struggle”. Similarly, the case study findings demonstrated that the unions in this research could also be shown as indicative of having more than one ideology, particularly when their confederation affiliates are taken into account. It could be argued that although the main activity of the unions studied for this thesis was that of negotiating collective agreements (the key function of market oriented unions), some of them also devoted attention to matters related to the more overtly militant (though not necessarily anti-capitalist) function of society/class struggle, as outlined below.

The first example is what had been done by unions in the automotive component multinational and the (union confederation) affiliate of the foreign bank. The union of the car parts multinational had expressed concerns over the hire of contract workers practiced by management. As all of the contract workers hired were female and worked at the production plant (where there had been no female workers before), they argued that female contract workers working in the plants created an unexpected negative moral impact among the fellow male workers (because of the potential for “workplace liaisons”). They had received some complaints from employees and the families of employees about the suspicion of “love affairs” at work - particularly from the wives of

some employees. The union discussed this problem with management; and the solutions the Company offered to minimise the problem were that of providing a separate place for male and female restrooms as well as working together with the union in giving advice or warnings to any employees suspected in being involved in such problems.

The union of the foreign bank, on the other hand, was affiliated with a union federation who mainly organised white collar employees (mostly from banking and other service sectors). This federation emphasised the value of partnership with employers by promoting their jargon 'SIDURE' which stands for Solidarity, Independence, Democracy, Unity, Responsibility and Equality. Federation leaders actively canvass their opinions in the media to demonstrate that unions are organisations which negotiate comprehensively with accurate data - and not seeking to disrupt the economy and societal cohesion by conducting strikes and boycotts. Here, there is evidence that union leaders still feel the stigma of being portrayed as "communist" or "disruptive" by most sections of Indonesian society.

As such, it could be argued that the action of responding to (and trying to shape) public opinion on union behaviour have indirectly defined the interests of unions which represent the working class - as opposed to the interests of the employers as capital owners. However, the term 'class struggle' is not an easy fit in this case, as the approach is suitable really only for one part of working class; so-called white collar employees, who have the level of education and awareness necessary to engage in such debates. Their counterparts, that is, the majority of workers in Indonesia with lower skills and education rarely express

(or are even able to express) their opinions and interests through the media. Instead, they deliver their messages and aspirations through sporadic collective outbursts to gain public attention (which may not be organised by unions but rather more loose spontaneous outbursts of dissatisfaction).

Hence, it may be argued that although unions indeed claim to represent general interests of the working class, they actually defend the particular interests of relatively protected groups of workers (Hyman, 2001). This argument is based on the situation where the interest of core groups of full time workers (typically skilled-white collar male workers) can conflict with, or hinder the interest of peripheral workers (part-time/women/migrant workers etc.). It could be argued that Hyman's argument can be applied in the case of OPSI, whose leaders actively try to shape public opinion of worker aspirations, as their interests and approach might be different to the (majority) of lower-skilled workers who are organised by other union federations.

#### **9.4.2 Union's past strategy**

The only union studied in this thesis which had a clear past and current strategy was the union in the foreign bank. Their strategy was derived from the value held by their affiliates (the union federation OPSI)—known as SIDURE, which emphasised partnership with the employer.

The other unions studied, in contrast, had relied on the leadership style of their union leader in their approach towards management. There were two views on the importance of developing a pro-active union strategy. The first view was

from the union of the car manufacturer multinational, whose leader stated that developing a pro-active strategy was important. The necessity was particularly driven by the significant change of the company's majority ownership from local partner to that of the parent company.

The change indirectly had an impact on the industrial relations system which in turn had resulted in a more rigid union-management relationship. Whilst management announced that all processes in the company (including in the process of industrial relations) should be clearly outlined in formal documentation, the union argued that there was no clear guidance on how minutes of meetings, for example, should be produced. In the context of this uncertainty, the union leader felt that it was time to start to develop a coherent union strategy for achieving their goals. Nevertheless, he stated that the process of formulating a strategy was very difficult as the union did not have enough resources and knowledge on how to develop an effective strategy.

