Globalisation and Employment Relations
in Malaysia

David Peetz
(Griffith University)

and

Trish Todd
(University of Western Australia)
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INTRODUCTION

This report looks at the relationship between globalisation and employment relations in Malaysia. It is one of four national case studies in the project on globalisation and employment relations in Asia, the other three covering India (Kuruvilla and Hall 1999), China (Chiu and Frenkel 1999) and the Philippines (Kuruvilla et al 1999). The overall purpose of the project is outlined there and is not repeated here.

Fieldwork for this study was undertaken in August 1998 and March 1999, and therefore the period covered by this study followed after the financial crisis that hit much of Asia in the second half of 1997. This financial crisis arose from the interplay of domestic and global economic forces and is one of the important elements of globalisation. It is beyond the scope of this report to canvass in depth the arguments surrounding why Malaysia was hit by the financial crisis, and why it was hit less severely than Thailand, Indonesia and Korea but more severely than the Philippines, India or China. A very brief summary of developments is contained in the section that follows. To the extent that we are interested in the financial crisis, it is its impact on employment relations that concerns us here. Broadly speaking, then, we are looking at globalisation’s impact on employment relations from two angles:

- the general impact that high levels of trade and foreign investment have on employment relations;
- the specific impact that the financial crisis has had on employment relations.

This paper is structured as follows.

The coming chapter examines the Malaysian economy and globalisation. It summarises economic developments up to and during the 1990s, including the financial crisis and the policy response to it. It also discusses the role of foreign direct investment (FDI) in Malaysian economic development, the role of international
trade, and other market extending policies.

The subsequent chapter considers labour market and employment relations policies and practices. This includes: a discussion of labour force characteristics, including patterns of retrenchments in the context of the financial crisis; policy and practice regarding unions and collective bargaining; labour adjustment, flexibility and skill formation - including numerical flexibility, wage flexibility, and human resource and skills development; and emerging tendencies and issues, the focus being on developments in relation to tripartite cooperation.

This is followed by a series of studies of globalisation and employment relations at the industry and firm level. We studied four industries - banking, automobile components and manufacturing, electronics manufacturing and hotels - and three to five firms within each industry. In banking there is a strong focus on the industry level because of the nature of bargaining arrangements there, whereas in the other three industries the focus is much more on the enterprise level. Each industry section includes an introduction describing some salient points about the industry, followed by the individual vignette stories and a conclusion that summarises and compares the vignette data. Readers with limited time might prefer to focus on these introductory and concluding discussions of each industry.

The conclusion brings together the main points arising from the experience of the country as a whole as well as each industry and canvasses some implications for our understanding of globalisation and employment relations and some policy implications for Malaysia and elsewhere.

THE ECONOMY AND GLOBALISATION

Economic development in the 1990s

Malaysian industrialisation began with import substitution, turning in the late 1960s and early 1970s to a low cost export-oriented industrialisation (EOI) strategy
(Kuruvilla 1996; Sharma 1996:37). Underpinning the strategy was a strident nationalism. With rising productivity and wages, Malaysia shifted to a higher value-added EOI strategy in the mid 1980s. By 1987 Malaysia, with government encouragement, was the world’s largest semiconductor exporter (UNCTAD 1995:xxxix).

Malaysia is ethnically more diverse than many Asian countries: a bumiputera (Malay) majority (comprising about 54 per cent of the population) co-exists with a large, mainly Chinese minority (37 per cent) which controls most of the private sector but not the government. The government has redistributed wealth to the bumiputeras and served as their economic protector, a factor in understanding union weakness and the limited pressure for change in industrial relations in Malaysia.

In the early to mid 1990s the Malaysian economy enjoyed high growth (averaging 8.7 per cent in the period 1992-96), moderately low inflation (3.8 per cent over 1992-96) and low unemployment (2.5 per cent in 1996). The debt servicing ratio was 6.1 per cent of exports, though with a high level of exports total external debt represented 42 per cent of GDP. The savings rate was 38.5 per cent in 1996, ‘one of the highest in the world’ (Ariff et al 1998:2). However, there was a current account deficit approaching 10 per cent of GDP in 1995, declining total factor productivity growth which Ariff et al (1998:4) suggest partly reflected a misallocation of resources, and excessive loans growth (over 25 per cent in each of 1995, 1996 and 1997, double the rate through 1992-94) especially to the property sector and consumption loans (Ariff et al 1998:6). The ringgit was overvalued, in some estimates by 15-20 per cent by mid 1997 (Ariff et al 1998:11).

In mid 1997, following currency crises in Thailand, Indonesia and Korea, and in the context of substantial overinvestment in the property sector (Ariff et al 1998:6), the Malaysian economy was severely affected by a sudden and sharp depreciation of the ringgit, which virtually halved in value from RM2.48/$US1 to RM4.88/$US1 between April 1997 and January 1998. It eventually revived to RM 3.65/$US in March 1998 but then fluctuated until currency controls and tighter regulation of the Kuala Lumpur Stock Exchange were imposed in September 1998 (Ariff et al 1998:1).
The currency controls were aimed at eliminating speculators’ access to ringgit by reducing the offshore market in ringgit and bringing the market for it back to Malaysia (Ministry of Finance 1998:38).

In response to the financial crisis, the government initially adopted a policy approach similar to that which would be advocated by the IMF, in no small part to preclude IMF intervention, which was underway in Thailand, South Korea and Indonesia. Interest rates were raised and credit dried up as Bank Negara instructed banks to stop issuing loans for non-productive (consumption) purposes.

Within a short while there was a growing recognition that this approach was inappropriate, as the crisis was due to problems not with adverse public sector finances but instead with adverse private sector finances. The restrictive policy stance was recognised as exacerbating the downturn. The government reversed economic policy and adopted a more stimulatory approach to demand management. A RM 12 billion stimulatory fiscal package was introduced, comprising RM 7 billion on infrastructure projects and RM 5 billion on education, health and welfare-related projects. Interest rates were cut. Business borrowing costs fell from 17 per cent to 11 per cent. Bank Negara instructed banks to increase their loans portfolio by 8 per cent between September and December quarters 1998.

The government established an institution to buy bad loans at a discount from the banks. The loans are then rescheduled in order to avoid the companies going out of business.

The recommended recovery strategy was set out in the 1998 National Economic Recovery Plan, produced by the National Economic Action Council, a body established in January 1998, chaired by the Prime Minister and comprising twelve Ministers plus representatives from several industry groups (manufacturing, small and medium scale industry, banking, finance, brokerage, commerce), trade unions (the Malaysian Trade Union Congress (MTUC) and the Congress of Union of Employees in the Public Administration and the Civil Service (CUEPACS), and consumers. The recovery plan had six key elements:
• stabilising the ringgit, through a ‘balanced’ interest rate policy, encouraging quotation of exports in the buyer country’s currency and discouraging outward FDI;

• restoring market confidence, through adopting more liberal market policies, improving transparency and consistency in policy, establishing rules for assisting troubled companies and industries, and focusing of public relations strategies and better information dissemination;

• maintaining stability in the financial markets, through recapitalising the banking sector, closer surveillance of non-performing loans, monitoring credit expansion, and developing the private debt securities market;

• strengthening economic fundamentals, through increasing the ‘quality’ of investments, improving the balance of payments, maintaining a balanced public sector financial position, low inflation and monetary stability, and increasing labour competitiveness through more flexible wages and greater emphasis on training;

• managing equity issues through ameliorating hardship from poverty, expanding tertiary education (as many Malaysian students could no longer afford to study overseas), reducing graduate unemployment, revamping cooperatives and cooperative banks, expanding employment opportunities, reducing the foreign worker influx, and offsetting the relative decline in the value of bumiputera share ownership; and

• revitalising twelve most heavily affected sectors, including mining, motor vehicles, construction, property, infrastructure, transport, insurance and manufacturing.

GDP at market prices had grown by 7.8 to 9.4 per cent for each year from 1993 to 1997. In 1998 it fell by 5.2 per cent, a turnaround of 13 per cent on the preceding performance. The official 1999 forecast is for stabilisation and a small (0.9 per cent) improvement (Ministry of Finance 1998:xiii), though at the time of writing expectations were close to 2 per cent for 1999 (Australian Financial Review, 5 August 1999). Beyond that, the prospect is for a gradual return to (initially subdued) economic growth.
Foreign Direct Investment

Malaysia has been one of the major East Asian recipients of FDI, reflecting the high degree of interest by MNCs in Malaysia. Malaysia ranked third, behind China and Mexico, in terms of the amount of FDI received by developing countries in the period 1990-95 (World Bank 1996:17). However, while China is at the stage of ‘early integration’, Malaysia is ‘heavily integrated’ both through rapidly expanding international trade and inward FDI. Over the 1991-95 period exports represented 85 per cent of GDP, and inward FDI represented 21 per cent of gross fixed capital formation (World Bank 1997; UNCTAD 1997:334).

Malaysia has traditionally been fairly open to FDI but following the recession of the early-to-mid 1980s the government sought foreign equity more aggressively. The Promotion of Investments Act 1986 signaled the Government's move to renew its emphasis on export-oriented industrialisation and to liberalise the restrictions on foreign investment. Incentives to attract foreign investment were increased, corporate tax rates were lowered, measures to increase labour flexibility were introduced, and restrictions on foreign ownership were relaxed so that 100 per cent foreign equity was permissible in certain circumstances.

Malaysia has relied heavily on foreign investment to achieve its rapid industrial growth and in the process has become dependent upon foreign capital, expertise and market access for its economic success. FDI increased from less than 5 per cent of GDP in the 1980s to over 8 per cent in the early 1990s. Similarly it grew from an average of approximately 10 per cent of gross domestic fixed capital formation (GDFC) in the 1980s to over 20 per cent in the early 1990s. Within East Asia, only Singapore exceeded these FDI percentages of GDP and GDFC (Hill and Athukorala, 1998:25).

