

Research Report  
2006

Heineken  
PT Multi Bintang Indonesia  
Indonesia

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**SOMO**

**FNV**  
BONDGENOTEN

> *Werkt in je voordeel*



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## Methodology

This research on PT Multi Bintang Indonesia (MBI) was carried out with consent from the management of the company, after a mutual agreement between FNV and the head office of Heineken. Data collection was done through literature review, that is, collecting secondary data about the company as available on the Internet, publication, and the printed media. Data were also collected through in-depth interview with workers, the union leaders and the management.

The co-operation of the MBI management was a difficult one to obtain. Although Heineken head office informed the MBI much earlier, the local management gave a formal positive response to the research request only in August 2005, which was followed up with a meeting with MBI Human Resources Director Mr. Bambang Britono. The ensuing process, however, remained sluggish. The fasting month of Ramadhan and the two-week holiday of the Idul Fitri as well as the Christmas and yearend holidays were significant factors, but on the other side, the communication process down to the plant management was slow as well and it was only in late December 2005 that interviews with workers and union took place.

The delays spared the researchers very limited time and caused a very serious impact to the research. Since appointment for interviews with workers and Union leaders were difficult to arrange, field researchers held two group interviews involving simultaneously union leaders and workers; the first involved Union Chief, Secretary, and Treasurer plus four workers, while the second the same union leaders plus two workers. Both events were held during working hours (1 p.m. to 4 p.m.). A two-hour focus group discussion was held on January 26, 2006, involving three union leaders and five workers. The limited number of workers interviewed certainly closed the chance to extract deeper fact and information. The same case also happened with interview with the management. Though researchers proposed from the beginning to be allowed to interview different persons-in-charge of matters related to labour performance, at the end interview was done only with Mr. Hning Wahyu Wicaksono, the Employment Relations manager from the head office. While Mr. Wicaksono maintained remarkable openness during the interview, his position impeded him from providing specific information related to daily operations, thus making him sound like avoiding giving information. Research on suppliers of MBI was not possible because of the late response and co-operation from the company, which left inadequate time for researchers and also because of the unwillingness of suppliers (according to the management of MBI). Another barrier to the research was the fact that many organisations have previously taken MBI as object of research, and it was hard to gain trust from workers and union leaders. Workers cancelled a number of appointments made for interviews, before they were convinced that the interviews would be positive for them. Verification by direct observation so far has not been possible.

Workers and Union leaders were finally convinced and became enthusiastic with this research and hope that one day they may establish links with other unions in Heineken companies. Workers have begun to worry about job security. After the 1998 economic crisis, MBI decided to transform itself from a brewery into a beverage company, but at the same time it began to adopt flexible production methods. MBI has adopted the policy of maintaining efficiency through multi-skilling and outsourcing.

# Profile of PT Multi Bintang Indonesia BK (MBI)

## History

MBI was formerly NV Nederlandsch Indische Bierbrouwerijen, which was established in Medan, North Sumatra in 1929, with another plant established in Surabaya, which started producing **Java Beer** on November 21, 1931.<sup>1</sup> 1936 Heineken became the main shareholder of the company and changed its name into Heineken Nederlands Indische Bierbrouwerijen Maatschappij. One year later, the brand was changed into Heineken. The company stopped production during the World War II (taken over by the Japanese Nippon Bitjiu Kaisha<sup>2</sup>). After the World War, Heineken acquired back the company in 1949 and Heineken beer was reintroduced. During the Sukarno era, the company was taken over once more in 1965, this time by the Indonesian Government during its nationalisation campaign. The company practically stopped production and only resumed its activity in 1967, after Sukarno was toppled, with the brand **Bintang Baru**.<sup>3</sup> In 1972, the name of the company was changed into PT Perusahaan Bir Indonesia and its Tangerang plant started production one year later. In 1974, with the new name, the company began producing Guinness. In 1981, after taking over PT Brasseries de l'Indonesie, the company publicly listed in Jakarta and Surabaya Stock Exchanges with new name PT Multi Bintang Indonesia Tbk. 1992, however, it closed its Medan plant and moved its head office to Tangerang, West Java. In 1997, the Surabaya plant was transferred to Sampangagung, Mojokerto with capacity expanded to 800,000 hectolitres from previously 300,000 hectolitres. Currently MBI has two plants, in Tangerang and Sampangagung (East Java). In 1997, it began exporting, first to Japan and Australia (figures on export were not available). MBI also produces for Guinness and Jade beer (Singapore). Since September 2004, MBI has acquired the license to produce the brand Heineken instead of importing it for the Indonesian market.<sup>4</sup>

## Ownership and Shares

Shareholders of MBI are the following:<sup>5</sup>

- |  |         |
|--|---------|
| • Heineken International Beheer B.V.   | 75,94 % |
| • Hollandsch Administratiekantoor B.V. | 7,43 %  |
| • Indonesian Public                    | 16,63 % |

MBI shares at Jakarta Stock Exchange (JSX) are not considered liquid and are traded at around Rp 44,000 per share in the third quarter of 2005. Shares are not liquid because MBI never applies stock split and attaches dividend pay out ratio at 80%, which makes the share interesting only to long-term investors. Investing in MBI shares has long been known to be enticing also because the prices constantly move up (thanks to sound financial performance of the company), which gives investors good capital gain.

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<sup>1</sup> MBI, *Sebuah Seni Tinggi dalam Pengelolaan Bir Bintang*, PR Brochure, 1996.

<sup>2</sup> Data provided later by MBI management after the review.

<sup>3</sup> [www.multibintang.co.id](http://www.multibintang.co.id)

<sup>4</sup> Indonesian Capital Market Directory 2004

<sup>5</sup> Towards Operational Excellence, MBI Annual Report 2004, p. 21.