The second view was from the union leader in the textile multinational study, who argued that there was no point of trying to put together a pro-active strategy, as unions were reactive organisations by nature. This respondent's view was that their actions were generally based on what management has done. They commented that as long as management was willing to negotiate over issues that the union raised concerns about, they would negotiate with the management, although it took time. However, when deadlock occurred, or if management wanted to stop negotiating, then the union would engage in "hard" industrial actions, such as demonstrations and strikes.



The union leader of the car-parts component company, on the other hand, stated that they valued the partnership and negotiation approach with management. Having experienced the negative effects of conducting hard industrial action (by boycotting overtime), the union choose not to conduct such actions in future and would seek to use the negotiation forum.

#### **9.4.3 Financial resources**

In terms of financial resources, all unions studied in this thesis financed most of their activities from a membership fee, paid by the members through automatic deduction of their monthly salary/wages. However, whilst the unions in the car manufacturer multinational and the foreign bank claimed that they were independent in financing their activities, the unions in the textile and car-parts components case studies admitted that they still asked for financial assistance from management in financing some of their activities (by putting forward proposals which could be accepted or rejected).

The union in the car manufacturer multinational enjoyed the advantage of a closed-shop policy which led to 99 per cent of employees being members of the union (about 5,000 members). As directors and managers were also included in the union membership, the union were able to generate around 26 million Rupiah every month, a significant amount of revenue when compared with the other unions being studied.

The membership fee generated in the foreign bank, on the other hand, was not as much, as the union membership only counted for less than half of the

company's 300 employees. However, the union did not conduct many activities due to the workload of the union leaders and members as well as a manifest low enthusiasm of the union members. Hence, the membership fee was sufficient to finance the union's day-to-day operations.

Both the unions in the textile and car-component multinationals sometimes asked for financial assistance from the companies, particularly when they conducted massive events such as annual general meetings. Nevertheless, the union leaders in these two cases stated that such financial assistance had not resulted in a weaker bargaining position during negotiations. As described in case study chapter six, the union in the textile multinational was the most frontal union amongst the unions being studied.

#### **9.4.4 Tensions between administrative and representative functions**

The unions studied in this thesis did not have full-time union officials, except the union in the car-component multinational. The full-time official in this company was employed by the company as a contract worker and paid by the company. However, the union leader stated that the company gave the union full autonomy to decide the duties of the full-time union organiser. The union representatives also stated that members were free to communicate with them through any means of communication such as text messages or phone calls. The union representatives expected that the varied access to the union representatives would serve the members well.

However, while serving the members by giving alternatives of access, unions were sometimes forced to compromise with the employer's agenda that against the members' interests – an illustration of the principal- agent problem. An example was shown in the case of foreign bank where the union backed the management decision of laying off employees who did not qualify in implementing a new, sophisticated banking system (see Chapter 7).

The main reason of the absence of the full-time officials was the shared value among the union executive committees studied that unionism should not be an obstacle in performing well in their (main) jobs as employees. However, the unions in the remaining three multinationals being studied had different approaches in fulfilling their representative function to serve their members. The union in the textile multinational developed a rotating schedule to ensure that there was always someone in the union office to serve the members. In addition, similar to those in the car-parts multinational, the union representatives in the textile multinational offered varied communication means for members to get advice or assistance from the union, such as by using text messages or phone calls.

The union leader of the car manufacturer multinational also stated that there was always someone in the union office although no fixed schedule was ever made. The union leader here also stated that becoming a leader meant that he would have to leave his main job as an employee temporarily and serve the members on a full-time basis. However, management had expressed a view that the union office had become a hiding place for union representatives from their main job.

Despite this, management had never complained to the union nor discussed this with them.

In contrast to the first two unions being discussed, the union representatives in the car manufacturer multinational expected that members should follow the procedure of grievances settlement rather than directly talk to the union leader/representatives. The union leader stated that talking directly to the union representatives without discussing the problems first with the managers and the member representatives is disturbing as the union representatives would then have to deal with many day-to-day problems.

The union office in the foreign bank was always locked unless a meeting was held. The union representatives stated that there was no need of having someone in the union office as everybody was busy with their own job. The union representatives also argued that members did not have to go to the union office to report grievances or express their concerns as the union leader and the secretary general were approachable at any time.