Within the manufacturing sector, foreign firms produced 44 per cent of manufacturing value added (Ramstetter, 1996, cited in Hill and Athukorala, 1998:24) as well as accounting for 75.6 per cent of manufactured exports in 1992, reflecting the important role FDI has played in Malaysia’s manufactured exports expansion. Foreign control of Malaysia's manufacturing is substantially greater than the nominal amounts might
suggest as it is underpinning key industries, notably the electrical and electronics industries. This clearly highlights the vulnerability of the Malaysian economy to changes in the flow of foreign investment.

FDI in Malaysia grew from $US2.36 million in 1990 to $US7.76 million in 1996 (Hill and Athukorala, 1998:25). In the early 1990s the flow of FDI increased rapidly, in 1991 by 71 per cent and a further 30 per cent in 1992 (Jomo, 1998:31). However, the reversal of this trend in 1993, 1994 and 1995, when FDI flows actually decreased each year, raised some concern about Malaysia’s competitiveness within the region. In 1996 though the flow of FDI increased substantially allaying some of these fears. The largest sources of FDI between 1990 and 1997 were Japan, the United States, Taiwan and Singapore (MIDA, 1995).

The recession affected not only portfolio investment but also FDI. In 1998 applications to invest in manufacturing from foreign investors dropped 12 per cent to 13 billion ringgit (FEER 18 March 1999). Commentators may have been expecting a greater reduction due to the imposition of capital controls and the political instability associated with the sacking of the former deputy Prime Minister. However, there is little indication of foreign investors changing their assessment of Malaysia as a favourable foreign investment site in the long term. Indeed, levels of FDI might rise as a consequence of the economic crisis as foreign investors take advantage of ‘fire-sale’ opportunities.

There remain, however, significant policy questions regarding foreign investment rules in the service sector - in particular, restrictions on equity involvement in the finance sector, which are significant in terms of economic pride but which, some argue, may increase the vulnerability of the financial system.

It is also worth noting the significant foreign investment by Malaysian companies in recent years. In 1996 this amounted to $US3 billion with the main sectors being real estate, financial services and resource development (Hill and Athukorala, 1998:35).

**International trade**
The value of Malaysian exports has been growing substantially throughout the 1990s with an average annual growth rate of 18 per cent between 1990 and 1995, a 12 per cent increase in 1997 and a predicted 29 per cent increase in 1998. (Malaysia, 1996, Table 2-3:42; Ministry of Finance, 1998:8). Due to the high import content in Malaysian industry imports have also been growing, averaging an annual growth rate of 19.7 per cent between 1990 and 1995.

The composition of Malaysia’s exports has changed during the 1990s with manufacturing’s importance substantially increasing (Table 1). Manufactured exports grew at an average annual rate of 26 per cent between 1991 and 1995 with the export of electrical and electronic products increasing at an even greater rate of 30 per cent. (Malaysia, 1996:267). Malaysia’s export income is made somewhat vulnerable by its dependence on the electrical and electronics industry. Its share of manufactured exports income continues to grow, from 57 per cent in 1990 to 66 per cent in 1997 (Malaysia, 1996:267; Ministry of Finance, 1998: Table 3.5).

<table>
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<th>Table 1: Share of Total Exports, 1990-2000</th>
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<td>Mining</td>
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<td>Manufacturing</td>
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<td>Others</td>
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<td>TOTAL</td>
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The principal markets for Malaysia’s manufactured exports during the 1990s, in descending order of importance, have been the USA, Singapore, the European Union and Japan. Apart from Singapore, ASEAN is not a major recipient for Malaysia’s manufactured products. (Malaysia, 1996:268-269; Ministry of Finance, 1998: Table 3.3).

With the onset of the economic crisis the depreciation of the ringgit affected trade but with 76 per cent of Malaysia’s exports being sold in US dollars there was an immediate uplift in the value of exports (Ministry of Finance, 1998:8). During the
first seven months of 1998 export earnings from manufactured goods and agricultural primary commodities increased by 44 per cent and 37 per cent respectively. On the other side of the ledger those sectors dependent on imported machinery and materials were the worst hit.

**Other market extending policies**

In 1991 the Government accelerated its privatisation and corporatisation drive. At the centre of this was the new Privatisation Master Plan (PMP) which contained a policy framework for privatisation, implementation procedures and prioritisation of projects to be privatised. During the Sixth Malaysia Plan, 204 projects were privatised (Malaysia 1996:200).

The rate of privatisation increased significantly during the 1990s. In 1991, 25 projects were either privatised or corporatised. By 1995 this figure had risen to 65, so a third of privatised or corporatised projects were accounted for in just the fifth year of the program. The largest number of privatised projects were in construction (23 per cent of projects), in areas such as highways and rail transit systems, but there were also significant numbers in manufacturing and in the trade and hospitality sector. The largest single entity privatised was Pos Malaysia Bhd in 1992, which accounted for a quarter of employees transferred to the private sector in the 1991-95 period. Between 1983 and 1990, 53,000 public sector employees were transferred to the private sector and RM 7 billion raised; between 1991 and 1995 a further 43,000 employees were transferred and RM 14 billion raised. Amongst the 25 major projects earmarked for privatisation or corporatisation over the 1996-2000 period, nearly one third were for corporatisation, the remainder for privatisation (Malaysia 1996:218).

**Summary: nature and pace of globalization**

The EOI strategy has been in place for three decades now, and Malaysia is highly integrated into the global economy. Malaysia is a heavy recipient of foreign investment and a strong participant in international trade in manufactures. It has also engaged in some market liberalisation policies such as privatisation during the 1990s.
Malaysia was hit by a severe financial crisis in 1997 that reflected a number of factors including the contagion from currency crises in Thailand, Indonesia and Korea, and overinvestment in unproductive activities. An initially orthodox response to the crisis was soon reversed and Malaysia, unlike its more severely affected counterparts, adopted a recovery strategy which featured stimulus to the domestic economy and controls over foreign exchange flows.

So far, this strategy appears to have worked in stabilising product and financial markets. What however, of the experience of labour market policies and outcomes? That is the focus of our next section.
LABOUR MARKET AND EMPLOYMENT RELATIONS POLICIES AND PRACTICES

Labour force characteristics

An integral component of Malaysia’s industrialisation strategy has been the availability of suitable labour. This has been provided from both foreign and domestic sources. On the latter, a key element has been increasing female labour force participation. Traditional families send daughters to work in distant locations to generate the income to purchase consumer goods (Smith 1994:43). Without this migration of labour to the cities and to export processing zones, Malaysia’s rapid growth would have been impossible. In the process, though, globalisation and economic development have been changing social values through the promotion of consumerism.

Through the early to mid 1990s, the labour force participation rate has remained stable. It was 66.7 per cent in 1991 and 66.6 percent in 1997. Participation fell in 1998 to 64.3 per cent. Male participation was 86.7 per cent, compared to female participation of 46.8 per cent. The participation rate fell in 1998, but official estimates are not consistent on the size of the fall. The labour force fell by 0.4 per cent in 1998, after rises of 4 1/2 to 5 1/2 per cent over each of the previous three years, and this probably reflects the buffer effect of foreign workers, discussed in more detail below.

The level of part-time employment in Malaysia has been very low. This has partly been because employers’ obligations (eg for payments to the pension or ‘provident fund’) were calculated on the basis of full-time hours, not part-time hours actually worked. The Employment Act 1955 was recently amended to calculate such benefits on a pro-rata hours worked basis, to encourage more part-time employment.

Unemployment rose from 2.6 per cent in 1997 to 4.9 per cent in 1998 (Ministry of Finance 1998:lxi). The labour market crisis appeared to reach its worst points in the
first half of 1998. The Ministry of Human Resources has been collecting data on retrenchments for many years, but only since early 1998 has the provision of data by companies been mandated. Monthly figures are highly variable. However, it is possible to estimate trend retrenchments using a Henderson 5-point moving average. As Figure 1 shows, trend retrenchments peaked in March 1998 and July 1998 but there has been a steady decline since then. By February 1999 trend retrenchments were at less than half the level of seven months earlier.

**Figure 1**

*Trend retrenchments, Feb 1998-Feb 1999*  
*(Henderson 5-point moving average)*

Source: Ministry of Human Resources and authors’ calculations

The Ministry of Human Resources estimates that there were 80,000 retrenchments from the start of the crisis to February 1999. Unions suspect that this is an underestimate.

There is universal agreement that construction and automobile manufacturing, in that order, have been the industries worst affected by the crisis. However, the majority of job losses in construction are not recorded as retrenchments because they involved either independent contractors or, more commonly, employees on fixed term contracts.
that were not renewed (and hence they did not receive retrenchment benefits).
Manufacturing accounted for over half of recorded retrenchments (54 per cent), with other major contributions coming from trade and restaurants (12 percent) and construction (12 per cent). Retrenchment rates (the number of retrenchments divided by the number of employees) by industry are shown in Figure 2. Manufacturing had the second highest retrenchment rate behind the (small) mining industry.

**Figure 2**

*Retrenchment rates by industry, 1998*

A widespread employer strategy has been to get rid of foreign workers first. Figure 3 shows the proportion of retrenched workers who were foreign workers by occupation. In all, about 11 per cent of retrenched workers were foreign, with foreign retrenches being concentrated in general (unskilled), semi-skilled and agricultural occupations. These figures understate the impact of recession on foreign workers because the most common approach was simply to not renew the contracts of foreign workers.

**Figure 3**

*Proportion of retrenched workers who were foreign, 1998 (%)*
One unusual aspect of this recession by comparison with other countries is that the downturn has had the most severe impact on the most highly educated employees. As Figure 4 shows, the number of registered unemployed with post-school qualifications increased by a much greater amount than the number without any school qualifications. This mainly reflected the greater difficulty that more senior employees had in obtaining re-employment, particularly senior managers in the financial sector.