## Products

Operating in a country with vast Muslim majority, the company focuses on alcoholic as well as non-alcoholic products.<sup>6</sup>

1. Bir Bintang. A lager, pilsner beer with 4.8% v/v alcoholic content, for both domestic and export market (Netherlands, Japan, Australia, Malaysia, Korea, Guam, Taiwan, Vietnam, Thailand, Cambodia, and Timor Leste); available at various product sizes: big bottle 620 ml, small bottle 330 ml, can 330 ml, and barrel 30 litre and 20 litre; for adult consumers.
2. Green Sands. MBI produced this alcoholic drink since 1982, but has also released two a soft drink (non-alcoholic) variant of the product since 2002, targeting young consumers. Since August 2003, it added two variants of the non-alcoholic product, product, Green Sands Passion and Green Sands Fiesta. Currently, thus, Green Sands has three products: the regular Green Sands Regular with apple and orange flavours; Green Sands Fiesta with pineapple flavour; and Green Sands Passion with peach flavour.
3. Guinness. Guinness was produced under license for adult consumers.
4. Bintang Zero. Bintang Zero is a malt-based, non-alcoholic beer, sold in 330ml can and bottle with adult (over 20 years old) male and female as its target market.
5. Fit-n Fun. A carbonated, malt-based soft drink with two variants, honey-flavoured and strawberry-flavoured, sold in 330ml can, aiming at children and female adults.
6. Heineken. Produced under license from Heineken BV, in 330ml and 640ml bottles, 330ml cans and 20 litre and 30 litre barrels, aimed at the premium market (mid-to-upper classes).

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<sup>6</sup> [www.multibintang.co.id](http://www.multibintang.co.id)

## Market and Sales

MBI currently controls 60% of the national beer market<sup>7</sup>, even though its annual sales fluctuated in the past few years. In 2001, MBI total annual sales dropped by 40% and 5% the following year. This was due more to the drop in beer consumption (after the dropping number of foreign tourists caused by the terrorism issue) than internal performance. Sales drop eventually led to internal restructuring that resulted in three phases of lay-off. To the total sales volume, Bir Bintang makes up 65%, Guinness 20%, Green Sands 10% and Bintang Zero 5%. Fit-n Fun and Heineken make up little contribution to the total sales volume. Financial performance of MBI up to 2004 was summarised in its website as the following:

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| <b>In million Rupiah</b>                         | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Net sales  | 710,911     | 562,852     | 542,394     | 569,921     | 508,249     |
| Gross profit                                     | 308,802     | 272,323     | 256,432     | 254,522     | 232,391     |
| Operating profit                                 | 103,522     | 105,534     | 121,506     | 146,480     | 145,946     |
| Net income                                       | 86,297      | 90,222      | 85,051      | 113,836     | 93,723      |
| Earnings per share                               | 4,096       | 4,282       | 4,037       | 5,403       | 4,448       |
| Net working capital                              | (4,722)     | 28,896      | 40,524      | 35,002      | (28,055)    |
| Total assets                                     | 558,388     | 483,004     | 475,039     | 517,775     | 433,607     |
| Total liabilities                                | 294,002     | 214,707     | 192,098     | 225,850     | 218,497     |
| Shareholders equity                              | 264,372     | 268,297     | 282,941     | 291,925     | 215,109     |
| Dividend pay out ratio                           | 100%        | 100%        | 100%        | 100%        | 100%        |
| Net profit to total assets ratio %               | 15          | 19          | 18          | 22          | 22          |
| Net profit to shareholder equity ratio %         | 33          | 34          | 30          | 39          | 44          |
| Current ratio %                                  | 98          | 115         | 124         | 117         | 86          |
| Total liabilities to shareholders equity ratio % | 111         | 80          | 68          | 77          | 102         |
| Total liabilities to total assets ratio %        | 53          | 44          | 40          | 44          | 50          |

## Reorganising for Efficiency

MBI suffered gravely after the economic crisis and the ensuing political unrest against the Suharto regime. May 1998 riots in Jakarta spread to Tangerang, during which the local inhabitant looted the plant. The crisis pushed the company to the verge of bankruptcy. Survival phase however did not include lay-off until the top management took the strategic decision on efficiency programs, called Redundancy Program, cutting the number of manpower and adopting outsourcing policy.

Being part of the Redundancy Program, Lay-off is the first step in pursuing efficiency. It was carried out in three different times in 2003 and 2004. Interview with MBI Employment Relations Manager revealed that workers laid off makes 4% of the total number of workers at MBI. Workers interviewed stated that employment termination was taken towards more than 200 workers. Later, clarification by the management

<sup>7</sup> Kontan (weekly economic and business tabloid), January 2005

<sup>8</sup> [www.multibintang.co.id](http://www.multibintang.co.id) also available in **Towards Operational Excellence**, MBI Annual Report 2004, p. 2.

provides the number and percentage of workers laid off, as may be seen in the table below.

| Phase         | Total number of employees | Employees laid off |            |
|---------------|---------------------------|--------------------|------------|
|               |                           | Number             | Percentage |
| July 2003     | 722                       | 28                 | 3.9        |
| December 2003 | 718                       | 12                 | 1.5        |
| December 2004 | 646                       | 50                 | 7.7        |

Interviews with workers and Union leaders revealed that mistreatment of workers during the lay off process. The first lay-off was made known to workers on the last occasion, with police force stood by at the gate of Tangerang office in case of riots. After objection from the Union, the second lay-off was informed to workers three days prior to notification.<sup>9</sup> The vacant jobs left by the laid-off workers, who were formerly organic part of MBI, were then outsourced to the third parties, or filled by contract workers.

At the same time, MBI has also decided to apply multi-skill system along the production process, in which one worker is required to handle multiple jobs. Training are made available for the remaining workers for the purpose, but this just does not rub out worries, especially in those who are fifty years old and above, of being laid-off in any day in the future. Workers and union leaders interviewed stated that the portion of contract, temporary workers in the production had increased to nearly 50%<sup>10</sup>. The management stated that outsourcing was applied only in security personnel, cleaning service, drivers, and logistic services.

MBI has decided that while keeping its focus on producing beer, it will expand to produce also beverage products,<sup>11</sup> with high efficiency, which may also means, fewer manpower. However, the management clarifies that MBI is unlikely to apply flexibility (outsourcing) on its core business. As to non-core areas of operation, the company would only apply flexibility as long as it gives the company real benefit. So far MBI purchases services from third parties in four areas, which are 1) security services, 2) cleaning service, 3) driver, and 4) logistic services (transfer of bottles from crates to cardboard boxes to be transported to other islands).

