

THE RISE OF LABOR MOVEMENTS AND THE EVOLUTION OF THE INDONESIAN SYSTEM OF INDUSTRIAL RELATIONS: A CASE STUDY

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This study analyzes a case of labor conflict at a garment company in West Java with particular reference to the rules and strategies among the parties involved. Using game theory, the study analyzes the formation of the critical point of labor conflict and examines the negotiations that led to the formation of stable industrial relations. At that point, the Nash equilibrium was at the company strategy of collaboration and at the workers' strategy of hostility, the company having assumed that the workers would mount a strong resistance to the company's hostile strategy. Under circumstances of weak law enforcement, the effective strategy for the workers was not only to obtain knowledge concerning the law but also to gain the support of the community, as well as solidarity among union members, and to pursue creative strategies. This study also shows that an important rule for stabilizing industrial relations is continual communication among the company, labor unions, and the members of the workers' organizations.

INTRODUCTION

UNDER the Soeharto regime (1968–98), Indonesian industrial relations were characterized by an exclusionary corporatism that went under the name of Pancasila industrial relations (Hadiz 1997). Today, however, industrial relations are undergoing a major transformation.

The transformation was triggered by the immediate approval of the right to organize given by the Habibie administration after it came into being upon the resignation of President Soeharto in May 1998. Long-standing government intervention in the Indonesian labor movement was stifled with the ratification of the ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organize. This was done under the Presidential Decree No. 83 of June 1998. This step helped increase the number of labor federations at national level from only 1 under the Soeharto regime to 74 as of October 2003.

The new labor law, which had been revised after 2000, significantly differed from its predecessors in that it noticeably reduced government intervention. Three laws (Act No. 21 of 2000 on Trade Union / Labor Union, Act No. 13 of 2003 on

Employment, and Act No. 2 of 2004 on Industrial Relations Dispute Settlement), requiring substantial tripartite dialogues, now respectively govern the right to organize, the right to negotiate, and the right to act. These laws have reduced government intervention in the formation of labor unions and in the coordination of industrial relations. Consequently, the function of settling disputes is shifting from the Committee for Labor Dispute Settlement, an agency controlled by the government during Soeharto era, to the Tribunal of Industrial Relations, an entity independent of the government. One of the designed features of the whole of this process is the move to the rule of law.

Employer associations have also been freed from the government control imposed under the Soeharto regime, and have begun to place greater emphasis on bilateral negotiations between employers and workers.

On the other hand, the decentralization policy, which is based on Act No. 22 of 1999, has caused labor administration to be undertaken primarily by districts (*kabupaten*). Indeed, a major portion of the hitherto centralized labor administration and the national tripartite institution (government, employer, and worker) is shifting to district and regional levels.

At this point, questions arise as to whether these reforms can successfully adjust the sometimes conflicting interests of employers and workers thereby stabilizing Indonesian industrial relations, and whether the reforms can consequently establish a new system which would replace the Pancasila industrial relations that were believed to have been stable under strong governmental control in the past.

In an attempt to find an answer to these questions, this paper will present a case study of labor disputes at a major sewing company in the Bogor District of West Java Province.¹ The author has previously studied the case of a fierce labor dispute at a metal manufacturer in West Jakarta that ended up with the dismissal of 667 workers (Mizuno 2003). The study had four conclusions: (1) consultation efforts involved not only the government, the employer, and workers but also Parliament and the National Human Rights Commission; (2) conciliation by government organizations focused almost entirely on the amount of severance pay, service pay, and compensation pay for rights or entitlement that the dismissed worker ought to have, and was unable to offer viable solutions for all of the parties; (3) there were frequent infringements of the labor law, such as the rejection of a newly organized labor union, the hiring of gangsters, and the use of violence as well as deviations from the legal framework; and (4) judiciary intervention in these cases was limited.

Taking into account these points, this paper, in an attempt to explore the possibility of stabilizing industrial relations and the ways in which this possibility can be

¹ In March–May 2001 and from June 2003 through March 2004, the author conducted interview surveys among the staffs of company A, among its union officials, and among union members. The interviews were on industrial relations, union activities, and labor management. This paper presents part of the findings.

realized, will examine cases in which labor and management reached compromise by coordinating their opposing interests, avoiding the dismissal of workers. This study reflects the fact that in Indonesia, while there are fierce labor disputes, there is an unmistakable shift to a new consultation system, rather than to the rule of law. The paper will further analyze the implications of this case for the establishment of a new industrial relations system in Indonesia.

In considering institutions, it is necessary to examine the economic entities that are the main parties concerned, the importance of formal and informal rules,² and the strategies of the main parties.³ The formation of a new institution requires the establishment of rules that support the institutions, or rules that form the institutions themselves. It is also necessary for the rules to be reproduced by means of the strategies of the parties concerned. For purposes of the analysis, the paper will use game theory to identify the formal and informal rules and strategies that are recognized by both parties when attempting to resolve disputes that arise between them.

Previous studies of the Indonesian industrial relations system were mostly those made during the period of the Soeharto regime, and many of them were nothing but commentaries on the concept of the Pancasila industrial relations and the laws governing these relations (Soekarno 1979; Suntjono 1980; Djumaldji and Soedjono 1982; Kartasapoetra et al. 1983). By contrast, Borkent et al. (1982) discussed the intervention of the military in labor disputes drawing attention to the weakness of labor organizations, and Hadiz (1997) reviewed the evolution of labor organizations up to the Soeharto era in relation to government policies. Sutanto (1998) analyzed the issue of worker welfare in the closing days of the Soeharto government with reference to workplace welfare programs and workers' welfare problems. Manning (1998) touched on industrial relations, but his discussions covered only the number of disputes and governmental policies regarding the minimum wage system and worker social security, making little reference to industrial relations in and outside the workplaces.

Compared with these past studies, this paper will identify the concrete rules that govern industrial relations in the workplace and the strategies of the parties concerned, by examining the process of dispute settlement. It will then specifically analyze the system by examining how consensus is forged.