**Figure 4**

*Registered unemployed by education level, 1992-1998*
The current state of the labour market needs to be placed in the context of longer term labour market policies. The export-oriented industrialisation (EOI) strategy was originally founded on a low wage labour force and labour intensive industries. Malaysia shifted from import-substitution industrialisation to a low-cost EOI strategy in the late 1960s and early 1970s. The original move to EOI was associated with a number of state policy decisions to continue to restrain labour costs and to further reduce the bargaining power of labour (Kuruvilla 1996). These included changing overtime pay rates, exempting EPZs from the prohibitions on night work for women, and declining to implement minimum wages or equal pay for equal work. There is no national minimum wage, though minimum wages have been established through wage councils for particular industries/occupations (retail clerks, hotel and restaurant workers, cinema workers, dock workers) accounting for about 2 per cent of the workforce. These minimum wages have not been revised for over 10 years (BILA 1995:6) and have, it is claimed, fallen behind market wages making it unnecessary to raise them. There are legislated minimum entitlements regarding the length of the working week, overtime, public holidays, annual leave, sick leave, paid maternity leave and termination benefits (BILA 1995:6-7).

As EOI proceeded and wages rose, it was necessary to move beyond the low cost,
labour-intensive industries associated with early industrialisation and shift to higher value added industries. With rising wages and productivity, Malaysia shifted to a higher value-added EOI strategy in the late 1980s/early 1990s, based on the ‘Vision 2020’ strategy. The government implemented a range of policy measures aimed at promoting skill development including the establishment of the Human Resources Development Fund to which employers were required to contribute (Kuruvilla 1996). In addition, there was state encouragement for the adoption of Japanese human resource management practices and work ethics (Smith 1994:14).

Still, the growth of wages for unskilled workers has been retarded by inhibitions on unions mentioned above and by the supply of foreign workers. Increased use of foreign labour was seen by employers and government as a means of combating labour shortages and wage increases, especially amongst unskilled workers (Joseph 1997:8). Thus several MNCs established labour intensive, low wage operations in Malaysia using predominantly foreign workers, and the government saw providing this low-wage labour as a key element in attracting and/or retaining foreign investment (though this is no longer the case). Some respondents referred to foreign workers as doing work that Malaysians would not, but the converse side has been that the availability of foreign workers has enabled a number of low wage industries to prosper and slowed the restructuring towards higher-wage high-productivity industries.

Pay for Malaysian employees comprises a number of elements:

- a base salary for the occupation;

- an incremental scale, whereby employees move each year to higher increments within the pay band for their occupation. The incremental scale is broad and pervasive. Long serving employees on a lower classification often receive higher pay than new employees on higher classifications (an example is given later in relation to banking);

- various allowances, eg for attendance;
• overtime;

• a contractual bonus, which does not vary from year to year, and which is usually expressed in terms of the number of months of normal salary for an employee. In the unionised sector the contractual bonus has been averaging about 1.5 months pay and is often paid around festival time;

• a contingent, non-contractual bonus, or ex-gratia payment, which is at the discretion of the company and which may be related in some way to the profit or performance of the organisation or individual. Some employees receive both a contractual and a contingent bonus, but the contingent bonus is more common in the non-union sector than in the union sector, while the opposite applies to the contractual bonus.

The government, in particular the Ministry of Human Resources, has been promoting the notion of contingent remuneration systems for several years. The original concept, originating in the early 1990s, was of ‘flexi-wage’, whereby the level of wage remuneration should rise or fall according to changes in the circumstances of the firm. It was believed wages (and employment) would therefore be more sensitive to changes in the business cycle. This concept of flexi-wage essentially tied wages to some measure of profits. A second view of flexible wages was that wages should be tied to productivity, on the argument that if wages grow at a faster rate than productivity, then prices will rise.

The first, profit-driven concept of flexi-wage featured in much of the earlier rhetoric and argument from government. The take up of contingent remuneration systems was disappointingly slow from the government’s perspective. The likely reasons relate to the preferences of employers and workers. Employers and employees will, in general, be unlikely to develop labour contracts in which wages are closely and substantially tied to profits. Employees, having lower incomes, are relatively risk averse and unwilling to accept a high proportion of the burden of risk associated with variable profits. Employers will generally take on the majority of the risk associated with
variable incomes (Weitzman 1984).

Unions have strongly resisted the introduction of contingent remuneration systems, especially flexi-wage. While unions represent less than one in ten employees, wages and conditions in the unionised sector are frequently reflected in large parts of the non-union sector. Moreover, the resistance of unions reflects the general reluctance of many employees, especially in manual occupations, to accept payment systems with a high degree of income risk. Union resistance was based not just on concerns about income variability. It also reflected concerns about the measurement of productivity and the integrity of such systems, arising partly from the alleged practice of some employers keeping two sets of books - one for the tax department and one for themselves. Confidence in the integrity of a payment system is a pre-requisite for its successful adoption. A key dissonance is that employers want to use contingent remuneration in place of some existing remuneration (contractual bonuses or increments); unions are only interested if it is on top of existing remuneration.

A related issue, then, concerns the increment system, which is seen as minimising the incentive to skill acquisition by employees. In the mid 1990s government was arguing that, as part of a move to flexi-wage, salary increments should be smaller and should be based on individual productivity. Because these increments are highly valued by employees, however, there does not appear to have been a great deal of movement away from tenure-based increments. By the end of the 1990s, much of the impetus from government for the erosion of the increment system appeared to have dissipated in the face of bigger problems.

Recently the government issued guidelines through the National Labour Advisory Council aimed at promoting productivity-linked wages. It also changed legislation on the derivation of overtime and pension entitlements, ensuring that these were calculated on the basis of base pay excluding any contingent remuneration. This increased the incentive for employers to introduce schemes, but reduced the employee incentive to accept them.

**Unions and collective bargaining: policy and practice**
Contemporary Malaysian Industrial Relations is characterised by a high degree of State intervention particularly in terms of controlling trade unions and collective bargaining. The British colonial government set the precedent for a pattern of direct State intervention in Industrial Relations and, in particular, the activities of organised labour, which has persisted since Independence. The Industrial Relations policy serves as an adjunct to economic policy – to attract investment and to provide modestly-priced disciplined labour.

Policies have included reductions in overtime pay rates and exemption of special economic zones from prohibitions on women working at night, and failing to increase minimum wages in those few industries that have them (Kuruvilla 1996). Despite a legal framework that purports to enable collective bargaining, the basic thrust has favored managerial unilateralism. This has continued even after the government began encouraging higher value-added industries such as advanced semiconductors and automobiles (Kuruvilla 1996).

In 1995 there were 504 unions in Malaysia with a total membership of 708,253 members amounting to approximately 9 per cent of employees. Union membership fell by about one per cent (and so density fell by about one tenth of a percentage point) during the financial crisis. This is quite a good performance, as in many countries the level of union density declines as unemployment rises.

Union influence in Malaysia has been circumscribed by laws pertaining to union recognition, the definition of issues subject to bargaining, freedom to strike and dispute resolution (Kuruvilla 1993; Sharma 1996). Union size and structure is heavily regulated through laws administered by a Registrar who has broad powers to deny an application for union registration. The Minister can suspend unions (Sharma 1996:67). Unions may not operate across industries, and industries are narrowly defined to minimise union reach and size (Arudsothy and Littler 1993). For example, in the context of pressure from foreign investors, the Electrical Workers Union was excluded from covering electronics workers in the MNC-dominated electronics industry.
There is, therefore, a proliferation of small unions. For instance, in 1992, 55 per cent of the unions had less than 500 members each. The State’s administration of the IR laws has restricted the development of large unions and, as is reflected in Table 2, the situation has worsened with the government’s preference since the early 1980s for in-house unions. Between 1982 and 1992, membership of enterprise unions grew by 98 per cent, whereas membership of other (industry) unions fell by 15 per cent. By 1992, 42 percent of union members were in enterprise unions (BILA 1995:11).

**Table 2: The Growth in the Number of Trade Unions and Members 1952 - 1992, Peninsular Malaysia**

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<thead>
<tr>
<th>Period</th>
<th>% Growth in No. of Unions</th>
<th>% Growth in Members</th>
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<td>1952 - 1960</td>
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<td>1984 - 1992</td>
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The unions are male dominated. The vast majority of union officials are men. In 1995 only 36 per cent of unionists were women, reflecting their minor share of total employment. Just 34 per cent of Malaysian employees were female, and so union density was about 9 per cent amongst men and 10 per cent amongst women. There are currently two principle trade union federations: the MTUC for private sector unions and CUEPACS for the public sector.

The Malaysian Government has not ratified ILO Convention 87 guaranteeing freedom of association. Employer opposition to unionisation of workplaces has been
widespread and the state has been reluctant to challenge such opposition, leaving workers unprotected against those employers refusing to recognise legitimate claims for union coverage. An array of tactics has been used by employers to prevent unionisation of their workplaces including indefinitely delaying union recognition applications, victimisation or promotion of activists to remove them from the shopfloor, and the formation of company-sponsored unions (Rohanna Ariffin 1997:51).

Most Malaysian unions are involved in collective bargaining although the degree of coverage of workers by collective agreement varies from industry to industry. For example, while there are well established industry-level bargaining processes in the plantation industry, only two collective agreements covering just 1400 workers were registered in the construction industry in the 1994-1996 period (most collective agreements have a duration of three years). Overall, during 1994-1996 just 434,000 workers (6 per cent of employees) were covered by new collective agreements (Ministry of Human Resources 1997:139).

Legislation regulates the collective bargaining process and restricts the role of Malaysian unions in collective bargaining. The Industrial Relations Act prohibits the inclusion of items deemed to be managerial prerogative - hiring, firing, redundancy, promotion, transfer and the allocation of duties - in a union's proposal for a collective agreement, whilst the Promotion of Investments Act 1986 prohibits workers in pioneer industries from negotiating working conditions more favourable than the minimum standards embodied in the Employment Act. This means that, in effect, there is little reason to form unions in many companies which have pioneer status.

Historically the union movement has had its moments of militancy but since the late 1970s strike action has been reduced to the point of insignificance in Malaysian industrial relations. In 1996, 9 strikes occurred involving 995 workers, with an average duration of just over 2 ½ days (Ministry of Human Resources 1997:130).

A number of disputes get channelled through the Department of Industrial Relations, within the Ministry of Human Resources. For instance, in 1994 503 disputes were
reported; 170 cases were unresolved from the previous year making a total of 673 cases dealt with by the Ministry. Of these:

- 478 were settled through conciliation
- 43 were referred to the Industrial Court
- 24 not referred
- 128 carried forward to 1995.