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<sup>9</sup> Clarification from the management is included in the section **5. Reorganization and flexibilization of job security.**

<sup>10</sup> Interview with union leaders.

<sup>11</sup> Interview with MBI Management

## Employment

Each employee at MBI may be categorised as either worker or staff. Workers are those in level I to IX (from general labour to operators) and staffs are those in level XI to XIX (administration staff and above). The following profile was made available by the management.

| Specification           |        | Number |
|-------------------------|--------|--------|
| Staff                   | Male   | 225    |
|                         | Female | 56     |
| Workers                 | Male   | 314    |
|                         | Female | 5      |
| Permanent workers/staff |        |        |
|                         | Male   | 548    |
|                         | Female | 62     |
| Temporary workers/staff |        |        |
|                         | Male   | 27     |
|                         | Female | 1      |

## CSR Policy

As CSR in Indonesia is still dealt with at the level of discourse rather than in practice, the management of MBI responded to questions on CSR and CSR policy only in generic terms, such as relationship with stakeholders, environmental and social responsibility, and the like. The management, it seems, has not developed any comprehensive concept of CSR to practise within the company.

However, MBI management claimed to have CSR programs, referring to activities related to community development and contributions/donation to the local government in building and rebuilding schools for the society, besides audits in terms of ISO certifications. Regarding labour issues as part of CSR, the Collective Agreement has been made the main and sole reference. In general, therefore, CSR is understood in terms of charity. With CSR claims being related to activities and contribution made to the community, the management stated that CSR is within the scope of responsibility of the Corporate Affair and Communication officers.

In the interview, however, the management stated that the company just began adopting CSR policies in December last year (2005), which is also the CSR policy of Heineken International (the interviewee had the Heineken International CSR Policy book next to him and cited it in answering questions on CSR).

The management made available to researchers a brochure released by the Public Relations department of the MBI in 1997, thus before the 1998 economic crisis. The brochure, titled *Sebuah Seni Tinggi dalam Pengelolaan Bir Bintang* (roughly means *The Highly Refined Art of managing Bir Bintang*) states MBI roles in 1) marketing, 2) social aspect and welfare of workers, 3) corporate citizenship, 4) contribution to state revenues, 5) female workers, 6) workplace health and safety, and its role as a publicly listed enterprise. The brochure may be seen as statement of commitment towards the listed matters, though it lacks the characteristics of a formal document. Concerning social aspect and worker welfare, the brochure the commitment to a comprehensive

Collective Agreement and wage level higher than that determined by the state regulations, and to social security of workers, to mention some of the points, which are still reflected in the latest Collective Agreement.

Later, clarification from the management stated that BMI takes CSR to cover a wide variety of areas; among others are the following:

1. Principles and practice of Good Corporate Governance (GCG), since MBI is a publicly listed company, which is required to comply with regulations set by the Stock Exchange Supervisory Board (Bapepam)
2. Compliance to law and regulations
3. Care for the environment
4. Care for the community (mostly in the form of community development programs in five main areas: youth, children, the elderly, sports, and religious affairs)
5. Industrial relations
6. Health, Safety and Environment qualities

With regard to industrial relations and labour conditions, MBI regard itself to have performed good practices along its history, e.g. the forum intended for consultation between the Union and the Board of directors and/or Board of Commissioners has existed since 1978, long before bipartite forum is introduced in Indonesia; MBI started collective bargaining with workers in 1977 and the current one is the twelfth; Safety Committee exists in both plant, and The Sampangagung plant obtained Zero-Accident Award in the last two consecutive years.

The management also stated that MBI had its own Business Principles. At first the management did not make the document available to researchers. Workers and union leaders interviewed stated they did not know anything about such document, which may also means that the document is not available to them. Later, the management clarified that MBI has its company-level Code of Conduct, written in two languages: English and Indonesian since July 2004 (revised in November 2005). The document is made available to researcher now. The Code of Conduct functions as a general frame for the existing policies and practices. It is made known to workers, but the later may have confused it with “Business Principles”, a term they are not quite familiar with.

MBI does the least effort to exert influence on suppliers. Since the basic material for its products, barley and yeast, are imported, MBI chooses to maintain equal status with suppliers and not to set requirements beyond the basic business requirement (required product specification, etc.) and compliance to the Indonesian law and regulations. MBI Code of Conduct has also been made known to business partners.

## Labour Relations

### Freedom of Association, collective bargaining and protection of trade unionists.

Union tradition in Indonesia is commonly considered weak. The long process of depoliticization during the New Order era may be mentioned as its main cause. All Indonesian Labour Unions (*SPSI*) was the only union formally recognised, while others were harshly oppressed, often through presence of security personnel at workplaces and imprisonment of union leaders. The effect is grave: only 3% of workers nationwide are unionised (this figure still needs confirmation/verification), little awareness of labour rights and labour standards (let alone CSR), little solidarity across companies, let alone co-ordinated cross-sector solidarity and actions.

To date, there are at least 41 confederated unions (three confederations) and 40 non-confederated unions are formally registered at the Ministry of Manpower and the number of the non-registered ones is estimated to be much higher.<sup>12</sup> This fact, however, does not mean strong organising. The same serious problems remain. At the same time, labour market flexibility promoted by the IMF and the World Bank has been legally formalised through the Labour Act No.13/2003, which chooses to rely on tripartite and bipartite forum for solutions of problems. The law, therefore, requires even stronger workers and unions to constantly negotiate with the management, a condition hard to realise.

It is a common phenomenon that multinationals that have operated Indonesia since the New Order era choose to accept and maintain one union, that is *SPSI*, which in the past functioned more as an instrument to suppress workers (this does not mean that *SPSI* remains totally the same as it was). It is also a common company policy that staff (administrative and managerial) are prohibited from joining unions, a practice beginning in the 1980s, when Sudomo was the Ministry of Manpower.

Still, the prolonged economic crisis put workers in even weaker position. In many cases, workers' struggle is driven towards pragmatic, short-term objective such as minimum wage rather than that of broader, ideologically/politically-determined ones.

