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## **Multinationals and Unionism in Indonesia**

Riani Rachmawati and Alex de Ruyter

*This paper presents a critical analysis of the factors shaping the interaction between multinationals and trade unions in Indonesia, focusing on the recent period of democratization following the downfall of the Suharto regime. It has been suggested that union growth risks undermining Indonesia's competitive advantages (cheap labour) and could encourage the exit of multinationals to cheaper competitors. In order to test this proposition, two case studies were conducted: one in the automotive industry and the other in the banking industry.*

*The paper first provides an overview of multinational activity and FDI in Indonesia, and their interaction with a nascent union movement. This is followed by presenting the findings of interviews conducted at the multinational enterprises with managers and union officials; to provide empirical insights into the bargaining process. The final part of the paper provides a preliminary assessment of the impact of union behaviour on MNC profitability and competitiveness in Indonesia. In contrast to traditional views of unions as impeding MNC profitability and "encouraging" exit, the paper finds that unions and MNCs can engage in constructive partnerships, but that pressures and contradictions in the relationship remain.*

**Keywords:** *Multinationals, Unionism, Indonesia*

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### **Introduction**

It has been argued that the activities of multinationals (MNCs) were 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. 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.

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 rights to independently establish and organise. However, it is not clear what effect these changes have had on union activity and interaction with MNCs.

Indeed, 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, more industry-level case study research is needed.

Hence, there is a need to examine how these changes have affected industrial relations practices at workplace level. Do unions enjoy greater freedom after the reformation era? How have multinationals reacted to the changes and what actions have they taken so far? This paper commences by providing a conceptual and empirical appraisal of multinationals and labour in developing countries; followed by an empirical overview of multinationals and unionism in Indonesia. The final part of the paper provides a preliminary assessment of how the relationship between multinationals and unions is shaped in the workplace.

## **Multinationals and Labour 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 controversy; along with host country's economic policy, national sovereignty, and cultural identity (Guillen, 2000: 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, 2000:6). 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). The issue of "cheap" labour has made the presence of multinationals in developing countries a more debated issue than in developed economies. Guillen (2001) lists three key features of the debate, which are:

1. Most 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 is the centrality of the state in terms of tight governmental control over the trade union movement and its activities. The purpose arguably has been to protect the interest of foreign capital (Bean, 1994: 218). This control was

Table 1. Organised labour's perceptions of multinationals

Political Regime	Economic Mentality of Organized Labour	
	<i>Modernizing</i>	<i>Populist</i>
Democratic with full labour rights	<b>MNE = Partner</b> Democracy and a modernising mentality enable unions to play an institutionalised role in the strategy of outward-oriented economic development and to monitor MNE activities in the country.	<b>MNE = Necessary Evil</b> Democracy and a populist mentality lead unions to accept the presence of MNEs in key import substitution industries in exchange for job security and enhanced purchasing power.
Authoritarian and / or repressive	<b>MNE = Arm's-Length Collaborator</b> Authoritarianism and a modernising mentality lead unions to accept the presence of MNEs only as collaborators of local firms on which they can exert a more direct pressure.	<b>MNE = Villain</b> Authoritarianism and a populist mentality lead to a rejection of the presence of MNEs as unions feel powerless.

Source: Guillen (2001)

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 become identified with the 'national interest' (ibid: 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 sometimes disadvantage the host country's labour.

However, even though the presence of multinationals is more debated in developing countries, not all trade unions perceive multinationals as 'enemies'; some of them see multinationals as partners. This perception is influenced by two factors: the political regime of the host country and the economic mentality of organised labour (Guillen, 2001: 130-131). The political regime can be democratic with full labour rights or authoritarian and/or repressive approach. The economic mentality of organised labour can also be classified as "modernising" or "populist". The modernising mentality

emphasises productivity, flexibility, and competitiveness among the workers. The populist mentality, on the other hand, emphasises short-term compromise and redistribution at the expense of long-term prosperity. The combination of political regimes and economic mentalities of labor produces four kinds of organised labour perceptions over multinationals, as shown in the Table 1.