Section I will provide a profile of the employers' and workers' organizations. Section II will examine the companies under study and their labor disputes. Section III will discuss the rules for labor disputes, analyze their strategies using an exten-

² "Institutions are the rules of the game in a society or, more formally, are the human devised constraints that shape human interaction" (North 1990, p. 3).

³ An institution is a self-sustaining system of shared beliefs about how the game is played. It governs the strategic interaction of the agents in a self-enforcing manner and in turn is reproduced by their actual choices in a continually changing environment (Aoki 2001, p. 26).

sive form of game theory, and examine how industrial relations can be stabilized. The paper will end with some concluding remarks.

I. LABOR UNIONS AND EMPLOYERS' ORGANIZATIONS

Labor unions have increased in number at both national federation and factory levels. They now come in various forms and include enterprise unions, craft unions, and general unions. Regional unions also play an important role. At the factory level, however, unions are formed in many cases as individual enterprises in circumstances where most unionists belong not to industry-wide unions, but to enterprise unions in which the union member pays union dues. In some cases, however, union members belong to general unions and regional unions rather than enterprise unions.

During the Soekarno administration, and even during the Soeharto administration before 1973, many enterprises contained more than one union and it was only thereafter that "one enterprise, one union" became the general rule. However, since the recovery of the freedom of association in 1998, conditions for approving unions have been largely eased and consequently each enterprise has again come to contain more than one union. Act No. 21 of 2000 on Trade Union / Labor Union stipulates that in an enterprise, a union can be formed with the participation of ten workers, thus confirming the existing reality that more than one union can exist in an enterprise. Today it is increasingly common for each enterprise to contain several unions.

When an enterprise has more than one union, a problem arises as to which union should have the right to negotiate. With regard to this right, Act No. 21 of 1954 on the Collective Labor Agreements between Trade Unions and Employers (hereafter called "Act No. 21 of 1954") stipulates, in regard to collective labor agreements concluded under its Article 4, that the labor union concerned shall only be responsible for its members. Thus it implicitly admitted that even a minor union could have the right to conclude agreements. However, the Ministry of Manpower's Regulation No. Per-01/MEN/1985 on the Execution of the Procedure of Arrangement for a Collective Labor Agreement (CLA) contained an additional clause stipulating that a labor union which wants to conclude a labor agreement for the first time, should have as its membership no fewer than half of the enterprise's total persons employed. This was the first denial of a minor labor union's right to conclude an agreement. In its Article 118, Act No. 13 of 2003 on Employment stipulates that one company can conclude only one collective labor agreement that is effective for all workers/laborers in the company. In its Article 120, the Act also states that if there is more than one labor union in an enterprise, the union which has the right to represent workers in negotiating collective labor agreement shall be the one whose members make up more than 50 percent of the total number of all workers in the enterprise.

By contrast, since the Soeharto era, there has been only one employers' association involved in labor matters, namely, the Indonesian Employers' Association (Asosiasi Pengusaha Indonesia, APINDO). This association was an important component of the tripartite consultation system that the government had endeavored to establish and consolidate since the late 1960s. However, its autonomy had been weak and the power it gave employers was limited. In an interview, Wanandi, who became APINDO chairperson in June 2003, admitted that there were no competent persons who dared to oppose Soeharto's opinions, and that "the matters requiring tripartite consultation" were in fact determined by the government alone. He went on to say that despite its name, APINDO was actually composed of persons from Ministry of Manpower, Ministry of Industry and Trade, and company retirees, and thus companies never considered it as a body representative of their interests. Only recently has it become the one institution that actually represents the employers. The APINDO chairperson criticized extensive intervention in industrial relations by the Soeharto government and added: "We will endeavor to forestall disputes by ensuring smooth communications between employers and workers both at national and enterprise levels, and when disputes arise they will be settled through efforts on both sides. It is only when these efforts fail that we will turn to the Tribunal of the Labor Dispute Settlement for its decision."⁴

II. OUTLINE OF THE CASE OF LABOR DISPUTES

The company in this case study has been chosen so as to represent Indonesian industry to some extent in terms of both sector and geography. It is a leading company in the sewing sector, a major Indonesian industry, and is located in the Cibinong region of Bogor District, which lies within Jabotabek (Jakarta, Bogor, Tangerang, and Bekasi) a region that contains Indonesia's biggest industrial centers.

A. *Outline of the Company*

Company A is a major Indonesian sewing enterprise, and is owned by an ethnic Chinese. It was founded in 1976 and listed on the Jakarta Stock Exchange in 1989. In 2001, 65 percent of its products were exported. As of 2003, it had three factories in West Java Province, including those in the Cibinong region of Bogor District.

Since 1982, company A has contained a labor union, which formerly belonged to a federation of unions that was the only labor union existed during the Soeharto regime. The enterprise union was named PT.A Labor Union of Textile and Garment Industrial Sector Unions of the All Indonesian Labor Federation (Serikat Buruh Tekstil dan Sandang-Federasi Buruh Seruluh Indonesia Basis PT.A). In 1995 the union changed its name to PT.A Workers' Union of Textile, Garment and Leather

⁴ This is based on the author's interview with the APINDO chairperson on August 12, 2003.

Industrial Sector Unions (Unit Kerja Serikat Pekerja Tekstil Sandang dan Kulit, SPTSK PT.A) of All Indonesian Workers' Union (Serikat Pekerja Seluruh Indonesia, SPSI). The unions withdrew from SPSI in 1998. In many cases the unions send their representatives to the Local Wage Council to discuss the minimum wage at local levels and engage in active street demonstrations over such issues as revision of the labor laws.

Although the union belonging to the national organization had been exclusive to company A, there have been, since the Soeharto era, some strikes, none of which have had anything to do with the union's decision making or method of organization. Of these strikes, the large-scale ones, which were staged in 1991 and 1995 with the participation of most of the employees of the Cibinong factory, caused the factory to close for a few days. The 1995 strike over the issue of wage hikes ended up with the dismissal of more than 70 employees and some improvement in the working conditions.⁵ The latest strike has also been staged over a wage issue.