The government and employers have successfully repressed strike action deterring workers from using this form of industrial action. Throughout the history of the contemporary Malaysian unions there have been many instances of employers replacing striking employees or alternatively closing their workplaces temporarily. Legislation makes it very difficult for unions to organise legal strikes, with the potential consequences including union deregistration and detention of activists. One of our respondents said it was ‘easier to scale Mount Everest than to go through a strike’. Consequently most union leaders choose to avoid such confrontation by opting for other forms of protest that are expected to be less effective.

Still, to some extent Malaysian unions have adjusted to this situation and have successfully used tactics that would be ineffectual in many other countries. Picketing has been used as a means of protest, gaining publicity for the workers' cause, and thereby potentially embarrassing the company concerned. For example, the picket of Local Bank (one of our vignettes) by its staff supported by other members of the National Union of Bank Employees in June 1995 lasted more than a week and gained some coverage in the local media. But as pickets cannot disrupt production without becoming subject to the same procedural requirements as strikes, they have little impact on the employer's economic interests. They are thus more influential in those parts of the service sector involving high customer contact than in, say, manufacturing.

In some instances, labour has responded to the repression of legal industrial action by taking unofficial action, either individually or collectively. Instances of unofficial go-slow, unavailability for overtime, increased medical leave and even vandalism have been cited by management and union leaders and management acknowledges that
workers will simply resign when discontented. Some researchers have identified instances of conflict being expressed through covert individualistic mechanisms such as ‘mass hysteria’ and ‘spirit possession’ (Smith 1994:45).

**Labour adjustment, flexibility and skill formation**

*Labour adjustment and the dampening of numerical flexibility*

Overall, the level of retrenchments is considerably less than what one might expect from a 5 per cent drop in GDP and a 13 per cent turnaround in GDP growth rates. Likewise, the rise in the unemployment rate is less than might be expected in industrialised countries in similar circumstances. There are several reasons for this.

First, foreign workers represent a substantial buffer, enabling demand shocks to be partly absorbed by sending foreign workers home. The number of legal foreign workers was estimated to have fallen from 1.5 million to 700,000.5

Second, there is substantial moral, industrial and political pressure on firms not to respond to a downturn by retrenching staff. In government-owned organisations there may be direct pressure to avoid retrenchments, particularly as retrenchments in government-owned flagship companies may undermine confidence in the economy. In unionised companies there is pressure from unions to avoid retrenchments and only permit voluntary redundancies (referred to as ‘voluntary separation schemes’ or VSS).

More than this, however, there is some professed acceptance amongst a significant part of the managerial and capitalist elite that it is inappropriate to retrench staff when there is no social security system to provide for the jobless. It is also generally considered that the highest paid should at least share the burden, and in some instances a belief that they should bear a greater part of the burden. These values reflect in no small part notions of mutual or familial responsibility that can be
observed in many Asian cultures and which have been manifested in life-long employment practices in countries such as Japan, Korea and China. The seniority based increment structure is a reflection of this ideology. Indeed, MNCs from some countries bring with them a wariness of retrenching workers, as such behaviour conflicts with corporate values. Hence, a number of respondents observed that Japanese MNCs operating in Malaysia were much less likely to retrench people than American, British or Australian MNCs. For example, Nippon Electronics (Mal), one of our vignette companies, had never retrenched an employee in 30 years of operation in Malaysia. Instead, Japanese-owned MNCs often go to considerable lengths to avoid retrenchments.

The cultural importance of avoiding retrenchments is not just an Asian historical legacy. It also reflects conscious policy choices by government. One informant described how Malaysian companies used to follow ‘British’ practices but they are now much more inclined to follow Japanese and other Asian practices. The ‘Look East’ policy is a significant element in this re-orientation. Some vignette companies (eg Luxury Assemblers) had followed an aggressive approach to retrenchments in the 1987-89 downturn but had declined to lay off staff in the 1997-99 downturn, saying that they had learnt from the mistakes of the previous downturn and that there had been a change in managerial style (and personnel) since then. Government bureaucrats attempt directly or indirectly to persuade companies to avoid retrenchments or direct them through staged processes which might never get to the point of retrenchment. Larger companies go to the Ministry first before taking any action, in order to avoid bad publicity. Ministers praise companies, such as Luxury, which succeed in avoiding retrenchment and urge others to emulate them. As mentioned, a tripartite subcommittee of NLAC was established to devise guidelines on handling retrenchments.

Third, reflecting and reinforcing the social value given to employees’ job security, retrenchments are financially and administratively costly due to government regulations. Retrenchment benefits are relatively generous, making it more costly for firms to retrench staff and forcing them to consider other options. The *Employment Act 1955* requires ten days retrenchment pay per year of service for employees with
less than two years’ service, and 20 days per year for those with three or more years of service. Most employers observe a straight one month’s retrenchment pay per year of service. Some organisations pay more than this, usually as a result of collective agreements. Moreover, in order to retrench workers companies must give one month’s advance notice to the Ministry and fill in a series of forms which require them to explain the alternative mechanisms they have investigated and implemented, including temporary lay-offs, pay cuts and VSS. In the view of some government officials, this may be enough of a disincentive in itself for some employers. Last-in-first-off principles are consistently applied to retrenchments, limiting employers’ ability to choose who they lose (and possibly forcing them to forego new, more ‘flexible’ employees). Even though with VSS employees ultimately decide who goes, VSS gives employers more scope to tap on the shoulder less productive employees and encourage them to take a package and leave.

Fourth, the labour market in recent years has been relatively tight across most occupations. Firms which lay off workers and then experience an upturn in demand could face difficulty in recruiting staff. Related to this, then, was an expectation that the financial crisis was a temporary phenomenon from which the country would eventually recover (though the notion of ‘temporary’ here nonetheless encompasses several years). Self-interest reinforces the cultural importance of avoiding retrenchments and may in part explain the greater hesitancy by companies to retrench during the current crisis compared with their reaction in the mid 1980s.

This does not mean that retrenchments have been universally avoided - the figures cited earlier clearly indicate otherwise. The propensity to retrench varies not only according to the depth of the downturn in demand facing a firm, but also according to whether it is union or non-union, linked or not linked in some way with the government, and (in the case of MNCs) owned by a parent company from an Asian or an Anglophone country - all of these being factors that influence the management style of the company.

How then do companies adjust to labour surpluses? One method is in-sourcing: performing in-house functions that were previously contracted out. Second, firms
will take advantage of the lull to train up their employees. Certainly the opportunity cost of training is low at such times.

Third, employees may sometimes be temporarily transferred between different operations of a company, or even between companies. For example, Nippon Electronics, one of the vignettes, transferred surplus employees to another Nippon company. Respondents referred to a ‘Japanese club’ of companies that would arrange for temporary transfers amongst themselves.

Fourth, companies may have ‘temporary layoffs’ in which they may pay redundant workers a proportion of their normal base salary to stay at home. Luxury Assembly, another vignette company, was a leader in this respect, and it was followed by Midrange Assembly.

Fifth, there may be adjustments to remuneration. This is discussed shortly.

Finally, of course, firms will absorb a reduction in profits or even a temporary loss - on the basis that their obligations are not only to their shareholders but also to their employees.

Unions have pushed for special consideration for employees retrenched without access to retrenchment benefits (eg where the firm has gone broke and been unable to pay retrenchment benefits). In particular, they have pressured the government to implement a ‘dollar fund’ to finance unemployment benefits for such retrenched employees. The idea is that employers and employees would each contribute RM 1 per month to the fund as a form of social insurance. Retrenched employees would receive a form of unemployment benefit for a defined period. The dollar fund is strongly opposed by employers and was originally not supported by the government. However, with changes in the union-government political landscape described later, it was being given serious consideration. The key question for government is whether the fund would generate sufficient revenue to make the administrative costs worthwhile, and whether it was possible to contain the scheme in such a way as to be administratively feasible.
Labour adjustment and wage flexibility

There are several ways in which remuneration can be, and to varying degrees has been, adjusted in response to the crisis.

First, overtime freezes are the most common remuneration-related response to the recession. They also have a significant impact on workers’ pay levels. For some manufacturing employees overtime can represent a quarter or more of weekly pay.

The second most common responses are the deferral or non-payment of bonuses, or sometimes the deferral of scheduled pay increments (by up to six months) or the negotiation of smaller increments. Where increments are deferred, they are sometimes only on ‘loan’: the company may have to make it up later on through back pay.

There are important differences between the union and non-union sector. Amongst unionised employees, cuts in bonuses are infrequent, as contractual bonus obligations are almost always adhered to. The staggering of bonus payments is more common, but still only affects a minority of unionised companies (for example, only two out of thirty firms with CAs in the electrical products manufacturing industry staggered bonuses). The abandonment of bonuses is more common in non-union firms.

Third, the negotiation of new collective agreements (CAs) can be deferred. This mechanism is only relevant where existing CAs, which usually have a three year duration, have expired. Deferral is common in, for example, the hotel industry. Where CAs are negotiated they would be expected to contain lower wage increases than would otherwise be the case. This is shown in developments in banking CAs, discussed later.

The fourth possibility is a reduction in base hourly or monthly rates of pay. But actual wage reductions for non-managerial employees were very rare amongst unionised employees. They occurred occasionally in non-union workplaces. Pay cuts
can only be obtained by consent of the employees affected. This consent must be in writing and may lead to workers being interviewed by labour inspectors before the go-ahead is given. It is rarely given in unionised firms.

According to Ministry figures, 795 companies implemented pay cuts of some type in the period August-December 1998, compared to 2148 that had implemented retrenchments. Pay cuts have not necessarily been applied across the workforce. In firms where retrenchments had taken place, an average of 14 workers had been retrenched, and in firms where pay cuts had been implemented, an average of 28 employees had experienced pay cuts. By contrast, temporary layoffs affected an average of 122 employees in firms where they had been implemented.