### **ILO conventions C87 and C98. Ratified.**

The right to organise, that is, to form labour union and to join a union is stated in the **Act No. 13 Year 2003 concerning Manpower** (hereafter, Labour Act) Article 104. This umbrella law recognises the *freedom to establish trade/labour union and to become or not to become member of a trade/labour union as one of the fundamental rights of workers/labourers* (Explanatory Note to Article 104 Subsection 1).

The Law also recognises Collective Labour Agreement (Section Seven: Article 116 – 135). Collective Labour Agreement shall be formulated by means of deliberation, written using the Latin alphabet and in the Indonesian language. Only one Agreement is allowed in one enterprise, which applies to all workers working in the company. A

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<sup>12</sup> [www.nakertrans.go.id](http://www.nakertrans.go.id)

Collective Agreement is valid for two years and can be extended only for one year. Its content should not contradict the higher laws and regulations. The employer is obliged to print the text of the Agreement and distribute it to all workers.

When there is no union in a company, or the existing union does not represent more than 50% of the workers in the company, Collective Agreement cannot be formulated, and the employer must formulate, by taking into account recommendations and considerations from worker's representatives, a Company Regulation (Labour Act Section Six: Article 108 – 115), which is legalised by the Minister of manpower or the appointed official, holds the same strength as that of a Collective Agreement, and is valid for two years and may be renewed after its period of effectiveness ends.

MBI recognises and guarantees the right of workers to organise and collective bargaining as well as protection of trade unionists. Since other documents or policies on this issue are not available to researchers, here the Collective Agreement is used as reference. The Collective Agreement states the employer recognises the labour union as the legitimate representative of its members, either as individual or collectively, in labour affairs and affairs (Art. 7 [1]); the employer is committed to not exert pressure, either directly or indirectly, on union leaders or discriminate against them (Art. 7 [2]); union leaders may leave the workplace to perform their duties after notifying the employer and considering the condition of his/her job (Art. 7 [3]). Company support for labour union is realised through provision of facilities such as office room (Art. 9 [1]), information/announcement/bulletin board (Art. 9 [2]), meeting room and meeting during working hours (Art. 9 [4]).

MBI also recognises the right to collective bargaining and collective agreement is made with the Union every two years. The last one is The Collective Agreement 2003-2005, which the management and the Union were still working on its revision at the times this research was carried out.

One union is active at MBI: Labour Union of the Cigarette, Tobacco, Food and Drink Industries of the Confederation of All Indonesian Trade Unions (*Serikat Pekerja RTMM-FSPSI*). In accordance with the two plants of MBI, the Union is divided into Tangerang Unit and Sampangangung Unit. These two units represent workers at both plants and the head office (Tangerang) in the collective bargaining.

All workers become, or at least considered as, member of the Union. MBI union leaders stated that membership is voluntary. In practice, all workers may become member of the Union.

However, only workers of level I (sweepers, office boy/girl, etc.) to IX (general operators, etc.) are considered as workers who are represented by the Union and entitled to collective bargaining. It may be assumed that that results of collective bargaining/agreement with the management apply only to workers of these levels. The clarification from the management states that only provisions on remuneration apply exclusively to workers. All other provisions of the collective agreement apply to both workers and staff at all levels.

MBI did not allow Staff (level XI-XIX) to join the Union. It was only in 2004 that MBI allowed staff to join the union, but forbids them from being elected as Union leaders/officials and from becoming the union's team members in negotiations with the

management, including in the collective bargaining. The reason is to avoid conflict of interests. The management produces separate regulation on staff called “Staff Regulation”, to which neither the staff nor workers have access. Consequently, it is not made available to researchers as well.

MBI management does not discourage workers to join the Union, and union leaders confirmed this. However, the differentiation between workers and staff, with the latter prohibited from being full union member (barred from becoming union leader and from representing workers in negotiation with the management) is seen by workers as an act of discouragement as well as discrimination.

Against such thinking, the management clarifies that MBI respected freedom to organise. Both freedom to and not to join the union are respected. The common policy of restricting staff members from being official of the Union is based on the practical consideration of avoiding conflict of interest in the part of the concerned employees. The management consulted concerned parties, such as the office of the Minister of Manpower, before making such policy. To some extent, Regulation No.21/2000 on Trade Unions justifies the policy. Article 15 of the Act reads as follows:

*ARTICLE 15*

*A worker/labourer whose position in the enterprise creates conflict of interests between the management and the enterprise’s workers/labourers shall not be allowed to become trade/labour union official in the enterprise in question.*

Elucidation on the Article reads as the follows:

*ARTICLE 15*

*“Certain positions” as referred to under this article refer to such positions as human resources manager, finance manager, or personnel manager as stipulated under the collective labour agreement.*

The above policy acquired consent from the Union, as stipulated in the last Collective Agreement.

The management stated that in principle, such policy was taken with great caution, with no intention of discriminating against certain group of employees.

Union leaders stated that MBI gives them full freedom to perform their functions and duties, without restriction, including freedom to distribute information to workers, hold meeting in the company compound during working hours.

Collective Agreement is held every two years, between the management and union leaders. The last one was the Collective Agreement 2003-2005, which will be renewed in the near future.

Union has existed at MBI for twenty years. Union leaders are aware of workers rights, always critical of management policies, and determined to fight to protect workers interests, although in many cases they fail. Their demand that the management allow staff workers to join the Union so far has been a half success. Union leaders also stated

that the management respect them. Tense relation between the Union and the management often exists, but not normally result in punishment of unionists.

### Access to Information

Nowhere in the labour Act can one find any provision on the obligation of the management to disclose strategic information to Union and workers.

No formal document stating management policy on information disclosure to MBI's workers and the Union was available to researchers. The Collective Agreement does not contain any specific provision on the matter either.