Guillen (2001) argues that perceptions vary from villain to partner. A populist trade union in a country with an authoritarian regime will see multinationals as villains, which leads them to reject multinationals, as their presence will weaken trade unions. Argentina, Spain, and South Korea in 1950s and early 1960s are the example where unions perceived multinationals as villains. Unions at that time believed that multinationals helped to legitimate authoritarian regimes in their country and that multinationals have exploited working classes in the context of unequal international division of labour between advanced and developing countries.

In contrast, a modernising trade union with democratic regime will see multinationals as partners because of the ability of unions to play a role in the strategy of outward-oriented economic development as well as to monitor multinationals activities in the country. However, among these countries, only Spanish

trade unions perceived multinationals as partners in 1990s. Spanish unions have been fully persuaded that multinationals could create jobs, bring technology, and improve economic well being in Spain.

In the 1990s, South Korean unions, on the other hand, multinationals were perceived as arm's length collaborators at best; needed in the pursuit of export-led growth. This perception was held as the result of government's unwillingness to take labour into account during the transition to democracy in the early 1990s. The perception of Argentine unions towards multinationals is not significantly different from their Korean counterparts. Owing to Peron (1952-1955) who successfully created The General Confederation of Labour (CGT), the Argentine peak union at that time into a nationalist and populist trade union, unions' attitudes in Argentina were very intolerant and perceived multinationals as necessary evils.

## Multinationals in Indonesia: the Debate

After decades of 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. Thus, the early years of the New Order government were characterised by a very liberal policy towards multinationals in order to attract foreign direct investment. It has been argued that the activities of multinationals were an important factor in Indonesia's rapid economic growth during the New Order, along with orthodox macro-economic policy and political stability (Hill, 1988: introduction).

Japanese multinationals were chief amongst those who have 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 (ibid: p. 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 in petroleum sector since the last 1970s. However, recent data shows that United States no longer dominates foreign investment in Indonesia. Rather, other Asian and European countries are now investing more in Indonesia, such as Singapore and United Kingdom. There is no data, however, in which sectors these countries are investing.

Table 2. Trend of Investment Planning Approvals by Country of Origin, 2001 - 2005, in million US\$

NO.	Country of Origin	2001	2002	2003	2004	2005
1	Singapore	1,173.2	3,376.6	801.4	617.5	3,933.2
2	United Kingdom	793.4	747.2	999.4	1,318.5	1,529.0
3	Japan	817.6	518.5	1,251.5	1,688.9	1,176.4
4	Malaysia	2,243.6	74.8	336.5	483.0	587.3
5	Australia	273.5	278.3	129.1	481.2	513.6
6	Netherlands	88.8	244.1	353.6	258.7	472.3
7	South Korea	373.4	378.3	166.2	419.3	417.3
8	People's Republic of China	6,054.5	46.6	264.0	24.6	205.0
9	United States of America	87.7	468.5	211.7	133.3	91.2
10	Mauritius	523.8	862.1	4,572.4	355.4	6.6
11	Domestic Investment	59,898.5	25,949.4	55,707.2	44,522.2	50,577.3

Source: [http://www.bkpm.go.id/bkpm/file\\_fact/ Tabel-35.xls](http://www.bkpm.go.id/bkpm/file_fact/ Tabel-35.xls)

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. Hence, the majority of multinationals invest in industries which are labour-intensive in nature, such as textile, garments, 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.

## Unionism in Multi-nationals in Indonesia

The ability of trade unions to pursue their objectives has to be placed in the context of multinational activity. In Indonesia there are issues pertaining to the interaction between unions and multinationals and the union movement is still facing serious challenges, especially at enterprise-level. This challenge comes from the nature of multinationals, which played a very important role in economic development during the New Order period. Textile, garments, and footwear are those industries where were dominated by foreign investors, and were able to absorbed a huge number of employment. In year 2000, these industries employed more than 2.2 million workers<sup>1</sup>.

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 dis-advantageous position. Actual shifts reduce job security and labour demand, while the threat of closure may be used as a bargaining tactic.