B. *Outline of Labor Disputes in 2002*

On December 26, 2001, the head of Bogor District (Bupati Bogor) decided to raise the monthly minimum wage from Rp 450,000 to Rp 576,169 with effect from January 2002. Upon this decision, company A and the Executive Committee of the PT.A Workers' Union of SPTSK (Pimpinan Unit Kerja SPTSK PT.A) began collective bargaining in December 2001 and reached an agreement on January 21, 2002. The agreement called for a deferral of the wage hike as of January 2002 and a three-stage raise, at the beginning of April, July, and October respectively, to realize the target minimum wage by October 2002.

However, the announcement of this agreement on January 21, 2002 initiated objections from many parts of the plant, and almost the entire workforce of 7,000 joined a protest march.⁶ The participants selected 26 worker representatives (*perwakilan karyawan*) from all departments of the company. The employees on strike demanded an immediate raise of their wages for 2002 according to the minimum wage decided by the head of Bogor District, and staged a march to the Parliament of Bogor District (DRRD Bogor) on January 23 and 24.⁷

Company A temporarily suspended its operations on January 23 and 24. While the employees were staging a walkout, the company, worker representatives, and

⁵ The main issues here were about wages and menstrual leave, and the organizers were NGO and unrecognized labor associations. The 1995 dispute was settled after the dismissal of 70 employees. The activist made strenuous efforts to ensure that an improvement in working conditions at the region's representative company should have a ripple effect on the peripheral enterprises. Such was indicated by the author's interview with the SISBIKUM (Social Information and Legal Guidance Foundation) representative on March 4, 2001.

⁶ This is based on the author's interview with the PPMI PT.A chairperson on September 2, 2003.

⁷ "Buruh A Serbu DPRD" [Workers of company A surged into District Parliament], *Radar Bogor*, January 24, 2002.

SPTSK PT.A talked together on January 25, and agreed on three points concerning a deferral of minimum wages and wage hikes by stages. It was decided that: (1) the judgment concerning the advisability of the agreement should be left to the Committee of Reviewing Proposal for Minimum Wage Implementation Postponement at Bogor District (Panitia Pengkaji Permohonan Penanggulan Upah Minimum oleh Pengusaha di Kabupaten Bogor); (2) deliberation on this matter should be undertaken by the labor-management consultation system and this committee; and (3) the decision by the committee should be respected by both the company and the workers.⁸ With this three-point decision, the employees who had walked out returned to work.

As the forum for disputes shifted to the committee, the employees began to appeal to the committee and to the head of Bogor District. On February 9, the worker representatives, together with SPTSK PT.A, petitioned the Bogor District Parliament and the head of the district, and on February 11 the representatives themselves filed a petition. Most of the employees joined in the presentation of the petition on both days. In accordance with the decision of the Committee of Reviewing Proposal for Minimum Wage Implementation Postponement at Bogor District, the head of the district decided on February 12 to approve the application for deferral of company A's wage hikes and subsequent raises by three stages. SPTSK PT.A accepted this decision, whereas the worker representatives, who had cancelled the January 25 agreement on February 11, refused to accept this decision. On February 13, the workers returned to work, but after that they resorted to a strategy to refuse to work overtime in waves.

On February 13, the Minister of Manpower called a meeting, but the employers and the workers were unable to reach agreement. Another meeting held on February 18 also failed. At the February 28 meeting, irritated worker representatives left the table. Company A suspended employment of nine representatives on March 1 and the remaining 27 representatives on the following day on the ground that they had instigated workers to refuse to work overtime. The company then brought the dispute to the Central Committee for Labor Dispute Settlement (Panitia Penyelesaian Perserisihan Perburuhan Pusat, P4P) and began procedures for dismissal of the worker representatives.

For their part, the worker representatives went to the Ministry of Manpower on March 5, requesting withdrawal of the suspension of employment and an immediate payment of wages according to the minimum wage decided by the head of Bogor District in December 2001. On March 6 they staged a factory-wide walkout, and about seven thousand employees lodged a petition with the District Parliament

⁸ "Kesepakatan Bersama diantara Pengurus Unit Kerja SPTSK, Dewan Direksi PT.A dan Perwakilan Pekerja tertanggal 25 Januari, 2002" [Collective Labor Agreement between executive body of SPTSK Workers Union, worker representative, and director of PT.A dated January 25, 2002].

and the head of district. On the morning of the fifth day of the strike, March 11, company A posted a notice that absence without notice for five days in a row would be treated as voluntary resignation, and urged the employees to return to work. As the employees continued the walkout, the company withdrew the suspension of employment of the representatives on that day, and the employees returned to work on March 12.

The worker representatives notified the Section of Manpower, Bogor District of the establishment of their union. Having received the official notification number on March 26, they initiated action by the PT.A Workers' Union of Indonesian Muslim Workers' Association (Persaudaraan Pekerja Anggota Persaudaraan Pekerja Muslim Indonesia PT.A, PPMI PT.A) and made a strong demand for the payment of the minimum wage. On April 2, the company, SPTSK PT.A, and PPMI PT.A met for collective bargaining and agreed to set minimum wages for April–June at Rp 500,000 and to continue to negotiate for wages for the period from July 1 onward. This amount was Rp 14,000 more than Rp 486,000, this latter figure being the amount agreed between the company and SPTSK PT.A in January for this period and approved by the head of Bogor District on February 12.

However, the company refused to recognize PPMI PT.A as a viable entity. When the company signed the April 2 agreement, it regarded PPMI PT.A merely as representatives from among the workers. The company contended that “36 militant workers intimidated the members of SPTSK PT.A to join a new association, making it impossible for the corporation to deal with the ‘illegal’ labor association.”⁹ Nevertheless, at the inauguration of the PPMI PT.A executive members on May 17, 2002, even the Minister of Manpower was present and gave a speech, and the company's representative director also attended, accepting the new association. Subsequently, relations between the company, PPMI PT.A, and SPTSK PT.A greatly turned very much more amicable and the three parties set up a forum for exchanging opinions to meet every Thursday morning from May onwards.