The company establishes a mechanism of bipartite meeting at two levels. At the head office, a consultation forum called Musyawarah Bersama Tingkat Pusat (MBTP), is held every six months in which the top management (board of directors and/or Board of Commissioners) to deliver information as well as deliberate problems and issues with the union. This forum is meant for strategic issues, decisions, and problems. Information is given regarding market share, sales volume, financial performance; macroeconomic condition; industry challenges; and strategies and action plans. At plant level, the same mechanism is called Musyawarah Bersama Tingkat Pabrik (Mubesatik), held bimonthly, to discuss operational matters/problems.

The bipartite forum between the board of directors and Union leaders and the same forum at the plant level are held regularly. Union leaders confirmed that the bipartite forums are good channel of communication, but stated that they lack genuine dialogue. Meeting with top management is normally used to deliver broad plans and policies of the management that have reached final phase of decision-making process. In this way, Union leaders are heard for input but little chance is spared for them to influence such decisions. Information is given aurally, meaning without providing union leaders with hard copies. Details of how a plan or policy is carried out are not made known to the Union.

Information on profit is given, but not for the purpose of profit sharing. Profit sharing scheme is not part of negotiation. This is to say that it is completely the prerogative of the management to determine whether or not bonus will be given to workers.

No information is made available on the portion of profit transferred to the mother company.

Access to information is very much limited. Although the management stated in the interview that workers always have the full access to important information related to their interests, the interviewee mentions neither specific person-in charge nor mechanism available to serve workers and Union seeking information. The interviewee only stated that important information is passed to the Union, who passes it further to workers. It is also the answer to the question on the classification of information that the management think it should retain and those it should pass to the Union and workers.

Concerning access to strategic information, the management clarifies that it maintains open door policy and welcomes requests for specific information from the Union and workers under the condition that the use and/or purpose of obtaining the information requested is revealed to the management.

## Labour Conditions

### Wage

The Labour Act recognises the right to earn a living that is decent (Article 88). To ensure that workers earn enough to guarantee a decent living, the government determines the minimum wage that employer must pay, based on recommendation from Provincial Wages Councils and/or district head/city mayor (Article 89). Employers are obliged to pay wages not lower than the minimum one, but those who are not able to do so may postpone the payment of minimum wages.

Since the minimum wage is determined by the governor, it is widely called “Provincial minimum wage” and varies in amount between provinces. The minimum wage in Tangerang, now part of Banten province, is Rp 802,500 per month. The base wage should not be less than 75% of the total wage.

Base salary at MBI is determined in accordance with the job level of workers, the amount of salary per job level is not available for comparison. Base salary increase may happen in several schemes. First, performance-based increase, Performance of every worker (level I to IX) is evaluated. The increase percentage follows the grade achieved, effective since the first month of the following year.

| Grade | Increase (%) |
|-------|--------------|
| A     | 8            |
| B     | 7            |
| C     | 5            |
| D     | 3            |
| E     | 0            |

Base wage increase may also happen after the management and the Union agree on adjustment, taking into account the national economic condition, consumer price index (inflation) and the capability of the company to survive in the long run. Wage increase normally follows promotion.

Workers are also entitled to benefits and allowances, as follows:

- Transport allowance: a fixed amount, which may be adjusted in accordance with hikes in public transport fares (public bus, city bus, etc.). The Collective Agreement states an amount of Rp 320,000 per worker. The amount has been adjusted twice; first in March 2005, increased to Rp 405,000 and in October 2005 to 505,000.
- Living cost benefit: a monthly benefit provided for workers to support their lives and their family (dependants). The amount of living cost benefit is stated in the latest Collective Agreement, in accordance with eight categories. Clarification by the management stated that the amount is subject to revision, which was done in July 2005. The following table show the original figures stated in the Collective Agreement and the revised ones.

| Categories                       | Amount (Rupiah)      |          |
|----------------------------------|----------------------|----------|
|                                  | Collective Agreement | Revision |
| a. single worker                 | 143,222              | 167,767  |
| b. married with no children      | 259,929              | 304,479  |
| c. married with one child        | 309,950              | 363,075  |
| d. married with two children     | 359,974              | 421,672  |
| e. married with three children   | 409,995              | 480,267  |
| f. widow(er) with one child      | 193,237              | 226,356  |
| g. widow(er) with two children   | 243,267              | 284,961  |
| h. widow(er) with three children | 293,274              | 343,540  |

- Housing benefit: a benefit provided for housing expenses. The amount is not available. The management clarifies later that housing benefit has been included in the basic salary since 2000.
- Festive benefit: this the religious holiday benefit annually provided in relation to the celebration of Idul fitri (end of the fasting month) to all workers (not only Muslims), comprising the following elements: one month base wage, one month living cost benefit, one month transport allowance, plus beer and green Sands.
- Shift benefit: available only for those working in shifts.
- Meal allowance: Every worker is entitled to one meal per one working day at the company cafeteria. When the cafeteria closes and/or workers perform duties outside the compound, the compensation is Rp 12,800 per meal. Meal allowance is based on presence at work.
- Acting allowance: a worker performing duty of another worker of higher level upon absence of the latter for one day at the minimum is entitled to acting allowance, which is 25% of his base wage/salary.

The minimum wage in Tangerang is Rp 802,500, while the minimum take-home pay for MBI workers is between 1 million and 1.4 million rupiah. This is Wages are adjusted twice a year. The management always heed the results of collective agreement, which provide that besides the base wage, workers are entitled to transport allowance, family support benefits (which takes into account the members of the family and children up to 21 years old, housing benefit, religious holiday benefit, and shift benefit for shift workers. The company pays full wage for workers who are ill and cannot work for the first six months (consecutive), 75% of the wage during the next three month and 50% during the second three months.

Workers interviewed did not stated that their children need to work for additional family income and union leaders were not sure whether or not any children of workers worked to provide additional financial support for their family.

It is a common practice in Indonesia that people do not reveal the amount of their wage/salary, even to fellow workers, let alone to others. Data necessary to make comparison was not available.

### Working hours

The Labour Act regulates the normal working hours as the following: 7 hours a day for 6 workdays per week, and 8 hours a day for 5 workdays per week. The maximum

working hour per week is 40 hours (Article 77). As to overtime, the Law stated that overtime work should be carried out with approval from workers and overtime pay is an obligation of the employer. The maximum overtime work is 3 hours per day, and 14 hours per week.