Furthermore, the broader financial base of multinationals weakens the bargaining power of unions. In the event or threat of strikes at one of the subsidiaries, multinationals can maintain production at other sites, and thus their cash-flows; which alleviates the costs of strike activity. This situation is in turn heavily influenced by the stance of the state: e.g., the law introduced by the government to reserve foreign investment, such as the policy of a sole union controlled by the government which existed in Indonesia between 1973 -1998. Thus, government policies on labour significantly influence the behaviour of multinationals in these industries. They may compare other countries' policy over labour and relocate their business if they consider that doing business in other countries would be cheaper and more profitable than in Indonesia. The decisions of the government to increase minimum wage and give greater freedom to unionism have been argued to be one of the main reasons of multinationals' relocation. Vietnam is considered as the main competitor as it provides cheaper wages and non-unionised workers.

An example of the production relocation practiced by multinationals is what has been done by Nike. Nike tends to relocate its business once the labour of the host country became more expensive. Nike chose Korea as its main sites in 1960s, but then moved to Taiwan in 1970s, when the labour cost in Korea increased. Indonesia and China then became its main destination in 1980s (see <http://www.globalexchange.org/>). However, in September 2002, PT Doson which is one

<sup>1</sup>([www.dprin.go.id/ind/statistik/STATINDUS/ik03\\_chart.asp](http://www.dprin.go.id/ind/statistik/STATINDUS/ik03_chart.asp))

of Nike's subcontractors in Indonesia closed its plant, causing about 7,000 job losses. The previous PT Doston workers believed that the great freedom given to the factory's union made Nike more difficult to control its workers. This closure pushed Nike footwear production fall to 26% from 38% in 1996. The figure depicts clearer picture: In 1996, Indonesia still exported 250 million pairs of Nike shoes valued at nearly \$2.2 billion. In 2001, the figure was dramatically dropped to only \$1.5 billion and falling. Vietnam, which is considered as a close competitor in footwear industry, has successfully increased its share on Nike's production to 15% from only 2%.

Union activists suspected that the closure was driven by the greater union freedom at this factory compared to other Nike factories in Indonesia. Union leaders believe that the friction between the union and management over a new contract has been the main reason. The deadlock over the agreement led to a strike on October 2001, followed by massive layoffs on December 2001.

Therefore, it can be concluded that the difference in trade union experience after the downfall of the New Order government so far is only in terms of greater freedom to establish unions. Union freedom in organizing and mobilizing their members is still facing great challenges. The challenge still comes from the presence of military intervention in dismissing and/or curbing labour unrest, like what had happened in the New Order period. Furthermore, the fact that the unemployment rate is very high in Indonesia makes workers more inclined to want to keep their jobs rather than actively involved in union activities, which could potentially endanger their liberty as well as job security.

## Method

The method used in gathering data is through case studies. Case studies are one of

most common ways to conduct qualitative research. 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). This research consists of findings from two case studies (comprising interviews with managers, union reps and members; and ILO representatives) that were conducted with unions and multinational firms in Indonesia.

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

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

Given the shortage of the research on trade unionism and MNCs in Indonesia, this research will provide a valuable insight into union and MNC behaviour at a workplace level. Firm-level rather than industry-wide research was chosen in order to ensure depth and richness of data generated. Thus, the research seeks to shed light on the labour process, in order to develop a more comprehensive understanding of union strategies within a given context. Furthermore,

in-depth telephone interviews were conducted with an ILO Jakarta official and representatives from two key unions in Indonesia for a broader view.

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 occurs 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 characteristics of members, from low-skilled manual workers like those working in assembly lines to skilled workers like those who work in the 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 increase use of contract workers that has been legitimated by Law No. 13 Year 2003.

The interviews were semi-structured and based around the following issues:

1. The nature of the relationship

2. The union's strategy in dealing with management; whether this strategy has ever changed and how management responds to this strategy.
3. How the Indonesian economic and social context affects multinational and union operations.

In each multinational, interviews involved managers and union representatives. In the first multinational which operates in the automotive industry, two CEOs, four managers from the human resources department and six union representatives were interviewed; whilst in the second multinational, one CEO and two managers from human resources department and eight union representatives were involved.

The interviews were supplemented with aggregate data and documentary analysis. At all times the strict ethical principles of fully-informed voluntary participation, confidentiality and anonymity; and the opportunity to review interview transcripts – were adhered to.