The internal constraints and how they vary between the case studies are summarised in Table 9.2

**Table 9.2 Union’s internal constraints in developing strategic choices**

<b>Constraints</b>	<b>Union 1</b>	<b>Union 2</b>	<b>Union 3</b>	<b>Union 4</b>
Union ideology	Market oriented	Market oriented	Market-class oriented	Market-society oriented
Past strategy	Reactive	Reactive	Co-operative	Reactive
Financial resources	Membership fee	Membership fee and assistance from the Company	Membership fee	Membership fee and assistance from the Company
Tensions between administrative and representative functions	No full time unionist, but union office is always open; union reps prefer hierarchical approach in solving problems	No full time unionist, but there is a rotating schedule to serve the members; union reps are approachable	No full time unionist; the union office is close unless a meeting is held; grievances should be reported formally	There is a full time unionist hired by the Company; union reps are approachable

## **9.5 Formulating Union Strategy; Most Important Factors and Links Between**

The previous comparative discussion on internal and external constraints hence enables an identification of the key factors shaping unions' strategic choices. Similarly to business strategy, union strategy is shaped and influenced by many aspects; internal and external. Unions organising workers who are ready to act collectively within an environment where employers are willing to reach accommodation will have a different strategic approach to unions organising 'peripheral' workers in a hostile industrial relations environment (Boxall and Haynes, 1997; 569).

The concept of union strategic choice embraces the idea of voluntarism, where union has its own discretion in determining its own future by anticipating what would happen in the future and thus developing policies and actions accordingly. Arising from the Huzzard framework it could be argued that undertaking strategic choices is necessary for unions to survive in the more hostile industrial relations environment.

However, the case studies in this thesis demonstrated that most of the unions studied did not really undertake proactive, strategic choices as such, nor feel the emergence of making a strategic choice. They chose to act reactively *vis a vis* the employer's policy and action (with a degree of exception the union in the car manufacturer multinational). Acting reactively is a characteristic of determinism when actors are tightly constrained by external factors (Huzzard, 2004: 25). It can be argued that the reluctance of making a clear strategy was

mainly caused by the situation that they organised workers within a relatively favourable environment: above-average wages, employer cooperation, long history of business establishment, and secure product market (except for the textile multinational). They have survived and are optimistic about their future without a well-developed strategy. Thus there was little manifest concern with the need to formulate proactive approaches to membership or recruitment for example.

For the unions studied in this thesis, the employer's industrial relations policy and approach was the strongest influence in shaping union 'strategy' and approach in industrial relations. As long as the employers regarded the union as their partner, the union would apply a soft approach of negotiation and even in many situations, compromising (to the employer's agenda). They also persuaded their members that this approach was the best means of achieving the union's goals, needs - and addressing the members' aspiration which mainly related to the union's market function (negotiating remuneration and better work environment for their members). It can be seen from the interview below with a union representative of the foreign bank regarding an early pension package offered by the Company:

“When the Company offered the early pension package in 2000, not all of the employees being offered accepted it. Our members asked for our advice. We told them that this is a good offer from the Company. They have to think that the work in the future would be more complex and involve high technology. It would be very difficult for them to cope with the innovations and they would experience a stagnant career. So, we advised them to take the package and start a business” (union executive committee member 2)

Additionally, a union executive committee member from the union in the car manufacturer multinational also stated:

“Yes, we compromise a lot, because if we don’t do so, we are afraid that they will relocate this business. They never explicitly say anything like this though; but the pleno, coordinators and the members are worried.”

The economic context also influenced the way the unions interact with the employers as a key external constraint on strategic behaviour. The late 1990s Southeast Asia economic recession had driven up the cost of production (particularly for the manufacturing multinationals) whilst driving down their product demands and thus their income. Furthermore, as multinationals operate in several countries, competition among the multinational’s branches to provide the most preferable place for production. A harmonious relationship between multinationals and their workers (which might be represented by the unions) is one of determining aspects of this preference together with the host country’s political and social condition, government’s policy and market potential.