The labor-management relationship was gradually stabilized. Company A revised its minimum wages in July and October 2002, but they were on the same level as those agreed by the company and SPTSK PT.A on January 21 as approved by the head of Bogor on February 12, leaving the workers not entirely content. However, the revised minimum wage for 2003, which was agreed by the company and the two labor unions on January 21, 2003, proved to be a substantial hike over that decided by the head of Bogor, notwithstanding the confusion at district level.

⁹ Letter of Director PT.A No. 216/PR-A/IV/02 addressed to Interfaith Center on Corporate Responsibility (ICCR) dated April 4, 2002.

III. RULES FOR INDUSTRIAL RELATIONS

A. *Rules for Labor Disputes*

1. *Strikes*

In the course of the dispute, workers often resorted to walkouts and strikes. What rules did they have in mind in employing such tactics?

When the dispute broke out in 2002, Article No. 13 of 2003 was not yet in force, and the procedure for staging a strike was basically subject to Act No. 22 of 1957 on the Settlement of Labor Disputes (hereafter called “Act No. 22 of 1957”). Under this act, “if in a dispute one of the parties intends to take action against other parties, such intention shall be notified in writing to the other parties and the chairperson of the Regional Committee for Labor Dispute Settlement (Panitia Penyelesaian Perserisihan Perburuhan Daerah, P4D). Strikes may only be taken after the party concerned has received such acknowledgment of notification from the chairperson of P4D.” Although it is stipulated that the acknowledgment of a notification must be sent by the chairperson of P4D within seven days of having received the written notification, almost no acknowledgment has ever been issued by the chairperson (Mizuno 2003). In the present case study, the worker representatives sent a written notification of the staging of a strike to P4P on February 9.¹⁰ However, as this had already been chosen as the day for taking action, P4P did not dare to issue an acknowledgment.

The representatives failed to submit to P4D any letters regarding their action scheduled for January 22–25 and for March 6–11. This amounted to a virtual defiance of Act No. 22 of 1957, which stipulates in its Article 26 that the advocates of illegal strikes should be punished. But no one dared to take such action, and thus Act No. 22 of 1957 did not fulfill its function as a regulation governing strike action.¹¹

2. *Rules for dismissal*

As regards the rules for dismissal, Act No. 12 of 1964 on the Termination of Employment in Private Undertakings (hereafter called “Act No. 12 of 1964”) basically regulates the Committee for Labor Dispute Settlement (Panitia Penyelesaian Perserisihan Perburuhan, P4). An important enforcement regulation in connection with this case study is No. Kep-150/Men/2000 (Decree of the Minister of Man-

¹⁰ “Surat Pemberitahuan Mogok Kerja kepada Ketua Panitia P4 Pusat dari Buruh PT.A tertanggal 9 Pebruari 2002” [Notification letter on strike by workers of PT.A addressed to Administrative Office of Central Committee for Labor Dispute Settlement dated February 9, 2002].

¹¹ The rule that is considered to be working is the notice to police, etc. regarding street demonstrations. For instance, on the occasion of the presentation of petitions to the District Parliament and District Office held on February 9, the SPTSK PT.A executive body had given notice of their action to the chief of Bogor Police on February 8.

power No. Kep-150/Men/2000 on the Termination of Employment in Private Undertakings and Decision of Severance Pay, Service Pay, and Compensation). The stipulation says that the company may take procedures to terminate employment in respect of any employee who has been absent without due written evidence for five days consecutively despite a summons in writing having been issued twice in these days.¹²

This stipulation was fully acknowledged by both employers and workers. That explains why the walkout in 2002 lasted for four days from January 22 to 25. A member of the executive body of Workers' Union PPMI PT.A says: "We did not want to take the growing risk of probably being discharged because of engaging in five consecutive days of strike. We knew that in the 1995 strike, as many as 70 employees were fired."¹³ The walkout that started on Saturday, February 9 likewise lasted for four days and ended on Wednesday, February 13, though the worker representatives' demand was not accepted at all. The representatives changed their tactics to an intermittent refusal of overtime work. The company posted a notice on Monday, March 11, the fifth day of the walkout that had begun on Wednesday, March 6, to the effect that absence for five consecutive days without notice would be regarded as "voluntary retirement." Nevertheless, the company endeavored to keep the situation from deteriorating by withdrawing the threat of suspension even though the workers continued with their strike.

The employees tried to continue their strike even on March 11, the fifth day of walkout, because the company had suspended the employment of the 36 representatives. The representatives therefore determined to continue until the company's withdrawal of this suspension. The reason why they took this risk of continuing the strike was that suspension was a serious punishment that might lead to dismissal. Even those whose employment had not been suspended placed a high value on solidarity even at the risk of inviting their own dismissal.

The aforementioned No. Kep-150/Men/2000 pertains to a case where a company may file with P4 an application for dismissal of its employees. Article 18 of this decision stipulates that the company may suspend employment until P4 permits the dismissal. In effect, the suspension of employment can be regarded as an interim measure allowing the company to apply for dismissal of its employees. Adequate recognition of this stipulation by both parties as the authentic rule thus strained the relationship between labor and management over the suspension of employment.

¹² The rule that absence for five consecutive days without notice is regarded as voluntary resignation was also upheld by Act No. 13 of 2003, and it was decided that there was no need for the Tribunal of Industrial Relations to acknowledge this treatment.

¹³ This is the result of the author's interview with PPMI PT.A Executive Committee members and chairperson on August 27, 2003.

3. *Rules for successful negotiations*

The right to negotiate is indispensable. It constitutes one of the three basic labor rights and assumes as an essential requirement that labor and management should reach a point of compromise.¹⁴

As mentioned above, Act No. 21 of 1954 provides labor unions with the right to negotiate, and so does Act No. 22 of 1957. As for disputes over dismissals, Act No.12 of 1964 provides even individuals with the right to negotiate. In the case of conflicting interests of the kind seen at the stage of January 2002 in this case study, the law did not require enterprises to negotiate with the worker representatives because these individuals were not unions.