## **Findings: A Preliminary Assessment of Multinationals and Unions in Indonesia**

In both multinationals, there has been a lengthy period of union recognition. The main reasons for this were because it is obligatory by law and unions were seen as a necessary aspect in the workplace. However, the pattern of the management-union relationship in each workplace is quite different. It can be argued that the nature of the industries where the multinationals operate, the number of members each union have and the background of the employees being organised by the union have shaped this relationship.



## Case Study in Multinational Automotive Industry

The union in this multinational has been recognised since the 1980s. This multinational has a policy that all employees will automatically become union members except if they refuse it; and thus the union currently organises around 5,000 employees in the workplace: approximately 99 per cent of the workforce are union members. Hence management “recognises” the union, as it has an integral presence in the establishment and they need a “partner” from the employees in managing the company. Management also stated that the union is a necessary aspect 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 said by one of the managers: *“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.”*

In contrast to unions in developed countries, there are no full-time union professionals involved in the bargaining process (nor do union members in the establishment have any desire to become full-time paid officers – even though the company has been willing to fund such arrangements – concerns were typically expressed over career paths for example). Thus the bargaining process is enterprise-led and the (branch of the) union effectively can be considered as an “enterprise union”.

### ***Management-union relationship and strategy***

As such, both management and union suggested that their relationship in the

workplace was harmonious and based on a unitarist perspective of shared goals (although this appears to be under pressure, as seen below). The concept of partnership at work was initiated by both parties and stated in the CLA since the 1990s. The company needs to have a strong union engaged as their partner. However, both parties admit that there are fluctuations in the relationship caused by gaps in expectations and in understanding the conditions of the company. Management feels that gaps are widened particularly when a new union leader is appointed. In their view, how to deal with the union really depends on the style of the union’s leader. Whilst succession planning (or *regeneration*) in the managerial level is well-planned, some managers feel that the union does not have a clear concept of regeneration. Failure in appointing an experienced leader will lead to widening the gap in expectations; which is happening currently. This dependence on the union leader’s style in dealing with management is also admitted by the union. However, the union leader was aware that leader-oriented dependency should be replaced by systems-oriented approach (systematic 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 would be greater that we have to depend on a system. This is what we are working out now.”*

The union, on the other hand, feels the current gap is mainly caused by major change in the ownership of the company. As the headquarters of the multinational has great discretion in monitoring its subsidiary; the union feels that there are changes in the way management communicate with them. One

of their main concerns is the change in formulating the collective agreement (CLA), which they regard as a very fundamental and worrying change.

*“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 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 cause for concern by unions. This has occurred as a result of a change in ownership in 2003, with the parent (Japanese) company increasing its ownership from 49% to 95%; and is indicative of the parent company's desire to implement Japanese-style CLAs (which are less extensive than Indonesian agreements and offer a higher degree of management prerogative). Despite the promotion of the partnership concept at work, both management and union have started increasingly 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 feels that the union is not as compromising as much as they used to be previously:

*“there are 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 negotiation (because of disagreement). The new representatives often advocate the members who actually make mistakes. They gradually changed though, but there is still an impression that some of them ask us to negotiate issues that we think are our prerogative.”*

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 whether the union will become more militant in its outlook – here external constraints are significant (see below).

### ***Reaction to external challenges***

The automotive industry is one of the industries that has 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 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 one of the CEOs.

*“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 those things. 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."*

As such, 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 regards the union as a threat to operating 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, is not really concerned with this law as they feel that wages and working conditions in the company are above the standard mentioned in the law. They are even optimistic that the employment system in the company would work even if no employment laws existed.

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

### **Case Study in Multinational in Banking Industry**

This multinational has operated in Indonesia for more than 40 years. The business so far has been stable as the CEO said that the growth of this multinational is always within the growth path. 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 (thus the prospect of cheaper labour from elsewhere in the region is a non-sequitur).

The multinational has recognised unions since 1977. However, in 1998, after the democratisation era the union affiliated to a union federation which organises mainly in the banking and retail sectors. The union membership consists of around half of the 300 employees in the multinational establishment. The majority of the union members are female with the ratio of 3:1 to male members. The union leader themselves is female whose position in the company is also one of the senior managers.