The relatively tighter financial conditions and intensive competition among branches has forced unions to cooperate with the employer rather than use a ‘militant’ approach such as mobilisation and industrial action. Although both the managers and union representatives in the multinationals studied were optimistic that the multinationals would maintain their business in Indonesia, winning the competition of producing new models as well as increasing production volume also meant that the preferable condition – a guarantee (from the union) that there is no production disruption from action such as strikes and boycott-- should be provided. Rather, union tried to serve the members by



offering them service development (Ansoff, 1968) such as loan program conducted by the union in the automotive component multinational.

Thailand and China were countries which are seen as the closest competitors. Thailand has become a production centre for Asian region for the car manufacturing multinational; whilst cheaper Chinese textile products have undermined textile production from Indonesia. Both managers and union representatives blamed government policy and poor infrastructure for the disadvantage. However, a manager from the car manufacturing multinational has indirectly pointed to unionism as an important aspect in winning the competition.

“Currently this company makes a production base in each country it operates. So far in Asia, I’m sorry to say, Thailand is the best. There are no worker demonstrations and the infrastructure is very good. Thailand is the most comfortable production base; it makes our Indonesian employees and also the government very disappointed” (Manager 1)

Public opinion that unionism has negative effect on Indonesia’s competitiveness toward foreign investment has also resulted in a soft approach and an effort to show the employer that unionism does not disrupt productivity and work performance. One of the union representatives in the textile multinational stated:

“We all work for a Company which pay us. Union, on the other hand is an employee organisation within the company. So, our main duty is to perform well in doing our jobs. We all agree that we have to prioritise our work duty as employees and that’s why there are no union full timers here. But we always

have someone waiting in the office by developing a schedule for union executive committees and representatives”

All of the industrial actions were never conducted during ‘normal’ work hours. The most severe industrial action was the one conducted by the union in the car component manufacturer in 2003 by boycotting overtime. The result was unfavourable: the union could not obtain their demands from management and the union leader resigned. The union in the textile multinational conducted a demonstration before work hours started and the union in the foreign bank encouraged its members to wear a special signs in their costume to show disagreement with the management and keep doing their job – however, these were all very mild forms of action. As the union leader stated:

“We value negotiation... the ‘white collars’ in Indonesia are quite hesitant to get involved in industrial action. We prefer to argue with the management even if we have to do it overnight. When we cannot reach agreement or if they want to show their sympathy to their colleagues, we just wear special signs in our costume (e.g. black ribbon) or write our disagreement and put it on their desks - but we keep working.”

The shared value of unionism should not disturb good work performance has led to the absence of full-time union organisers in all multinationals except for the union in the automotive component manufacturer. However, the full time union organiser in this multinational was hired and paid by the company based on a fixed-term contract. The concerns about career path and the continuity of income have also become key reasons for the reluctance of becoming full-time

union organisers, although the law as well as the CLA in each establishment has given the right to the union to appoint a full-time representative.

A management HR practice that the unions should start to take further into consideration is the use of fixed term contract workers and the practice of subcontracting; whereby the employment of non-standard workers that are more difficult to organise has taken place. The union in the car component manufacturer chose not to organise them at the time of research. However, some of the contract workers have expressed their desire to be able to become union members and the union executive committees were planning to discuss about this possibility in the future. The use of fixed-term contract workers was also found in the foreign bank; on the contrary, the union did not have a plan to recruit the contract workers in the future.

Additionally, the textile multinational had also cut the number of employees by introducing voluntary redundancies and subcontracting some jobs in coping with the financial difficulties they have suffered for several years. The union did not organise the workers in the subcontracting companies and had no plans to organise them, although they work in the same area and most of them were the multinational workers who chose to be redundant (thus their ex members).

Along with the continuing debate between the employers and the employees on 'core' or 'peripheral' jobs (as the law stated that only peripheral jobs can be subcontracted) as well as the flexibility enjoyed by the employers by using contract workers, there is always a possibility that the multinationals would choose to subcontract more jobs or increase the use of contract workers in the

future. The absence of unionism amongst such workers might add the advantages as the Company can apply its prerogative towards such workers (and hence the wider workforce) while on the other hand, the unions would experience declining membership.