In the early days of PPMI PT.A's formation, the company used to say that it could not negotiate with "an illegal labor association" (that is, the organized labor union). As this attitude showed, the company would not regard a labor union, even if its existence had been accepted by government, as a proper party to negotiate with. It was often the case that companies refused to negotiate even with labor unions that had been recognized by the government because the companies fundamentally did not recognize the newly born labor unions. In fact, it proved impossible to enforce Act No.21 of 2000 on Trade Union / Labor Union to punish a company (Mizuno 2003, pp. 183–84).¹⁵

By contrast, company A has from the outset treated even the worker representatives (even if the company did not recognize them as a labor union) as a party to negotiate with. This is because the company had realized that the representatives group, though temporary, had been formed in response to the wishes of almost all of the employees. Consequently, if the company did not negotiate with these worker representatives when almost all employees were on walkout, it would have few other options to reopen the factory. It was this power of solidarity on the part of the workers that forced the company to choose to negotiate with the representatives. Thus the rules that were deemed by both parties as a realistic means of starting negotiations were nothing but "solidarity of the employees and participation of a majority of them."

4. *Rules for communications*

The latest labor dispute had been triggered by the agreement in January 2002 to defer the wage hike for three months and then raise the wage by stages even though the minimum wage hike approved by the Bogor District became effective after January 2002. A closer look, however, indicates that indignation among the employees toward the SPTSK PT.A triggered the dispute. They believed that SPTSK

¹⁴ The infinitively repeated game approach points to the importance of the labor union laws and the labor committee systems that ensure the continuance of negotiations in industrial relations (Fukuzawa 2002, pp. 175–82).

¹⁵ This fact poses a major obstacle to the achievement of agreement between labor and management.

PT.A took the liberty of signing the agreement with the company without hearing the views of the shop steward and the union members. Here, the opinion of Mr. C is instructive. Mr. C was once a SPTSK PT.A shop steward, and after having played a central role among the worker representatives at the time of the dispute in question, he became the PPMI PT.A committee chairperson. He confided: "At first the executives did offer an explanation to the shop steward regarding the plan to raise the minimum wage by stages following an initial deferral, but as we refused the plan, the executives amended it and then explained it again. We declined it again, and at the final stage, the executives signed the agreement without informing the shop steward and the union members. This action generated big doubts and confusion concerning why, without proper explanation, the executives had been able to make a unilateral decision concerning a matter of great interest to so many workers."¹⁶

Even after the nomination of the worker representatives and a subsequent strike, and after the formation of PPMI PT.A and subsequent negotiations, there was no substantial difference between the final settlement of company A's minimum wage issue of 2002 and what was agreed at first among SPTSK PT.A and the company. Nevertheless, there were no labor disputes after April 2002. All this suggests that the root cause of the latest dispute lies essentially in inadequate communication between union members and their executives and between them and the company concerning the agreement of January 21, 2002.

Mr. D, who became company A's executive in charge of human resources development, confided: "We should learn from past experience. The method of forcing the union's demand by means of a strike caused a lot of damage to all parties concerned. The key lies in our communication. Whenever a problem arises today, we invite both unions and explain our position to them."¹⁷ Since May 2002, there has been a regular meeting every Thursday morning between the company and both union executives under the labor-management consultation system. This tells us that a necessary rule for smoothly functioning industrial relations is to ensure communication among union members, their executives, and the company, and that efficient communication, when hampered, destabilizes the relationship. This observation provides a lesson, and its significance to labor-management relationships in today's Indonesia will be discussed afterwards.

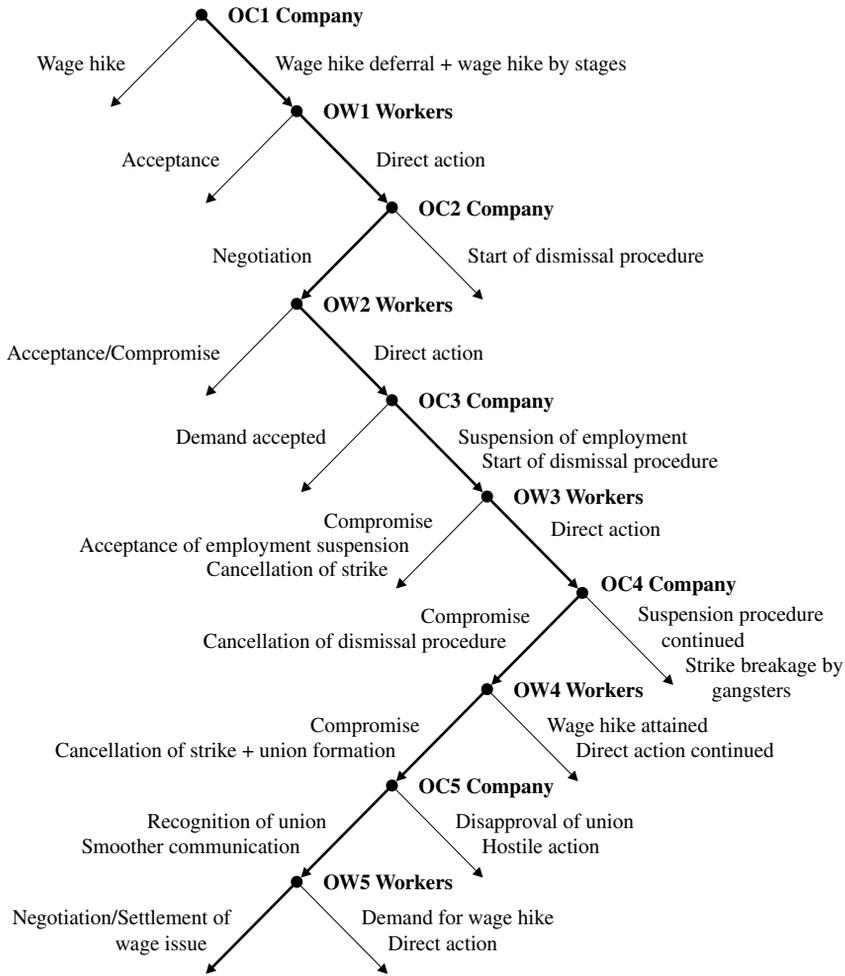
B. *Strategy of Industrial Relations*

We will now turn to an analysis of the strategies used in the labor dispute. The strategies are illustrated in Figure 1, which has been prepared on the basis of game theory.