### ***Management-union relationship and strategy***

The concept of partnership is also held in the workplace. Management regards the union as part of their team in creating a healthy working atmosphere. However, the union leader thinks that it is not actually 100% partnership as there are some issues which are not discussed with the union, particularly those related to finance/the budget.

The management and 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 involve 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 (sharing a unitarist

perspective with the company) communicates it to members. Like the first multinational being studied, the union in this company also provides a communication function which in turn, gives advantages to the management and confers 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 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.

### ***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 is Employment Law No. 13 Year 2003. The CEO argued that this law gives too little discretion to 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.

## **Discussion**

The case studies presented in this paper have offered important insights into the nature (and change) of the bargaining process in Indonesia. Both multinationals studied had partnership arrangements with the union for managing the workplace and thus, negotiation was the main tool in reaching agreement. As such, in terms of Guillen’s framework, *prima facie*, they can be considered as “partners”. The tradition of unionism in these multinationals is strong as both have long recognised unions.

The multinationals studied in this paper preferred to have only one union in the workplace as their partner. In this situation they argued that it was much more efficient to only have to negotiate with one union. The managers of the multinationals did not see unions as a threat to the profitability of their business. Rather, they highlighted external problems such as the legal system and lack of public infrastructure as barriers to sound economic performance. This behaviour towards unionism was very different from the case of Nike highlighted earlier (which as indicated relocated their business out of Indonesia due to emerging unionism in the workplace).

The nature of the industries (formal sector with above-average wages) where the multinationals operate also contributed to a generally good relationship between management and unions. However, apparent was a contrast between the two case studies – in the automotive industry study, the change of ownership had precipitated a change in management attitudes and hence a deterioration of “trust”. Here product market pressures (and the implicit threat of relocation, given viable alternative production sites in the region) stood in stark contrast to the banking industry example. In the banking example, operating in the services sector means that in order to serve the customers, it has to exist near the customers. Thus, the

threat of relocation is not really a viable option if the company wishes to cater to the Indonesian market. As such, the corporate banking industry is quite a stable one, so it could be said that the union and employee respondents in this study both felt secure with their jobs.

As such, a clear difference can be seen from the multinational operating in automotive industry. Cheap labour was the main reason for this multinational in choosing Indonesia as its production base. As the price of labour is the main factor in maintaining production in Indonesia, changes in managing the company and union are seen as big matters for both the management and union. However, concerning the amount of investment this multinational has made in Indonesia, the employees and union are still optimistic that this company will retain some kind of presence in Indonesia for the foreseeable future, which in turn gives the union some confidence in negotiations.

Both multinationals also had employment standards which were above the minimums stipulated in Employment Law No. 13 Year 2003. While the general perception of unions was that this law favours the employers, the management of the multinationals see it differently. It was argued that the law has discouraged competitiveness as an employer cannot impose financial penalties on workers who are poor performers. If an employer were to dismiss non-performers, they will have to pay a particular amount of severance pay, which according to managers, should not happen. If this is indicative of “excessive” labour regulation costs then it could inhibit foreign direct investment. Indeed, as seen, such arguments have underpinned the recent thrust of employment legislation in Indonesia.

## Conclusions and Suggestions for Further Research

This paper has examined the management-union relationship in multinationals in Indonesia. The findings in the paper do not conform to the general perception that multinationals tend to relocate their business and thus, weaken the position of the organised labour. On the other hand, these findings confirm the argument of Guillen (2000) that not all unions perceive multinationals as their enemy and are willing to engage in partnership and compromise in pursuit of their objectives. The findings should be treated with caution, however, as this research involves multinationals from particular countries which operate in particular industries (in the formal sector).

Multinationals which originate from a country which does not have a strong tradition in recognising union may have a very different story (as evidenced by the practices of Nike in Indonesia). Furthermore, multinationals that subcontract their business to other companies may find it easier to relocate business and can use this condition to inhibit unionism in the workplace.

Despite these limitations, these findings are interesting for further discussion and shed important light on the changing nature of employee relations in Indonesia. Further analysis on other industries (and examining multinationals from other countries) can shed more light on whether external factors (e.g. politic and legal system) or cost considerations are more important to multinational production decisions and their interaction with unions.

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