## **9.6 Summary**

This thesis has reported on case studies that explore the factors underpinning unions' strategic choices (or lack of). It can be argued that the unions being studied were company unions as they operated within establishments. While the unions in car manufacturer, textile and foreign bank multinationals had an affiliation with a union federation, the union in the automotive component manufacturer chose to be an in-house union due to past bad experiences with its previous affiliation.

Furthermore, the unions studied had generally enjoyed a relatively friendly environment as well as better working conditions compared to many local companies and other multinationals. These circumstances have given the unions both opportunity and challenges: they can negotiate with the management towards many issues; on the other hand, they might compromise a lot to the management's agenda which results in dissatisfaction among their members.

A mix feeling of optimism and fear towards the continuity of the multinational's business among union representatives being interviewed has generally made them choose a "safe" path of compromising to management's agenda. Whilst the government policies are beyond their reach, controlling and maintaining

their relationship with the management is much easier in their effort to provide the necessary condition of competitiveness.

None of the unions studied had a clear strategy nor have a strong feeling of necessity to develop one except the union in the foreign bank, owing much to the union federation they affiliate with that provides them with a strategy (where full-time union organisers and officials who have such expertise tend to be concentrated). The union in the foreign bank chose to become management's partner, negotiate comprehensively with them, and avoid 'hard' industrial action. Other unions chose to act reactively to the management's approach and decision, counted a lot to the style of the union leader.

However, despite the clear strategic choices, the union in the foreign bank had hardly boosted their membership level. The favourable environment as mentioned above, added with the high workload and tight performance appraisal, has created low enthusiasm among the employees to join the union. Moreover, the union members were not actively involved to union activities and 'used' their membership only when they felt dissatisfied with new CLA.

The situation was different in the other unions, where the membership density was all above 90 per cent. The high membership density was caused by different reasons: the union in the car manufacturer was advantaged by the closed-shop policy; the union in textile multinational benefited from a high unionism tradition and 'social sanction' for non-union members; whilst the union in the automotive component manufacturer believed that their loan

program exclusively for union members had boosted the number of workers that joined the union.

Thus, it can be argued that the unions being studied did not have a strong feeling of necessity to develop a clear union strategy because they have survived without one: high membership, partnership with the employer, and smooth CLA negotiation, despite the compromising they have to make to maintain good relationship with the management. However, it was also evident (and increasingly recognised by union leaders) that a more strategic approach was necessary in a changing IR environment.

Other threats that might be faced by the unions in the future included the use of contract workers or subcontracting workers (which is legal since 2003 through the current employment law). The automotive component manufacturer and textile multinationals as well as the foreign bank have used quite a significant number of temporary contracts or engaged in subcontracting. The unions chose not to organise these non-standard workers as their tenure was only temporary. However, when the use of the non-standard workers increases in the future, unions might have to rethink to offer membership to these workers for their survival, as the multinationals may choose to hire non-unionised workers, so as to maintain/enhance the numerical flexibility of the workers.

## CHAPTER 10

### CONCLUSION

This thesis has explored the strategic choices chosen by unions in multinationals which in turn have influenced union behaviour towards management. It can be argued that a more strategic approach for unions is increasingly necessary within a 'neo-liberal' context whereby union survival and success is mostly dependant on the ability to develop a strategy which fits to its internal and external environments.

The theoretical model underpinning this thesis has been that of Huzzard's (2004) strategic choice model. This model suggested that there are four levels of strategy which unions would have to choose, where the choice of each level of the strategy is influenced by the choice of the preceding level. Huzzard's strategic choice model ranges from choosing and defining the union's mission, ideology and identity to that of choosing union's structures, processes and capacities. This model also suggests that the choice of the strategy is highly influenced by the internal and external factors of the union.

Multinationals were chosen for this thesis as multinationals have been among the role players in Indonesian economy particularly after the Suharto's era (1966-onwards). As cheap labour is one of the necessary conditions to attract foreign investment as Indonesia does not have technological superiority or abundant skilled labour, it was important to examine the role of trade union in multinationals as the representative of the employees to enhance to conditions

of its members. Four multinationals from different industries were studied to enable comparison.