¹⁶ The author's interview with PPMI PT.A Executive Committee members and chairperson on August 27, 2003.

¹⁷ The author's interview with company A's executive in charge of human resources development on September 1, 2003.

Fig. 1. Strategies of Labor and Management in Company A's Labor Dispute



Stabilization of Labor-Management Relations

Smooth Wage Hike Negotiations of January 2003

Source: Prepared by the author.

Note: See text for explanation of the headings in Figure 1.

The arrows in each of the diagrams in Figure 1 show the strategy of a player in negotiations. The apex of the figure indicates the start of the labor dispute and the foot of the figure its end. In each diagram, two arrows point outwards and downwards from a central node. This node is the point at which two alternative moves are available to the player. The nodes where the company is required to make a move are shown as OC1, OC2, . . . , and those where the workers must decide as

OW1, OW2, In each of the diagrams in Figure 1, the right-hand downwards arrow represents a hostile strategy, and the left-hand downwards arrow a collaborative one. The arrows drawn in bold lines represent the strategies that were actually chosen by the players in this case study.¹⁸

As Figure 1 illustrates, the initial hostile flows as indicated by the company's strategy of wage hike deferral at OC1 and by the workers' direct action at OW1 changed into a cooperative flow at OC2 because the company adopted a strategy of recognizing the worker representatives and negotiating with them. However, around the time when the head of district issued his decision on February 12, the workers took direct action at OW2, turning the relationship into a hostile flow. The strategies at OC3 and OW3 deteriorated into further hostile relationships. The company's strategy at OC4 deflected the flow again, leading to a collaborative relationship that was maintained thereafter.

Several reasons lie behind the company's adoption of this cooperative strategy at OC4. On March 11, the fifth day of the strike, the company posted a notice to the effect that absence without permission for five consecutive days would be regarded as "voluntary resignation." Company staff members visited the employees on strike at their houses, urging them to return to work. It is stipulated that the dismissal procedure should be taken only for employees who have been absent without due written evidence in spite of the company's twice written summons in these days. This condition for dismissal seems to have been met. If the strike continued, the situation would have justified the dismissal not just of the 36 representatives but also of many others. The company, to resume production, could have adopted harsh measures in response to the illegal strike by following procedures for mass dismissal of all the employees engaged in the strike. Indeed, there had been a case in the past in which a company broke a strike by hiring 1,300 gangsters to intimidate 800 walkout participants, thus successfully enabling the company to reopen its factory (Mizuno 2003).

One probable reason why the company in the present case did not adopt such a tough measure was that the cost would have been too heavy. In the case studied beforehand (Mizuno 2003), the company had often hired gangsters, who called themselves "NGO members," and kept them posted by the gate to prevent the employees on walkout from nearing or entering the company compound.

When asked about the possibility of taking such a measure, the aforementioned worker representative Mr. C replied, "I am a member of this community, and my father who once was the chairperson of Village Community Council (Lembaga Ketahanan Masyarakat Desa, LKMD) is a leader here. The company would take this fact into account." He suggested that the company's hiring of gangsters, if real-

¹⁸ Either party at each node knows the other party's past strategy, and is presumed to have possible future strategies as well. This may be called a "non-cooperative game with perfect information."

ized, would meet with fierce resistance from the entire community, and thus such an anti-strike measures would be impractical. Countering the strike staged by as many as seven thousand employees would require the hiring of a substantial number of gangsters, so much so that it would be next to impossible. If gangsters were employed, the outcome would be many victims of violence and damage to the reputation of the company, the representative listed enterprise in this region.¹⁹

¹⁹ Let us consider the action the workers took at OW3 after the company posted a notice on the morning of March 11, 2002 to the effect that “five consecutive days’ absence without notice” would be treated as “voluntary resignation.” In anticipation of further measures by the company, the workers had to make their choices, in the form of hostile or collaborative strategies.

		Company			
		Collaboration		Hostility	
Workers	Collaboration	36 workers to be discharged Worker representatives to weaken	Factory to reopen	To mass dismissal	Factory to reopen Possibility of prolonged dispute
	Hostility	No dismissal Worker representatives strengthened	Factory to reopen	To massive dismissal Worker representatives disbanded	Dispute bogged Company reputation falls

Payoff to be acquired in this process can be quantified as follows on the basis of a purely local strategy.

		Company			
		Collaboration		Hostility	
Workers	Collaboration	-50	130	-100	50
	Hostility	20	100	-150	-200

The payoff matrix can be shown as follows.

		Company			
		Collaboration		Hostility	
Workers	Collaboration	a1	b1	a3	b3
	Hostility	a2	b2	a4	b4

Obviously, the relationship in terms of size between these payoffs is: $a1 < a2$; $a3 > a4$; $b1 > b3$; $b2 > b4$. This explains that the actual cases of workers taking a hostile action and the company taking a collaborative action represent a Nash equilibrium. These actions are based on the anticipation that if the company takes a hostile strategy, it would encounter strong resistance from the workers and would thus incur substantial damages.

This anticipation endorses the fact that after the notice on possible dismissal was posted on the morning of March 11, the workers took the strategy of continuing their strike, while the company announced at noon the cancellation of suspension of employment.