We mentioned above how it is generally considered that the burden of adjustment should not fall most heavily on the lowest paid and is sometimes accepted that it should fall most heavily on the highest paid. Several informants told us about significant cuts in managerial salaries in response to the recession. According to the Ministry, in some cases senior executive salaries were cut by up to 50 per cent. In Fivestar Hotel, one of our vignettes, unionised employees experienced no cuts in base pay whereas managerial employees experienced cuts on a sliding scale with the largest cuts (10 per cent) applying to the most senior managers. Almost no managers complained at Fivestar because, based on the experience of other companies, they had expected worse.

One interesting facet of restructuring has been this. In many firms, pay cuts (in the form of abandoned bonuses, increment freezes or hourly rate reductions) are unevenly distributed in a firm - that is, they have been concentrated amongst managerial employees while unionised workers have had their base pay protected. Yet if those firms are still forced to retrench, job losses generally apply universally across the firm - they are not disproportionately concentrated in the unionised workforce, even though that group has had its pay protected.

Fifth, where contingent remuneration schemes exist they may provide some wage flexibility. Sometimes such schemes have been abandoned as unaffordable in the
context of the economic slowdown. It appears that there has been an increase in the use of productivity-linked remuneration in the non-union sector, but much slower growth in the unionised sector. The National Economic Recovery Plan (NERP), released in August 1998, refers to the encouragement of these payment systems. In banking, an industry wide agreement negotiated late in 1997 provided a skeletal framework for negotiating productivity-linked wages. However, following the onset of the effects of the financial crisis, the banks have not pursued the issue, as they seem concerned that anything aimed at increasing 'productivity' in the current context could be interpreted as code for 'retrenchments'. Further developments may await the negotiation of the next collective agreement in the industry. Union resistance to productivity-linked remuneration is even stronger outside of banking.

Human resource and skill development

As part of the government’s ‘Look East’ strategy, policy measures were introduced to promote skill development and adoption of Japanese management and union practices. The Government policy that is seen by the most respondents as having the biggest impact on their employment relations practices is the Human Resource Development Fund (HRDF). The Fund was established in 1992. Firms covered by the legislation pay one per cent of their salary costs into the Fund. After making contributions for six months they are then eligible to receive rebates for proportions of their expenditure on training (80 per cent of spending on technical training, 50 per cent on office training, only 20 per cent on overseas training). The majority is undertaken in-house. Rebates cannot be claimed for spending on seminars and conferences. To recoup spending, then, firms must spend the equivalent of between 1.2 and 2 per cent of their salary on training. The fund was kicked off with a matching grant from the government.

Originally targeted at manufacturing firms with 50 or more employees, the HRDF levy now covers firms with 10 or more employees (and RM 2 million in paid up capital) in a range of industries including hotels, tourism, telecommunications, shipping and air transport, postal and courier services, advertising and computer services (Malaysia 1996:119). In 1995 about a quarter of covered firms, mainly in
small, traditionally-oriented industries, were not registered (and did not contribute). About two thirds of registered firms claimed rebates, with the remaining third failing to do so because of the low skill requirements of their work, their low capacity for training, or the ability to obtain skilled workers from training institutions or, of more concern to the government, from other firms. During the financial crisis, collection of the levy was suspended for six months to reduce labour costs. It has now been resumed in most industries.

Despite the imposition that it represents, almost all the Employment Relations (ER) respondents we spoke to either supported or were acquiescent towards the HRDF, as it had boosted their own training efforts (and presumably boosted the importance of the ER function) and encouraged other firms to invest in training rather than poaching their employees.

The government has also promoted skill development through the establishment of institutions - universities, polytechnics and training institutes. Some institutions managed by large companies moved to offer degrees. Over three quarters of post-secondary students and trainees were educated in public sector institutions. State skill development centres were established in eight states in the early 1990s, and Penang’s (which, as revealed later, is significant for the electronics industry there) was expanded. A Business and Advanced Technology Centre (managed by Universiti Technologi Malaysia) was established in 1992. It is aimed at producing engineering graduates with up-to-date management and technology skills.

Two institutions established as a direct result of FDI were the German-Malaysian Institute, which dealt with industrial electronics and production technology, and the Malaysia-France Institute, which dealt with training in electrical equipment installation, welding technology and automated systems’ maintenance. These were seen as responding to the need to produce highly skilled labour in particular specialised trades (Malaysia 1996:118-9). Many MNCs send their staff overseas for training, to corporate training centres in the US or Japan.
Some of our respondents, particularly from the union side, referred to differences in the capabilities of different HR managers according to their level of training. Those which had been professionally trained were more realistic and consultative than those which had come up through the ranks, who looked for faults in subordinates and jealously protected their territory.

Perhaps the greatest policy weakness identified by MNC managers is the level of English language training in schools. Teaching shifted from English to Bahasa as part of the nationalistic theme of government policies. MNC banks are concerned about the quality of English spoken by locals and some are starting to look overseas for new recruits. This will undermine efforts to develop a skilled labour force to support a high value-added EOI strategy.

**Emerging tendencies and issues**

In the light of the earlier discussion on economic developments, it might seem surprising that there has been a considerable strengthening of tripartite relationships since the financial crisis. This is a notable development, because experience elsewhere suggests that such a direction is by no means a guaranteed response to rapidly deteriorating circumstances, especially when unions only represent a small proportion of workers. At the national level, the MTUC was appointed to the NEAC, charged with developing the National Economic Recovery Plan. A tripartite committee - a subcommittee of the National Labour Advisory Council (NLAC) - was established to deal with the retrenchment issue and draw up guidelines on the handling of retrenchments. The Prime Minister in July 1998 publicly thanked the unions for their support - quashing the threat to consensus and at least one person’s liberty arising from escalating tensions between other Ministers and the union movement. Labour leaders thought these were the early signs of a more genuine approach to consultation by the Prime Minister than in the past (though many others remained sceptical). Subsequently, the Prime Minister appointed the secretary of the MTUC to the Senate. While this is not in itself an institution with substantial power (it is similar to the UK House of Lords) it does provide the opportunity for the MTUC to have easy access to the Prime Minister and other Ministers.
organisations give the impression of feeling somewhat marginalised by this development.

The impact of this changing relationship is illustrated by what appears to be a shifting government policy towards the proposed ‘dollar fund’ - the retrenchment benefits plan outlined above. Whereas in August 1998 it appeared that this proposal, which came from the union movement, was going to be consigned to the round file, by March 1999 it was apparent the Government was giving serious consideration to it.

Another illustration of the closer links between government and unions: in the NEAC the Government proposed a national wage freeze and a moratorium on collective agreements. The unions opposed this, saying capacity to pay wage rises should be determined on an enterprise by enterprise basis. The proposal was dropped.6

It appears that, as part of a broader strategy this more consultative approach has helped ameliorate the effects of the financial crisis on Malaysian employees.

At the industry level, there has been considerable cooperation between unions and employers in minimising the dislocation arising from retrenchment. Most particularly this has occurred through the establishment by the MTUC and the Federation of Malaysian Manufacturers (FMM) of a task force that is now dealing with retrenchments and vacancies. (The Malaysian Employers Federation (MEF) is not working as closely with the unions, but even they detect an increase in cooperation). This joint committee was established prior to the financial crisis to deal with other issues. FMM was the first employer association to establish a joint committee with MTUC. There is a register of companies planning to retrench staff. Firms that are planning to retrench workers liaise with other firms to see if they can take their workers. The MTUC also produces a list of retrenched workers for whom they are seeking employment. Thus the FMM ‘becomes a matchmaker’ between displaced workers and jobs.7

At the enterprise level, there has been substantial variation in experience, but generally speaking in unionised companies management has pursued discussions
rather than confrontations with unions. Some firms decided not to retrench even though it could be justified, and some offered more than the (already generous) minimum redundancy payments. Others have been more ruthless. On average though it appears that there has been a surprising amount of good faith in the way that potential retrenchments have been dealt with.

Aside from this, there is no evidence from our interviews of any increase in employee participation in decision making. A small number of firms made some reference to this, but moves tend to be relatively piecemeal. Perhaps the most significant instance was ‘empowerment’ in Western Bank through increasing the authorisation limits for clerical level employees, enabling them to make decisions that previously would have been referred up the line.

A major issue for the future is for how long this enhanced cooperation will be sustained. Will the government continue to involve the unions in central policy issues? (Of course, there have always been tripartite structures in place but the NERP process is quite new.) Will employers reciprocate the cooperation that has been shown by unions who have agreed to extend existing CAs, defer increments, or reduce bonuses? There appears to be a fear on the part of unions that cooperation will be only one-way - that is, when recovery occurs, employers will return to their old ways. It is unclear whether individual employers consider there are gains from continuing cooperation with unions into the future, not just as a passing phase during economic crisis.
GLOBALIZATION AND EMPLOYMENT RELATIONS AT THE INDUSTRY AND FIRM LEVEL

Introduction

The rest of this paper reports on findings from our analysis of sixteen ‘vignettes’ or case study workplaces across four industries: banking, automobile and components manufacturing, electronics manufacturing, and hotels. Research for the vignettes was undertaken in March 1999. Participants were selected through two processes. First, the ILO and subsequently the authors approached the Ministry of Human Resources to obtain their cooperation in arranging a schedule of meetings with managers and employee representatives in four industries. The Ministry was provided with a set of criteria for selecting firms, including: mostly foreign-owned companies, joint ventures or companies that supply to foreign-owned companies; a mix of union and non-union workplaces; and mostly (though not exclusively) ‘leading edge’ companies or companies with reasonably strong market positions. There was ongoing consultation between the authors and the Ministry over the choice of firms and some firms were specifically suggested to the Ministry by the authors. Second, the authors directly approached several companies (for example in the hotel industry) to participate in the project. In all cases we spoke to an ER manager (in one case the assistant HR Director); in most unionised workplaces we also spoke to workplace union delegates or ‘committees’; in some workplaces we were also able to speak to other managers, such as the managing director, and/or to rank and file employees. Documentary material (annual reports, collective agreements, etc) was also obtained from most organisations. We also conducted interviews, where relevant, with officials from industry level (eg Malayan Commercial Banks Association (MCBA), FMM, relevant unions) and national level organisations (eg MEF, MTUC, government agencies and external observers).