At MBI the normal working hours (article 18) are 8 hours a day, 40 hours per week for non-shift workers. Shift workers work 8 hours a day, six days per week and two days off. When the shift work exceeds 40 hours a month, the excessive hours are counted as overtime and workers are entitled to overtime pay.

The daily working hours is from 7.30 a.m. to 4 p.m., with a 30-minute rest time.

MBI applies three shifts period:

|           |                   |
|-----------|-------------------|
| Shift I   | 6 a.m. to 2 p.m.  |
| Shift II  | 2 p.m. to 10 a.m. |
| Shift III | 10 p.m. to 6 a.m. |

Overtime pay per hour is

base wage + 1/12 of base wage of the religious holiday benefit)

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Clarification from the management reveals that the formula was revised following an agreement with the Union concluded on July 29, 2004 and put into effectiveness as of June 25, 2004, to be

$1/173 \times (\text{Base wage} + \text{living cost benefit} + \text{transport allowance})$

Overtime on regular working day is paid in accordance with the following rate (percentage of the overtime pay)

|  |      |
|--|------|
| The first hour                         | 150% |
| The 2 <sup>nd</sup> to 7 <sup>th</sup> | 200% |
| 8 <sup>th</sup> and over               | 300% |

Overtime on weekly day of rest or holidays is paid in accordance with the following rate:

|   |      |
|---|------|
| 1 <sup>st</sup> to 7 <sup>th</sup> hour | 200% |
| 8 <sup>th</sup> hour                    | 300% |
| 9 <sup>th</sup> hour and over           | 400% |

Overtime on national holidays or religious holidays that coincide with the scheduled day of rest or fall on Sunday is paid in accordance with the following rate

|   |      |
|---|------|
| 1 <sup>st</sup> to 7 <sup>th</sup> hour | 300% |
| 8 <sup>th</sup> hour and over           | 400% |

Overtime work is voluntary and is avoided whenever possible. The shift system reduces the need for overtime. Throughout the year, no specific period can be identified as peak production. Absence of a worker always requires another worker to take his place, a normal practice for shift workers in the production unit. Many times the substitute worker is taken from the previous shift group and in this case he could work up to 64 hours per week. This, however, is a rare case.

The Collective Agreement provides that a worker may be summoned to work for at least 2 to 3 hours of overtime even if he is off-work or in the day of rest. In this case, the worker is given meal (meal allowance), transport allowance, etc. besides the overtime pay.

The maximum time of overtime is not mentioned anywhere in the Collective Agreement document.

### **Bonus/profit-sharing schemes**

The Labour Act does not make any provision on profit sharing.

The last Collective Agreement at BMI states that the amount of bonus (or gratification in MBI's term) and when to pay it to workers is the prerogative of the management. The management inform it to workers or Union after the bipartite forum between board of directors and union leaders. Bonus is not negotiated.

Bonus comprises two elements: the base wage (or its figure of multiplication) and Living cost benefit.

The following table summarises the remuneration system at MBI and worker earning at the company accordingly.

| <b>Fixed pay (wage)</b>       | <b>Non-fixed pay</b> | <b>Bonus</b>                                 |
|-------------------------------|----------------------|--|
| Base wage and housing benefit | Overtime             | Base wage (or figures of its multiplication) |
| Transport allowance           | Work Summon          | Living cost benefit                          |
| Living cost benefit           | Acting allowance     |  |
| Annual Festive benefit        | Shift benefit        |  |
|                               | Meal allowance       |  |

### **Health and Safety**

The Labour Act makes provisions on Occupational Health and Safety in Chapter X, Section One, Subsection 5. The Law provides that every worker is entitled to protection in terms of occupational health and safety, morality and decency, and fair treatment based on respect to human dignity (Article 86); the employer is obliged to apply an H&S management system that is integrated in the company management (Article 87).

MBI has a committee on health and safety to monitor procedure, equipment and rules. H&S training is obligatory for workers, and co-organised by the management and the Union.

The Collective Agreement provides that it is the obligation of the employer to identify and explain conditions and potential dangers in the workplace; to provide health and safety facilities and equipment; to provide protective facilities and wear pack; to transfer the knowledge of health and safety practices at the workplace; to provide H&S training; to monitor and examine production equipment and machinery regularly; to

maintain and improve the smoothness of production process; to create a healthy, safe and convenient workplace.

Interviews with workers confirm the commitment of the management regarding health and safety at workplace. The management is open to suggestion and recommendation from workers to improve H&S. According to workers, H&S procedures manuals are made available in every unit. Accident is very low, according to workers. Workers and Union leaders could not mention frequency of accidents.

### Training

The Labour Act makes provisions on job training, but this relates to manpower or workforce in general rather than to workers in particular.

According to the Collective Agreement, the management provides Functional training for workers to improve the skills and/or to acquire new skills necessary in performing their job, besides training in basic skills. Employer is also obliged to provide training facilities. When considered necessary for the company and approved by the management, a worker may enrol in educational program with full financing of such enrolment and procurement of facilities from the management.

Workers interviewed confirmed the commitment of the management to support them in enhancing their skills.

### Social Security and pension

The Labour Act stated that every worker and every member of their family is entitled to social security (Article 99) and the employer is obliged to provide welfare facilities, taking into account the needs of workers and weighing such needs against the ability of the company (Article 100). The Law does not define welfare; neither does it specify a priority scale of welfare facilities. Provision of social security and welfare facilities is up to the company to decide.

However, Act No. 3 Year 1992 regarding Workers Social Security (Jaminan Sosial Tenaga Kerja/JAMSOSTEK) requires employers to workers in the program, which covers safety insurance, life insurance, and pension.

All organic workers (with direct employment relations with MBI) are entitled to enrol in the Worker Social Security program. MBI also insures its organic workers against accident that causes permanent physical damage and enrolls workers for life insurance. The Collective Agreement (Chapter VI) makes provisions related to social security and worker welfare, which are:

- Food/cafeteria
- Aid to normal birth giving
- Reward for educational achievement of worker's children
- Grant on worker's death (four times of base wage plus living cost benefit)
- Recreation facilities
- Sport and cultural facilities
- Religious-life facilities
- Pension fund

- Jamsostek and Insurance
- Workers co-operative
- Rewards for the length of time in joining the company
- The best worker reward
- Healthcare facilities
- Hospital expenses
- Family planning
- Aid to provision of health equipment (eyeglasses, etc.)
- Regular medical check-up
- Children of workers.