This chapter presents the conclusion arising from the research in this thesis. Section 10.1 restates the major findings of the case studies. Finally, section 10.2 considers limitations of the research and offers suggestions for further research.

### **10.1 Summary of Research Questions and Findings**

The fundamental premise in this thesis has been that unions in Indonesia have enjoyed greater freedom after the reformation era where trade unionism is guaranteed through several legal means such as the ratification of ILO conventions and new Laws. However, despite the general protection from the Government, developing strategy is necessary for unions to be able to survive and achieve their goals in the current ‘neo-liberalism’ environment. The need of developing a clear strategy is more pronounced for the unions in work-place level as their freedom and survival are actually determined by the employer’s industrial relation’s policy and approach (given that the legal enforcement in Indonesia is still weak).

#### **10.1.1 Theorising union strategy**

Union strategy has not been widely discussed in detail (Satrya and Parasuraman, 2007: 32). However, scholars such as Kochan, McKersie and Katz (1986); Gardner (1989); Kelly (1996); Jeffries (1996); Boxall and Haynes (1997); and



Gahan (1998) are among those who have attempted to define and explain union strategy.

Union strategy from a straightforward choice (e.g. Kelly's moderate vs militant trade union) to a more comprehensive choice such as those proposed by Jeffries and Huzzard. Huzzard's strategic choice has been used as the theoretical framework in this thesis as it enables a comprehensive evaluation of the influence of the internal and external factors towards union's strategy. Furthermore, this model suggests that a strategic choice in fundamental and conceptual level (such as ideology and identity) will then shape the choice in the practical (such as processes and structure).

This framework was used to examine the following research questions:

*What is really happening in the workplace in terms of union-management relationship? This will be examined by using the strategic choice theory.*

*Do unions enjoy greater freedom after the reformation era and how have multinationals reacted to the changes?*

Multinationals were chosen to evaluate this framework as they are one of the main players in Indonesia's economy, usually establish in the form of big business and employ many workers. Scholars argued that multinationals obtain a superior position towards labour as they operate within more than one country

which enable them to fulfil customer's demand when a branch is temporarily unavailable to continue production (due to strike or boycott, for example) (see for example: Enderwick (1985) and Bean (1994)).

### **10.1.2 Union strategy in multinationals in Indonesia**

Apparent in this thesis that the unions in the multinationals being studied do not have clear strategies in managing their relationship with the management (except the union in the foreign bank, owing to the strategy set by its affiliation). However, a strong tradition of partnership exists in all multinationals (which as noted for the Japanese company case studies, is symptomatic of Japanese company attitudes towards unionism), and unions tried to avoid hard industrial actions (such as strikes and boycotts), a distinct character of union moderation.

It can be argued that partnership is the most practical strategy for the unions, given that management always stated that unions are their partner in creating healthy and harmonious working environment. Furthermore, the unions operate within a comfort zone with higher pay and better working conditions (compared to other multinationals and local companies) where their goal in economic function –improving members' welfare—has (to date at least) largely been achieved.

Competition among branches and with other multinationals within the same industry has added to the strong preference of union moderation/partnership. Unions see the need to cooperate with the employer rather than use a 'militant'

approach such as mobilisation and industrial action in winning the competition of producing new models as well as increasing production volume by providing preferable condition (i.e., no production disruption from actions such as strikes and boycotts). The partnership tradition also appeared to be reinforced by the fact that union executive committee members were volunteers who did not wish to compromise their own careers in the companies studied.

### **10.1.3 External factors shaping union strategy**

It can be argued that external factors are more pronounced in influencing unions' behaviour toward the management in the multinational being studied. As noted in the previous chapter, the reactive action constrained by external factors is the character of determinism—as the opposite of voluntarism where unions are able to develop strategy and determine their own future.

The most influential external factor is the employer's industrial relations policy and approach. As long as the employers regarded the union as their partner, the union would apply a soft approach of negotiation and even in many situations, compromising (to the employer's agenda).