To maintain the confidentiality of information provided to us and for purposes of consistency, we have used fictitious names for the companies concerned, even where the companies have been happy for us to use their real names.
The generalisability of the findings is limited by several factors: the fact we have investigated only four industries and have only studied three to five firms in each industry; the limited depth with which we have been able to undertake the research, given the tradeoff between the number of firms that can be studied and the amount of time that can be spent at each firm; and the method of selection which could impart some bias to the choice of firms. The firms that it is always hardest to obtain access to for research purposes are those where there is bitter conflict under way at the time of the research. Thus there is a danger that the degree of cooperativeness indicated in the vignettes may be an over-representative of the overall degree of cooperativeness through the economy. Interviews with union, employer and government officials from the industry and national levels provide, we hope, some counterbalance to this potential bias.

**BANKING**

The commercial banking sector employed 63,400 people in 1995, compared to 47,800 in 1991. During this period the number of bank branches rose from 1050 to 1433, and total profits rose from RM 1.7 billion to RM 4.7 billion (NUBE 1996).

The banking sector experienced substantial growth in loans during the 1990s. The value of loans by commercial banks rose from RM 106 billion in 1992 to RM 277 billion in 1997, a rise of 260 per cent. While manufacturing accounted for the largest share of loans (21 per cent), the largest growth over this period was in loans to building and construction (240 per cent), finance, insurance and business services (230 per cent) and transport and communications (490 per cent). Not all these loans were to commercially viable purposes. Some were to people whose political connections were stronger than their financial correctness.

Until recently Malaysia had 38 banks, including 14 foreign banks. Many banks have wholly-owned finance companies as subsidiaries. With two exceptions, the foreign banks have not been particularly large.
With the financial crisis, serious problems of non-performing loans arose. The proportion of non-performing loans rose across the finance industry from 3.5 per cent in March 1997 to 10.6 per cent in April 1998 (NEAC 1998:70). The banking sector has survived the crisis, but many banks incurred losses. Consequently, the Government has set about reducing the number of financial institutions. The number of finance companies is being reduced from 40 to between eight and ten. The number of banks will be reduced to between eight and ten. The principal mechanism for reducing the number of banks is by raising the minimum capital threshold that banks must meet in order to retain their license. Bank Negara created the urge for romance amongst some institutions, but it also arranged some shotgun weddings.

Moves into new products and services have been put on the back burner as priority has been given to controlling losses.

*Foreign banks*

Foreign banks are constrained by an environment of government regulations. These restrict, for example, the number of branches a foreign bank can open. However, some in the industry anticipate that these restrictions may be eased, perhaps in response to World Trade Organisation pressure. Foreign banks avoid antagonising the government and undermining their prospects for greater freedom to operate in Malaysia.

Some foreign banks have been present in Malaysia for longer than most of the local banks. The two largest foreign banks have operated in Malaysia for over 70 and 100 years respectively.

The financial crisis has probably brought about a closer relationship between the foreign banks and the government and Bank Negara - not least because the foreign banks in effect made a large loan to the Government and are therefore seen to be standing by the country during a crisis.

*IR/HR in banking*
Patterns of IR/HR in banking are heavily influenced by developments at the industry level. This reflects the importance of industry-level collective agreements and Bank Negara (central bank) in regulating aspects of employment. For this reason, we give special attention to the industry level situation in banking.

Bank unions, employees and employer associations

The ethnic composition of banks’ workforces varies according to the market and ownership - with Chinese owned and oriented banks having a large number of Chinese employees. Nonetheless, in keeping with Government targets, all banks have a significant bumiputera element.

For employment relations purposes, there are three distinct groups of banking employees. These are:

(a) clerical and related employees (‘general clerical’, ‘special grade clerical’ and, below them, ‘non-clerical’ grades);

(b) officers (‘internal officer’, ‘officer II’ and ‘officer I’); and

(c) executive employees.

There are ten unions in the banking industry in peninsular Malaysia: two industry unions, and eight in-house unions (IHUs).

In all peninsular banks, clerical and related employees are represented by the National Union of Bank Employees, Peninsular Malaysia (NUBE).

Officers are often represented by the Association of Bank Officers, Peninsular Malaysia (ABOM). ABOM only covers employees at the internal officer and officer II grades. It was established in 1981 as a passive breakaway from the NUBE after the Registrar of Trade Unions ruled that officers could not be covered by the NUBE.
Five banks have IHUs. In three cases there are two IHUs within a bank, representing officers of different levels. The remaining two have just one IHU each. The five banks with IHUs are large, including the two major foreign banks and the largest domestic bank. Some IHUs were established as breakaways from ABOM because the relevant companies offered better terms and conditions than were available through the ABOM collective agreement (CA). ABOM’s membership has reportedly fallen from a peak of 13,000 to 4,000. Other IHUs (eg in Western Bank) were formed in previously non-union areas.

In East Malaysia there are separate unions: the Sabah Bank Employees Union and the Sarawak Bank Employees Union. The focus of the rest of this section is on the situation in peninsular Malaysia.

Employers in peninsular Malaysia are represented by the Malayan Commercial Banks Association (MCBA). It negotiates the industry-wide collective agreement on behalf of the banks (There are also separate commercial bank associations in Sabah and Sarawak).

The NUBE is a large and, by Malaysian standards, wealthy union, with almost 30,000 members. It owns holiday accommodation for members. It is seen as the most powerful banking union in Asia. Membership has risen to this level from 12,600 in 1984 and 20,100 in 1990. It claims to represent about 95 per cent of eligible employees.

NUBE is seen by the MCBA as being a ‘responsible’ union. A representative of MCBA made an analogy with a marriage – though there may be ‘skirmishes’ between the partners, ‘deep down’ there is a good relationship. Likewise, HR managers appeared to believe that they all had a good, fundamentally cooperative, relationship with the NUBE.

The NUBE, ABOM and all but one of the IHUs are coming together in the Federation of Bank and Financial Institution Employees. It was due to hold its first formal meeting in June 1999. The Federation will have delegates from each union according
to a formula which gives greater representation to larger unions. It will cover 56,000 employees (over 80 per cent of the industry’s employees) of whom approximately half will be members of NUBE.

The NUBE leadership has been somewhat iconoclastic within the union movement. The long serving former Honorary General Secretary, Bro. K Sanmugan, was a charismatic leader with good political connections. On one occasion, the NUBE won an industrial dispute when the Minister of Human Resources met and shook hands with picketers outside the bank in question. The Report to the 18th triennial NUBE delegates’ conference expresses the NUBE’s ‘appreciation and deep gratitude’ to, inter alia, the banks, MCBA, the Ministry of Human Resources, the Director General of Trade Unions, the police authorities ‘for their assistance and understanding’, their legal advisers, and the mass media ‘for their communicative contributions’ (NUBE 1996).

A decade ago, the NUBE led the establishment of a breakaway union federation, the Malaysian Labour Organisation (MLO), in competition with the MTUC. The MLO was given equal status to the much larger MTUC on several Government committees. Allegations were made that the MLO was being supported by the Government. Yet in May 1996 the MLO was disbanded and its member unions reaffiliated with the MTUC. According to the NUBE, the problems that led to the formation of the MTUC have been addressed. Sanmugan has recently resigned his position, and the role of General Secretary taken by former assistant general secretary G Gopala Krishnan, whose style is probably less reliant on political connections.

The NUBE has a strong workplace delegate (‘committee’) structure and regular interactions between the union office and the committees. This is one of the key elements in the effectiveness and therefore the prosperity of the NUBE.

One of the factors helping to perpetuate high density is the policy of the NUBE to new membership: if employees do not join the union within a certain period after entering the industry, NUBE will not accept their membership at a later date. Thus employees who do not join are taking a gamble that they will not ever need the
services of the union in grievance resolution. Given this threat, the power of the union and its effectiveness in resolving disputes, the vast majority choose to join straight away. The merger of some banks and financial institutions has led to a flood of applications by employees of former non-bank institutions wishing to join the NUBE. The NUBE has not rushed to accept these members, and was considering whether it would be fair to other members (who had been paying fees since joining the industry) to accept new recruits during the economic downturn.

*Collective bargaining, agreements and conflict*

The terms and conditions of clerical and related grades and many officer grade employees are determined by the industry-wide collective agreements. The agreements are adhered to and banks do not seek to vary greatly from the provisions of the agreements, though the agreements do enable some firm-level negotiation or determination of certain issues.

MCBA negotiates separately with ABOM and NUBE, even though the agreements typically cover the same time period and have the same duration. Agreements are for three years, but continue on force after their expiry until replaced by another agreement.

Prior to and during negotiations the MCBA meets with its constituent banks and positions are determined. Similarly, the NUBE consults with its members through a series of workplace meetings at which the company’s NUBE representative receives feedback on the union’s draft log of claims.

The foreign banks are not seen as taking any lead role in negotiations over the collective agreement.

Industry bargaining has suited both the unions and the employers. For the union, industry bargaining has ensured that employees doing like work receive like pay and core benefits, even though there may be differences at the margin from bank to bank. For the weaker banks, industry bargaining prevents them being picked off by the
unions. For the banks with high capacity to pay, industry bargaining prevents the union from extracting above-normal wages. The benefits of solidarity appear particularly strong for employers during periods of downturn such as the present. There seems to be little pressure from employers to move to enterprise negotiations, especially in relation to clerical and related employees. (Recall that some banks negotiate on an enterprise basis with IHUs that represent officers.)

The industry unions’ current collective agreements cover the period 1 January 1997 to 31 December 1999. The current NUBE agreement provides for wage increases of 14-15 per cent, while ABOM’s provides for 9 per cent increases. In both cases the agreements were negotiated substantially after the starting date, with benefits backdated to 1 January 1997.

The agreements were negotiated after the start of the financial crisis. The better outcome for NUBE’s members reflected NUBE’s stronger bargaining power but also the greater speed with which it reached agreement with MCBA in the context of a rapidly deteriorating economic environment. On 20 November 1997 MCBA offered NUBE 14 per cent. Within a day, NUBE accepted the offer: the agreement is dated 21 November 1997. ABOM was offered 12 per cent, but declined the initial offer which was lower than the offer to NUBE. Circumstances subsequently deteriorated and while the parties were deadlocked the Minister suggested to ABOM that they should accept a revised employer offer. By the time the agreement was signed, on 14 February 1998, ABOM had agreed to a 9 per cent increase.