MBI sets a pension fund program for its organic workers.

### Medical service

There is no national legislation regulating the provision of medical treatment by employer.

The Collective Agreement states that the employer makes available medical facility, that is, a polyclinic and company doctor for workers and their family. When considered necessary, an external doctor may also treat workers and their family from a hospital in the region where the company operates. The company establish partnership with a drug store, from which workers and their family members treated may obtain medicine on expenses from the company. For medical services for workers, MBI refers its worker to St. Carolus hospital in Jakarta. Medical service is also available in term of dental care and eye care.

Workers interviewed confirmed the commitment of MBI.

### Holiday and other leave

The Labour Act provides (Article 89)

- Daily period of rest: rest of at least 30 minutes (half an hour) should be given in every four consecutive hours of working.
- Weekly period of rest: One-day rest after six days of work in every week or two-day rest after five days of work.
- Yearly period of rest: 12-day rest after working for 12 consecutive months.
- Long period of rest: no less than 2 month of rest period after working 6 years consecutively (one month rest in the seventh year and another in the eighth year)

It also states that workers may be off work without losing their rights to pay under the following conditions (Article 93):

- Workers being ill
- Female workers having menstruation (first and second day of menstruation)
- Workers getting married
- Workers having their children getting married, circumcised, baptised, wife giving birth, wife having miscarriage, death of any family member (including death of parents and parents-in-law)
- Workers performing religious obligations
- Workers exercising their rights to rest

- Performing union duties and functions (especially for union leaders)
- Workers undergoing educational program required by the company.

The collective Agreement provides several schemes to be off work without losing the right to full pay:

- Annual leave: after twelve month working at MBI, a worker may take annual leave for 12 days.
- Long vacation: after working for consecutive 5 years at MBI, a worker is entitled to leave for 22 working days or one month.
- Maternity leave: Female worker may leave her work one and a half month before giving birth up to one and a half month after giving birth. The same applies even when the female worker has miscarriage, provided request is made to the management with letter of recommendation or explanation from a doctor.
- Female monthly period leave: a female may leave her work on the first and second day of menstruation.

Interviews with workers and Union leaders confirm the company commitment. MBI does not provide housing facility, childcare facility or transport facility.

## **Basic rights**

### *Child labour*

ILO conventions C138 and C182 were ratified.

The Labour Act (Chapter X, Section One, Subsection 2) Articles 68 – 75 concern child labour. The Law forbid child labour, with exemption that children of 13 to 15 years old may be employed for light works, with permission from the parents or the guardians of the child, based on a work agreement signed by the employer and parents/guardians of the child, for a maximum three hours per day, without disturbing the school time. Children of 14 years old and over may work at a workplace as part of their school education curriculum or training, which is legalised by the authority.

No specific policy document on child labour was made available to researchers. The management stated in the interview that child labour is forbidden at MBI.

According to the interviewee from the management of MBI does not employ any children. The minimum age of workers is 19 years old. At times, high school students may be found working at MBI as part of their formal educational programs, upon request from their school and organised under the supervision of the State authority of education.

Interviews with workers and union leaders confirm that MBI does not employ children, and organic workers (workers that have direct employment relations with MBI) are above 18 years old. In the case of non-organic workers (those having indirect – through a third party - employment relations with MBI), the minimum age is 17 years old. These young workers are found in the production unit. The management denies that it recruits workers through a third party.

### *Forced labour*

ILO conventions C29 and C105 were ratified.

The Labour Act does not make any specific provision on the prohibition of forced labour, neither does it give any clear definition and category of forced labour. This gives ways to any interpretation possible, depending on the concept and categories that one holds or believe.

The management stated in the interview that forced labour is strictly forbidden at MBI, but no specific policy document was mentioned or referred to.

As long as it is related to organic labour, no case of forced labour was found. Cases, however, may indicate that the company committed forced labour in the past and present.

The first case, which is still under way currently, and may still be found at MBI, is the fact that temporary workers recruited through a third party for six month contract in MBI are required by the third party to pay Rp. 800,000 to secure that they got the job. And while they work at MBI, they are required to pay monthly charge of Rp 25,000 to

the third party. In addition, they are required to buy daily necessities from the third party's co-operative. In this case, MBI may have benefited indirectly from forced labour committed by its partner.

On the report, the management stated that it received such report, co-ordinated with the Union to address, but initial information was tiny, which impeded the management to build it into a case for further investigation.

### *Discrimination*

ILO conventions C100 and C111 were ratified.

The Labour Act does not mention prohibition of discrimination, but contain provisions concerning non-discrimination principles. Such provisions concerns equal rights and opportunity in job placement and in workplace (Article 31, 32).

Concerning payment, workers doing works of equal values may receive different pay, but still in the same range the management has determined. There are however sporadic (not systemic) cases reflecting elements of like-and-dislike of superiors.

## **Re-organisation, Flexible Work and Job Security**

Following the falling sales after the economic crisis, MBI embarked on efficiency policy, starting with three phases of lay-off, in July 2003, December 2003, and July 2004. In the first two phases, 10 percent of the workforce was laid off, while in the last, 4 percent. The lay-offs were taken to reduce the organic workers and replace them with temporary contract workers.

In all of the cases, the management took the decision without consultation with the Union. The management inform the policy to the Union, but it did not make it known to the latter how and when the decision would be executed. The company selected workers itself, which is still considered union leaders an act of despise to the Union. In the first case, the management let workers work until the last working hour, change clothes and when they were ready to go home, workers are summoned, forced to sign the agreement. Workers were shocked, found themselves wretched, some fainted away right after they were told that they had just been fired. They brought the bad news home and caused the same shock on their wives and families. In the second and the last cases, the Union was still not consulted and the management told workers of the ending of employment three days earlier, only after harsh criticisms from the Union. In all cases, workers were not given the opportunity to defend themselves, nor were they told of the reason why they were selected for the lay-off. MBI paid the dismissed workers severance, compensation for rights and entitlement, and service reward only a little better than the amount stated in the Labour Act No. 13/2003 Article 156.