While taking a compromising line at OW4, the worker representatives endeavored to form a union. Company A refused to recognize the union at first, but accepted it later,²⁰ and took measures to facilitate communications with the union. All this helped stabilize the subsequent labor-management relationship. Behind this change seem to be two factors: the representative's frequent contacts with the Minister of Manpower and the minister's sympathetic interest in the dispute. As the minister together with the company's representative executive attended the inauguration of the union executives, the event was reported by the press,²¹ enhancing the union's recognition among the public. The representatives' strategy to steer the dispute to their advantage by involving the minister thus proved successful. Without the help of special organizers, the representatives chose to join the Indonesian Muslim Workers' Association (Persaudaraan Pekerja Muslim Indonesia, PPMI). PPMI representatives' good relations with the Minister of Manpower were helpful in obtaining the minister's consent to attend the inauguration of the union executives.²²

Some worker representatives had acquainted themselves with members of the Struggle Jabotabek Trade Union (Serikat Buruh Jabotabek Perjuangan, SBJP), an offshoot from the Jabotabek Trade Union (Serikat Buruh Jabotabek, SBJ). The SBJ engaged in study group activities during the Soeharto period and became a union following Soeharto's resignation. The representative members were informed about laws and struggle tactics by SBJP around January 21, 2002. Afterwards, they joined PPMI, which served as their source of information. Before the formation of their

If the company's hostile strategy did not meet workers' strong resistance because of their weak solidarity, and if the company could easily eliminate many malcontents, thus preventing further disturbances and keeping its reputation unmarred, the result would be: $b1 < b3$ and $b2 < b4$. In that case, both parties' strategies would have greatly differed. Then the quantification should be as follows.

		Company			
		Collaboration		Hostility	
Workers	Collaboration	-50	130	-100	150
	Hostility	20	100	-150	170

Then the relationship between payoffs should be: $a1 < a2$; $a3 > a4$; $b1 < b3$; $b2 < b4$. Nash equilibrium in this case would mean a case where the workers took a collaborative strategy and the company a hostile strategy.

²⁰ The checkoff system has been applied to the new union. This system had been applied to the unions, which had existed since the Soeharto era, but most companies have not adopted this system in respect of the unions established since 1998.

²¹ "Menakertrans kecam Bupati, Pengusaha jangan bohongi pekerja" [Minister of Manpower criticized the head of Bogor District: Employer must not tell a lie to workers], *Bogor Raya*, May 18, 2002.

²² The author's interview with PPMI PT.A Executive Committee members and chairperson on August 27, 2003.

own union, they used to hold meetings at Mr. C's house close to the factory. Even so, the company made no attempt to utilize the community to interfere with them.²³

C. *Stabilization of Labor-Management Relationships*

In May 2002, company A hired Mr. D, who had long-handled labor affairs in the oil industry, as an executive in charge of human resources development. When the author commented that many companies harbored hostile views toward labor unions (Mizuno 2002, pp. 54–55), Mr. D said, “That attitude is wrong. Our philosophy is based on labor-management cooperation. The present labor law allows ten workers to form a their union of their own. If we take a hostile attitude toward them, a thousand employees would be able to have a hundred unions.”²⁴

The efforts made by company A since May 2002 to enhance communications with the union have proved highly effective, as have PPMI PT.A's renewed activities. PPMI PT.A has demanded an increase in various benefits, an improvement in the medical subsidy system and a change in the status of illegal temporary employees to that of permanent employees. It has also encouraged such sports as badminton and volleyball. When union members have received written warnings from the company, PPMI PT.A has investigated them and, when it has found them unreasonable, it has demanded their withdrawal.²⁵

These PPMI PT.A activities have had a positive impact on SPTSK PT.A activities. When the former issued membership certificates, the latter improved its allocation of membership certificates to its members. SPTSK PT.A prepared an annual activity report and financial reports in 2002 and delivered them to its members.²⁶ This step was quite different from what many unions under the former SPSI had practiced. Since SPTSK PT.A still had 3,500 members as of September 2003, compared with PPMI PT.A's 2,500, considering its long relations with company A it could have chosen to monopolize the opportunities for negotiating with the company and it could have refused to give any opening to the new union. However, unlike many other unions, SPTSK PT.A did not take this option, and instead adopted a competitive but cooperative attitude.²⁷

At the labor-management consultation meeting held every Thursday, a report on

²³ These are the results of the author's interviews with the SBJP representative on August 21, 2003 and with PPMI PT.A Executive Committee members and chairperson on August 27, 2003.

²⁴ The author's interview with company A's executive in charge of human resources development on September 1, 2003.

²⁵ This is the result of the author's interview with PPMI PT.A executives on August 27 and September 2, 2003.

²⁶ This union has prepared an annual activity report and circulated it to union members. This is an exceptional step among the many unions I have interviewed.

²⁷ The author's interviews with many unions have indicated that unions which were organized after the downfall of the Soeharto regime as minority unions, are in many cases not given the same right to negotiate that majority unions enjoy.

company A's state of operations is given to union executives, and is then distributed from them to the members by way of the shop steward. A member of PPMI PT.A's executive committee confided, "When I was a shop steward of SPTSK PT.A, no information on the company's operations was disclosed. Whenever we were ordered to assemble, the purpose was to inform us of a delayed payment of the Idul Fitri bonus or a reduction of wages. Today, however, we hear few of the rumors that were rampant before."²⁸

The improved availability of information and the enhanced exchanges of views are being felt in an important way today, and this seems to have something to do with the system during the days of Soeharto regime. Under SPSI, an enterprise had one union, and its employees were automatically made union members, with union dues withdrawn from the salary without the workers' written consent of participation in the union and consent of checkoff.²⁹ Organizing other unions was prohibited, and thus there was little need for SPSI, in its monopolistic position, to endeavor to maintain efficient communications with its members. Because there was little tension between the union and its members, the union had little need to ask the company to disclose detailed information. Companies for their part also felt it unnecessary to spare much time for such a weak union. If a problem arose, the companies could always rely on the government, the police, or the military.³⁰ In this context, Mr. D's remark, as an executive in charge of human resources development, concerning the importance of maintaining smoothly functioning communications implied that a major reform had occurred in the industrial relations system.

Today, company A's two unions are in a competitive but cooperative relationship. In negotiating for wage hikes or in amending the collective labor agreement, the two unions form a joint team in dealing with the company. The result of wage negotiations held in this context in January 2003 proved to be the outcome of reasonably stabilized labor-management relationships.

The agreement of January 21, 2003 called for a raise of the transportation allowance by about 20 percent and a hike of wages by 5–8 percent depending on the years of service.³¹ The agreement made a striking contrast with the confusion seen at the level of Bogor District.