It was not, however, unusual for clerical employees to receive a higher increase than officers. The previous agreements, covering the period 1994-1996, provided for increases of 23 percent to NUBE members but 14 per cent for ABOM members.

The current NUBE agreement provides for some increases in benefits. For example, the value of medical benefits payable in relation to an employee’s spouse and dependent children increased from RM 600 to RM 800 per annum. The NUBE and, where relevant, ABOM agreements provide for a number of other benefits that
indicate a significant degree of employer-provided welfare and leave entitlements. These include:

- access to housing loans, vehicle loans and sundry loans;
- medical benefits including out-patient treatment of employees and private hospital care;
- uniforms, including four suits of uniforms annually, two pairs of shoes per year, two turbans (for Sikhs) or songkoks (for Muslims) per year, free laundry, and leather jackets and helmets for employees required to ride motor cycles;
- transport and travel subsistence allowances;
- 60 days paid maternity leave;
- child care subsidies of RM600 per annum for female employees with young children;
- 14 to 26 days annual leave;
- 30 to 60 days paid sick leave per year;
- 10 days marriage leave and 10 days compassionate leave each year;
- 24 hour accident insurance; and
- retirement benefits based on an employer contribution equivalent to 16 per cent of salary.

Of all these areas, medical benefits appear to be the one most likely to be subject to pressure from employers for change, though the direction of change here appears to be not so much in reducing the value of the benefits as in changing the way in which they are delivered.

Bank employees are prohibited from engaging in strike action because banking is considered to be an essential service. Accordingly, bank unions resort to other tactics. Pickets are a common form of action. Employees hold signs expressing their grievances - though these signs cannot be held up with sticks as sticks could be used to assault or intimidate people. Another tactic is for bank employees to wear black armbands. They can then tell inquisitive customers about their claim when asked. Buttons with slogans are also common. These industrial tactics, whose direct impact
is merely to embarrass the employer, are nonetheless effective because of employer pride and fear that customers will take their business elsewhere.

Other tactics include working to rule and the taking of excessive medical leave. The current collective agreements were negotiated without any industrial action. There was action associated with the previous agreement. Other forms of covert conflict have declined in the context of the financial crisis. Thus absenteeism, sick leave and lateness are all perceived to be at low levels.

Employment

The labour market for bank employees, particularly skilled employees, has typically been very tight. Before the financial crisis, banks found it very difficult to recruit and retain employees at that level. Since the downturn, it has become much easier to find such labour, and labour turnover has declined substantially.

Redundancies have been occurring. However, these have been achieved through VSS. Banks have offered VSS when faced with the need to reduce employment and there has been a high level of take-up which has surprised the unions. Up until late 1998 there had been no forced retrenchments. Even when a closure of a bank’s subsidiary finance company occurred, retrenchments were avoided through the bank absorbing employees back into the bank. For banks, a VSS scheme has several advantages over compulsory retrenchments: it avoids the ‘last in first off’ principle that applies under compulsory retrenchments and leads to the loss of younger, possibly more 'adaptable' workers; and most importantly, it enables them to maintain cordial relations with the unions.

It seems unlikely that redundancies will stop now. Bank mergers will mean that some banks will have multiple branches in the same locality, leading inevitably to closures. An acceleration of automation (eg through moves towards telebanking and netbanking) can also be expected to put downward pressure on jobs.
In cases of retrenchments, the ABOM agreement provides for three months notice to be given to the union, followed by two months notice (or pay in lieu) to affected employees and one month’s pay per year of service as a retrenchment benefit. The last-in-first-off principle is to be followed. The NUBE agreement is silent on this issue.

Compensation, performance appraisal and promotions

Pay scales of bank employees have substantial overlap. This reflects the pervasive influence of the seniority-based increment system, as well as the compression of relativities between clerical and officer grades achieved by NUBE. For all five classifications covered by ABOM and NUBE, the increment scale has 21 annual steps (that is, you can work in the same job for 20 years and get a pay rise at the end of each year). The ranges are set out in table 3:

Table 3: Interaction between salary scales, clerical and related and officer grades, 1997-99 agreements

<table>
<thead>
<tr>
<th></th>
<th>NUBE agreement</th>
<th>ABOM agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-clerical scale</td>
<td>General clerical scale</td>
</tr>
<tr>
<td>Minimum (1st step) (RM/month)</td>
<td>565 852 1074</td>
<td>1064 1240</td>
</tr>
<tr>
<td>Maximum (21st step) (RM/month)</td>
<td>1165 2066 2516</td>
<td>2576 3337</td>
</tr>
<tr>
<td>step at which exceeds General Clerical 1st step</td>
<td>12th</td>
<td></td>
</tr>
<tr>
<td>step at which exceeds Special Grade Clerical 1st step</td>
<td>19th 6th</td>
<td>2nd</td>
</tr>
<tr>
<td>step at which exceeds Internal Officer 1st step</td>
<td>19th 6th</td>
<td></td>
</tr>
</tbody>
</table>

46
Thus a non-clerical employee (eg a messenger or office boy) on the 12th increment (ie in the 12th year of service) will be on a higher base rate of pay than a general clerical employee on the first increment. A general clerical employee on the 6th increment will be above a special grade clerical (many banks do not have this classification) or an internal officer on the first step. Indeed, a non-clerical employee in their 19th year will be receiving more than a new internal officer. Increments can be deferred or stopped, but this rarely occurs. When a clerical or related employee is promoted, they are entitled under the NUBE agreement to be put on a step in the higher grade worth at least 10 per cent more than their previous salary.

While the main force at work here is the strength of the notion of seniority-related increments, the impact of relativity compression can be see from the fact that, two agreements ago, a non-clerical grade would never reach the bottom of the internal officer pay rates, while a special grade clerk would not surpass a first-year officer II until the 7th increment (it now occurs at the 4th).

As a consequence in part of the emphasis that the increment scales give to seniority over performance, banks, like many other Malaysian companies, provide bonuses to their staff. However, the flexibility that bonuses can provide is limited by employee expectations of regular bonuses. Hence the NUBE and ABOM agreements both provide for a minimum bonus equivalent to two months salary. In 1998, it was not uncommon for non-union employees in the executive ranges to receive no bonus. Yet all NUBE and ABOM classifications received a two month bonus. While this was often smaller than that which had been paid in previous years it nonetheless represented significant stability for unionised employees. Union representation therefore provided substantial protection of clerical and officer level employees’ pay and conditions during the downturn.

Some banks responded to the inflexibility of the bonus system by recently introducing annual ex gratia contingent payments based on the performance of the bank and the
individual. Such payments were not made in 1998. While ex gratia payments represented a source of flexibility, they had several problems. The introduction of such payments caused resentment amongst the other banks, who feared pressure from their own employees (and the unions) to flow on such payments to the rest of the industry. Their non-payment in 1998 caused resentment amongst those employees who had received them in the previous year. And when they were paid, perceptions of arbitrariness sometimes caused resentment amongst staff who did not receive the payment they believed they deserved.

The current NUBE agreement provided a mechanism by which banks could introduce more flexible pay systems. The agreement foreshadowed that supplementary enterprise agreements could be made between the union and any bank regarding a performance-related remuneration system – ‘a new system of remuneration linking the salary to performance’ but in which the minimum and maximum salaries would be the same as in the industry agreement. No banks, however, have attempted to negotiate such agreements. This is seen by the banks as something which is best done in good economic times. It was expected that guidelines would be drawn up by MCBA and NUBE before enterprise agreements were negotiated, but no guidelines have been negotiated, as the NUBE is not seen as being interested in the adverse economic climate due to fears that it might be used to cut costs by reducing increments.

Work organisation and productivity

Other productivity-related issues such as multiskilling are seen as being ‘only in the pipeline’. Work organisation in banks still seems to be arranged along broadly traditional lines. The main impetus for change in work organisation has been the introduction of new technology. Although ATMs are widespread, many of the banks still have a considerable way to go before they feel the full effects of technological change.
The banks have not generally been seeking to talk to the unions about improving ‘productivity’ through such mechanisms as performance-related remuneration, as the banks perceive that employees fear that ‘productivity’ is code for ‘redundancy’.

*Training and staff development*

Special regulation applies to the banking sector because of the essential character of the industry. This is not just reflected in the ban on strikes. Bank Negara plays a role in labour market issues in the banking industry that supplants the role played by the Ministry of Human Resources elsewhere.

This is evident in the way the Bank intervenes in skills development and labour mobility issues. For example, a problem that has been identified in the industry is that some banks will seek to free ride on the training efforts of others, and rather than devote adequate resources to training they will simply offer higher pay to people to join them from another bank.

In response, Bank Negara requires the banks to spend the equivalent of at least 2.5 per cent of their salary costs on training. This is much greater than the 1 per cent HRDF levy. (The HRDF levy does not apply to the banking sector.)

Moreover, Bank Negara requires banks who poach employees above a certain grade from other banks to pay a sum equivalent to six months salary into a central fund administered by the Malaysian Institute of Bankers. The moneys raised from this poaching levy are then used for the provision of training, including through diploma and degree level courses.

Perhaps because of these factors, and because of the nature of the industry, the banks tend to devote considerable resources to training. They typically have their own in-house training schools that provide specialised, often modularised, induction for new recruits and training for ongoing employees.
Bank Negara does not restrict itself to training matters. At times it takes an interest in the activities of individual employees, including but not restricted to instances of embezzlement or misbehaviour. It takes a more interventionist approach to the affairs of banks, and in turn is probably more influenced by the policy preferences of the elected government, than in many other countries. This has taken on special significance since the events of August 1998, given the close association that had previously existed between former Deputy PM Anwar Ibrahim and the banking industry. This strong role of the central bank in turn constrains the degree to which the banks – especially foreign banks – are willing to be seen to be acting in ways that are contrary to the wishes of the government of the day.

Recruitment and flexibility of employment

Typically banks have operated strong internal labour markets. Most employees have been recruited at base levels as school leavers and worked their way up through the ranks. More recently banks have been looking for recruits with post-secondary qualifications. There has also been some lateral recruitment into the banks.