Concerning the treatment of workers in employment termination, MBI management revealed that the lays-off were carried out with much preparation, under what it calls Redundancy Plan, starting with the disclosure of the real condition of the company and the plan to workers. To anticipate post-lay-off effects on workers, the management organised series of workshops and invited experts in various field (labour relations, business management, etc.) to speak among others on how to find job (even down to technical matters such as providing information on employment requirements, training in writing application letters, and how to deal with job interviews, etc.) and how to start a small business with the severance pay after the lay-off (evaluating business prospect, business start-up, financial management, field visit to businesses that ex-employees have succeeded in building and maintaining, etc.). On the D-day, the management provides legal advisors for workers, psychologists to handle serious psychological effects on workers, and medical consultant. No worker affected fainted on the D-day of lay off.

Against the statement that MBI paid only the severance a little higher than prescribed by the Labour Act, the management stated that MBI paid much higher severance than that prescribed by the Labour Act. For comparison, compensation pay upon employment termination as prescribed by the Labour Act is as follows:

| MBI Collective Agreement                  |   | Labour Act No. 13/2003 |  |
|---|---|------------------------|--|
| COMPONENTS                                | EMPLOYMENT TERM                                     |                        | COMPONENTS   |
| Basic salary/wage                         | In accordance with employment term                  | Reference to the Law   |  |
| Transport allowance                       |   |                        | Basic salary/wage  |
| Living cost benefit                       |   |                        | Fixed benefit  |
| 1/12 Festive benefit                      |   |                        |  |
| 22 x meal allowance                       |   |                        |  |
| <b>SEVERANCE PAY</b>                      | In accordance with employment term                  | Less than 1 year       | 1 month salary x component   |
|   |   | 1 – 2 years            | 2 month salary x component   |
|   |   | 1 – 2 years            | 3 month salary x component   |
|   |   | 3 – 4 years            | 4 month salary x component   |
|   |   | 4 – 5 years            | 5 month salary x component   |
|   |   | 5 – 6 years            | 6 month salary x component   |
|   |   | 6 – 7 years            | 7 month salary x component   |
|   |   | 7 – 8 years            | 8 month salary x component   |
| <b>COMPENSATION ON EMPLOYMENT TERM</b>    | Collective Agreement: same as prescribed by the Law | More than 8 years      | 9 month salary x component   |
|   |   | 3 – 6 years            | 2 month salary x component   |
|   |   | 6 – 9 years            | 3 month salary x component   |
|   |   | 9 – 12 years           | 4 month salary x component   |
|   |   | 12 – 15 years          | 5 month salary x component   |
|   |   | 15 – 18 years          | 6 month salary x component   |
|   |   | 18 – 21 years          | 7 month salary x component   |
|   |   | 21 – 24 years          | 8 month salary x component   |
| <b>COMPENSATION ON UNFULFILLED RIGHTS</b> | Collective Agreement: same as prescribed by the Law | Proportional           | - Number of days of annual leave not taken   |
|   |   |                        | - 15% x (basic salary + compensation on employment term): medical benefit, housing benefit |

MBI makes **Additional Payment** on employment termination, which is not prescribed by the Law, as the following.

| Employment term    | Component               |
|--------------------|-------------------------|
| Less than 18 years | 6 month of basic salary |
|                    | Living cost benefit     |
|                    | Transport allowance     |
| More than 18 years | 8 month of basic salary |
|                    | Living cost benefit     |
|                    | Transport allowance     |

This additional pay is awarded if and only if workers state their consent regarding employment termination, which the management offers, within the period defined by the latter.

## Conditions in the Supply Chain

At the corporate level, Heineken has started to roll out the implementation of a purchaser code, meant for the purchasing staff of Heineken, and a supplier's code, for the suppliers from which Heinekens buys ingredients and raw materials. MBI does not exert influence on suppliers with regard to CSR performance. Since the basic material for its products, barley and yeast, are imported, MBI chooses to maintain equal status with suppliers and not to set requirements beyond the basic business requirements, such as product specifications. The same case is also found in its relations with the local supplier United Can Corporation (UCC), which is located in Tangerang itself. MBI management acknowledges that it is impossible for them to set requirements on suppliers and business partners in terms of labour practices, for which the company could be considered meddlesome and might detrimental to its business. However, MBI strongly requires its business partners to comply with the law and regulations.

## Conclusions

Although explicit CSR policy in MBI was just initiated in December last year, the company maintains decent commitment in terms of basic rights of workers in the Indonesian context, where law is lax and standards are low.

Firstly, on the right to organise and to collective bargaining, the company recognises such rights and make positive efforts to fulfil it. The Union is active and enjoys relatively great freedom to perform its functions. The sole problem with the fulfilment of these rights, according to union leaders, is the company policy to prohibit staff-level workers to become full members of the Union, who may be elected to union leadership and who may represent the union in negotiations with the management. The labour Act does not allow the existence of other regulations of any kind, when collective bargaining already prevails. However, such practice has taken place for more than twenty years in Indonesia, and it will continue for some times until workers can really establish any meaningful union tradition and CSR is established as a daily norm in the Indonesian business sector.

Disclosure of important information to workers is not a normal practice in Indonesia. Neither does the law require employers to do so. Information disclosure to workers, thus, appears to be a manifestation of the good will of the management rather than obligatory fulfilment of workers right to information. MBI choosing to disclose important information to the Union deserves appreciation, though in some way it may be considered minimal.

The labour relations and conditions, which in general are above those required by the law, need to be expanded into the sphere of relations with partners to ensure that good practice within the company yield positive impact on its surrounding. Such effort would require MBI to find effective methods to exert stronger influence upon its business partners to promote CSR practices in labour issues in the supply chain. This is deemed especially important when considering that the labour Act allows the use of outsourcing and temporary, indirect employment through third parties and have increasingly become common practices.