²⁸ The author's interview with PPMI PT.A Executive Committee members and chairperson on August 27, 2003.

²⁹ Company A's union was no exception. This is the result of the author's interview with PPMI PT.A executives and chairperson on August 27, 2003.

³⁰ The APINDO chairperson told me, "Formerly, the Managers' Association did not mean much for company managers. Today, labor disputes cannot be settled by using the military or police as they used to do before ("during the Soeharto regime," that is). Managers are beginning to realize that they have to talk with unions" (from the author's interview on August 12, 2003).

³¹ The minimum wage was kept the same for less than a year of service, and there was a 5 percent wage hike for those having completed 1–5 years, a 6 percent hike of wage for those with 6–10 years, a 7 percent hike of wage for those with 11–15 years and an 8 percent hike for those with more than 16 years.

When the head of Bogor District decided in November 2002 not to raise minimum wages for 2003, labor organizations including PPMI PT.A staged street demonstrations. The Bogor District head thereupon cancelled the decision and changed minimum wages for the district's manufacturing industry to be hiked to Rp 600,944. The APINDO's district executives appealed to the regional administrative court for the shelving of the head's decision. The APINDO's district executives then instructed their member enterprises to shelve wage hikes. Company A's management formally obeyed the instructions of APINDO's district executives by not raising minimum wages for employees who had worked for less than one year, but raised wages by 5–8 percent for those who had worked for over a year, a rate higher than the district head's 2003 decision on minimum wage hikes.

CONCLUSIONS

This paper has reviewed the possibility of establishing stable labor-management relationships in today's Indonesia by presenting an example of stabilized labor-management relationships as a case study.

The paper has identified some important points concerning the rules that apply to labor disputes. Moreover it has found that the regulations on strikes contained in Act No. 22 of 1957 have not functioned adequately. Both employers and employees have fully recognized the rule for dismissal for absence for five consecutive days of strike action. As for disagreements arising from conflicting interests as seen in the case study, the law does not require a company to negotiate with any worker representative whose appointment has not been notified to government. The negotiations nevertheless were successfully concluded, and the reasons were that the workers were united and that a majority of employees participated in the strike. The case study shows that even if notification of a labor union is accepted by government, the company can refuse negotiations with that union. This means that the punishment of such a company under Act No. 21 of 2000 on Trade Union/Labor Union is in fact unenforceable. However workers' solidarity and participation, even if informal, can be more important than the law itself.

The study of the rule for communication has found that the crucial cause of the recent dispute was miscommunication among union members, union executives, and the company. In other words, untrammled communication amongst the parties is a rule that is necessary for good collaborative relations, and when communication is disturbed or delayed, labor-management relationships can become unstable.

The paper has also examined the strategies of both employers and employees. The study has found that in the case of company A's dispute, the withdrawal of suspension of employment on March 11, 2002 served as a deciding point that turned the once-hostile relations into cooperative ones. If the company had held to its hostile strategy of resuming production even at the cost of hiring gangsters, while

dismissing not only the 36 worker representatives but also the other workers, the workers would have staged a community-wide resistance. The company's decision to withdraw suspension of employment must have been done so as to avoid the possibly huge costs that might have resulted from all-out resistance. The very possibility of the workers' resistance and their adoption of a hostile strategy on the morning of March 11 led to a situation that left the company with no option but to resort to a collaborative strategy. These union and company strategies determined the course of the subsequent cooperative relations.³² What prompted the company to change its usually uncompromising policy to a cooperative one after the worker representatives' formation of the new union was the workers' successful strategy of involving even the Minister of Manpower in the new labor federation.

The new union stepped up its activities. The existing union concentrated on organizing its own activities rather than taking a hostile view of the new union. The result was a competitive but cooperative relationship between the two unions, and on crucial matters they joined hands in negotiating with the company. The company's arrangements for efficient communication, which coincided with APINDO's policy to attach greater importance to labor-management negotiations, led to an agreement between them on a wage hike in January 2003 that apparently satisfied more people than before.

This case study concerns only one company, but its findings have limited but important implications for labor-management relationships in Indonesia. Firstly, the company under study occupies a central position geographically (Bogor District) and industrially (the sewing industry). As a representative company in terms of these two factors, it is qualified to be a leader in the implementation of the new system. Secondly, because its Human Resources Development executive is a member of the Central Executive Committee of APINDO, strategy adopted by the company in the dispute can be regarded by other companies as indicative of the association's strategy. Thirdly, with regard to the issue concerning which union should have the right to negotiate, this case study can be taken as an example of a rivalry between two union groups that can be found widely throughout today's Indonesia. One group includes many unions that have existed since the Soeharto era and that have affiliated to, or were once affiliated to, SPSI (the present name is *Konfederasi Serikat Pekerja Seluruh Indonesia*, KSPSI), and the other group consists of newly born unions that appeared after the stepping down of Soeharto. Lastly, the case is a representative one in that the direct cause of the dispute was about wages.

Under the Soeharto era system, each of labor's three major rights, the right to organize, the right to negotiate, and the right to act, was heavily restricted for the sake of maintaining the Pancasila industrial relations. Union membership and deduction of union dues from the salary were almost all organized without written

³² Please refer to footnote 19.

acknowledgement of the workers, and the union's finances and other activities, and the nature of its relationship with the company were kept largely undisclosed. However, Indonesia has emerged from this system and is heading for entirely new industrial relations. This study has confirmed that the rules necessary for establishing new industrial relations should be those based not only on laws and their enforcement, but also on the solidarity and participation of workers, and on efficient communication among union members, their executives, and the company. In today's Indonesia, labor disputes in some cases involve difficult problems of weak law enforcement and utilization of gangsters to put pressure on the workers. In response to these circumstances, labor unions are developing their movement through creative strategies for various methods of struggle, by ensuring union solidarity, mobilizing community support, involving the Minister of Manpower and securing various information sources, rather than hastening to obtain legal knowledge, or mastering negotiation techniques, or learning leadership. Overall, by indicating the importance of formal and informal rules and the development of creative strategy, this case suggests what is possibly the right direction for establishing new labor-management relationships in Indonesia.

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