The economic context in terms of competition among branches or other multinationals as explained on the previous section also led unions to moderate their demands and use a soft approach towards management. In addition, the general public perception that unions are obstacles on Indonesia's competitiveness toward foreign investment has also resulted in a soft approach

and an effort to show the employer that unionism does not disrupt productivity and work performance.

#### **10.1.4 Internal factors shaping union strategy**

The case studies show that the union studied in this thesis have embraced the ideology of market orientation, whose focus was on bargaining over labour market issues such as wages, working hours, etc. through engaging in collective bargaining regularly.

With the absence of a clear union past strategy (except for the union in the foreign bank), the style of the union leader influences the behaviour of the unions towards the management. Although the partnership industrial relations system was always reserved by the union the degree of cooperation is mainly determined by the union leader. The unions in the textile and automotive components are the most obvious examples of this case, where the union leader (at the time of research) applied different level of cooperation (towards management) with the previous leader.

The findings of the case studies also found that the union do not have full time union officers, except for the union in the automotive component multinational (however, it is important to note that the full-time union “official” is hired by the Company as a fixed-term contract worker). The absence of the full timers is derived from the shared value among the union representatives that that unionism should not be an obstacle in performing well in their (main) jobs as employees, reinforcing the interest in ‘partnership’ outlined earlier. However,

the unions in the remaining three multinationals argued that they have approaches in fulfilling their representative function to serve their member.

### **10.1.5 Summary**

The findings of this thesis then, validate the research aims defined in the introduction. To summarise:

*What is really happening in the workplace in terms of union-management relationship?*

The partnership system can be found in all multinationals studied, although it can be argued that this is not derived from a well-developed union strategy; but rather a practical strategy given to the constraints of the union's internal and external environments (and relative weakness). The case studies show that the unions did not have clear strategy (except the union in the foreign bank) and that the union's behaviour and approach were highly influenced by the union leader's style.

*Do unions enjoy greater freedom after the reformation era and how have multinationals reacted to the changes?*

The case studied show that the unions have enjoyed freedom from a long period. However, the reformation era has given greater freedom to the unions to

choose their own affiliation (not merely with the SPSI) or to become an in-house union (such as the union in the automotive component multinational). This choice, together with the style of the union leader, has influenced the way unions behave towards management. Management, in turn, has acceded to the unions in choosing their affiliation as it is guaranteed by the Law No. 21 Year 2000 on Trade Unionism. However, continuing high unemployment and a deteriorating external environment have served to mollify unions' demands and objectives: a fastened and moderate orientation towards management.

## **10.2 Suggestion for further research**

This research has been conducted in four multinationals which claim to have a cooperative approach towards unionism. The main reason for doing so was because of the limitation of time and funding to do PhD research, which has resulted in the choices of studying easily accessible multinationals. Several approaches have been done to get the access to the multinationals where the relationship between the management and union is not harmonious to enable comparison, but they had not been successful.

Thus this research might not be a comprehensive picture of all union-management relationship in multinationals. Given that three of the case studies were conducted in Japanese companies which conducted an approach towards unionism consistent with the stylised Japanese approach of partnership, it would be ideal if a research could be done in a multinational where unionism is restricted or where the union evidently uses a more militant approach in

achieving their goals to compare reactions and (possible) strategies to the unions studied in this research.

It would also be interesting to focus more on the female employees' role in unionism as the unions studied in this research largely represented traditional core workers (male-dominated unionism). The case study in the automotive component multinational showed that many contract workers hired by this Company were females, whose employment security was not guaranteed and where protection from the union was absent.

These caveats aside, this thesis has provided a useful contribution to the debate on trade union impact in Indonesia, and labour process issues in developing countries more generally.

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## Appendix 1      Publication

This appendix contains a publication on material arising from this thesis.

Summary details of the publication:

*1. Multinationals and Unionism in Indonesia: case studies in two multinationals in Indonesia*

Published in the Bulletin of Comparative Labour Relations Vol. 65, 2008: 129-148. The Netherlands: Kluwer Law International BV.

[Not available in the digital version of this thesis]