Banks negotiate with unions if they wish to alter opening hours, as normal hours of work are set down in the collective agreements. The NUBE agreement provides for part-time employment, but it is restricted to cashiers and tellers, and the permissible hours are restricted to 15 to 27 hours per week (between 10am and 3pm Monday to Friday and 9.30-11.30am Saturday). Notably, the hourly cost of part-time employees is 41 to 52 per cent above the hourly cost of full-time employees. Indeed, the monthly cost of a part-timer working the maximum hours per week (27) is just RM10 (1.2 per cent) below the monthly cost of a full-time employee working the prescribed 39 hours per week. There is, therefore, little incentive for employers to make substantial use of part-time employees in the clerical and related grades. Moreover, there is not much of a supply of part-time labour to the banks. Married women and students were the main potential sources, but the scheduling of studies within the education system largely prevents students from engaging in part-time employment, while the poor public transport system and long travel times in Kuala Lumpur make
part-time employment an unattractive option for suburban women. Part-time employees would mainly be used to deal with peak customer rushes in Kuala Lumpur and so outside of the capital the banks have little demand for them.

We now turn to examination of the enterprise vignettes in banking.

**Vignette 1: Western Bank**

Western Bank Malaysia Bhd is the Malaysian arm of a large MNC banking group with headquarters in London. Its principal area of activity is in the Asia-Pacific region and it has operations throughout East Asia including the Philippines and China. Western Malaysia is the third largest of the Western operations in the region, behind Hong Kong and Singapore. It is the longest established bank in Malaysia and is the largest of the three leading edge foreign banks in Malaysia, with assets of RM 14 billion and 35 branches, the maximum number allowed to foreign banks.

Western Malaysia’s pre-tax profit rose from RM 327 million in 1996 to RM 465 million in 1997, but in the face of the financial crisis it fell by 43 percent to RM 265 million in 1998. Western performed better in the financial crisis than many other banks in Malaysia. This was due to several factors: a lower incidence of bad loans; a tendency for some people to shift funds from riskier banks into Western; some success in speculating in the money market; and an already lean structure arising from downsizing several years earlier.

Western Bank has 2100 employees in Malaysia, of whom 50 per cent are Chinese, 28 per cent Malay and 22 per cent Indians and others. Women slightly outnumber men. The importance of expatriate senior managers has been declining: in a few years their number has fallen from seven to three. It has a young workforce in the retail banking function but more middle aged and senior employees in corporate banking and the support functions.

*Employment relations at Western*
In addition to the NUBE, representing clerical and related employees, Western Bank has two in-house unions (IHUs) covering employees above this range. The Western Bank Officer’s Association (OA) covers employees in the officer grades (grades M15 and M16), with monthly incomes from RM 1835 to RM 4625. The classification structure does not directly correspond to that in other banks but the coverage of the Officers Association is essentially equivalent to that of ABOM, though with substantially higher rates of pay. The Western Bank Managers’ Association (BMA) covers managers (grades M17 to M23) with monthly incomes from RM 2870 up to a very well off RM 16,200.

The OA was formed in 1987 in a period of uncertainty for officers. It has 360 members which it considers represents 95 per cent density amongst eligible employees. The OA is an active union at the workplace, with the president spending several hours after work each day meeting members and working on union affairs. Workplace delegates provide the link between members and the union executive, which meets monthly. It holds monthly conferences with the bank unless there is no business to attend to.

The establishment of the OA reinforced insecurities felt by managerial employees and by example suggested that the establishment of a IHU would protect their position. The BMA was formed within two years of the creation of the OA. Managerial staff were dissatisfied with the way the Hay job evaluation system was introduced and were disturbed by talk of downsizing. The concerns of managerial employees were heightened by what was seen as a cavalier attitude by senior management of the time - that if employees did not like the new system they could always go and work elsewhere. The BMA is not an especially active union. Its executive meets once a month; it also meets with Western about that often. Its senior officers spend a few hours each month on union matters. Its main impact has probably been to protect managers, in particular by ensuring they were not forced to take redundancies against their will.

At the clerical level, Western is, of course, covered by the NUBE. While Western may find it easier to manage ER if it were able to negotiate as a single enterprise with
NUBE, rather than as part of the industry-wide CA, it is very difficult for a foreign bank to disrupt the solidarity of the local banks by breaking away, as this would damage its reputation with the other banks and, one might speculate, with Bank Negara. So Western’s strategy is to try to persuade local banks in the MCBA to go along with it on some issues, and to negotiate bilateral deals with NUBE on issues where it cannot. These bilateral deals provide NUBE members at Western with ‘allowances’ that represent 15 to 20 per cent of base salary. There has been no industrial action at Western involving clerical and related employees for the past three years. There have been sporadic disputes with the IHUs, mainly over salary increases and performance-related pay. The two IHUs work together on matters of common concern, as do the OA and the NUBE through the federation. However, there is little contact between the BMA and either the NUBE or IHUs in other banks. Unlike the OA, the BMA is not in the banking unions’ federation.

The 1990s downsizing program had its origins in a ‘major change event’ in the global group, referred to as ‘Focus 2000’. The title of the program referred to 2000 managers who were targeted and involved over a two month period with a view to changing their ‘mindset’ and through them changing the way the group dealt with technology, work processes and people management. The Focus 2000 project was seen as turning the organisation’s psychology from that of a colonial bank to that of a global bank. Once managers had been through a seven day intensive live-in course, they were sent back to their countries to re-engineer processes within their banks. Each country was given a downsizing target which was, in Western Malaysia’s case, 800 jobs (nearly 30 per cent) over three years. The downsizing program was facilitated by a decision that retrenchment costs across the group would be paid for out of a central pool, avoiding any adverse impacts on countries’ bottom line.

The aim of the downsizing program was twofold: to reduce labour costs and remove poor performers. In Singapore and Hong Kong this program was undertaken unilaterally by management, but in Malaysia Western had to contend with the NUBE and with a regulatory framework that was more protective of employees. The company entered into early discussions with the NUBE and assured the union there would be no compulsory retrenchments or retirements. A VSS was put in place. The
bank prepared employees by discussing its intentions in a number of forums at various levels, up to a year before redundancies commenced. Employees who were considered to be poor performers were encouraged to leave. As a consequence the union alleged there were threats and arm twisting. The bank considered that nearly 90 per cent of targeted poor performers left. Also amongst the departees were some of the key opponents of performance-related pay and other changes. Western lost a relatively small proportion of people whom they strongly wished to retain, though in the end those who were persistent in wanting to leave were allowed to do so.

A more recent, though less radical, change process across the group has been the development of the ‘One Bank’ concept. This arose because of concerns that the functional restructure of the bank had led to fragmentation of its identity. These concerns arose in part from the findings of a 1997 employee attitude survey and focus group discussions which revealed evidence of fragmentation. ‘One Bank’ attempts to establish a common culture across the group. It is reinforced through various competitions and social, sporting and other activities. The HR function has command of much of this. For example, the sports club which was previously run by voluntary employee subscriptions has been taken over by the HR function. There has been substantial subsidy of the canteen to encourage its use as a meeting point for employees. There is, however, little attempt to focus on the bank’s mission statement in cultural development, due to the perceived diversity of the bank’s operations.

The HR Director had recently attended a one-week course ‘One Bank, One HR’. A comprehensive people planning program covers most facets of HR. The HR ‘product’ is originated within the group and cascaded through the company. Individual countries are allowed to customise the application of it to reflect national circumstances. In Malaysia’s case, the power of the NUBE and the nature of employment regulation shape the application of HR policy. These adjustments aside, a consistent approach is followed. Such matters as human resource information systems are standardised across the group. Each region has a centralised learning centre (the Asia-Pacific’s centre is in Hong Kong) from where a common set of ER-related training modules are sold to each country. Individual countries can develop their own modules, if the standardised ones do not suit for cultural or legal reasons,
though the learning centre needs to know why this happens. Business training (eg cash handling) is undertaken separately, within each business function (consumer banking, corporate and institutional banking, treasury), and each has its own mini-learning centre. Training expenditure in Malaysia is equivalent to about 2½ per cent of salary costs.

Western, along with the other foreign banks, tends to be at the leading edge of new techniques. An example is what Western refers to as empowerment: the level of transaction authorisation attached to employees at particular levels. Western clerical employees now have authorisation limits of RM 5000, which are equivalent to those applying to officers grade II in local banks. The NUBE now seeks greater ‘empowerment’ along these lines from other banks.

A major change in work organisation has been a weakening of the boundaries between ‘front office’ and ‘back office’ employees. This was one of the key elements in the ‘Focus 2000’ re-engineering project and was an activity in which Western was an industry pioneer. It was a source of angst amongst clerical employees, and therefore within the NUBE. However, following negotiations the NUBE leadership was supportive and smoothed the way for the introduction of change. Indeed, the NUBE put subsequent pressure on other banks to follow the Western example of multiskilling, leading other banks to complain about Western’s relationship with the NUBE.

Teams are given an increasing emphasis. They may be organised to deal with specific customer groups (eg small and medium enterprises and large MNCs) or as general sales teams. The team leader may be a clerical employee. Teams are seen as particularly useful in objective-setting and establishing team targets rather than individual targets.

Western management would like to introduce performance-related pay (PRP) for clerical workers and accordingly reduce the importance of the incremental scale. Performance pay is already formally in place for officers and managers and is informally in place for clerical employees as discussed below. During negotiation for
the last two Cas, efforts were made to introduce PRP. After MCBA had invested a significant sum in a consultant, the local banks reportedly got cold feet because of the difficulty of undertaking the job evaluation associated with PRP. Western takes the view that the HR functions in the local banks are not sufficiently developed to do this, and that they fear higher labour costs, but Western would have little difficulty with the process (and it could handle the higher labour costs). The current NUBE CA provision permitting the development of PRP guidelines was inserted at the insistence of Western. NUBE had not yet been approached to open negotiations, as HR in Western was still consulting with the business units. It is not planning to wait for the development of guidelines with MCBA before opening discussions with NUBE. Western takes the view that the NUBE is less of a barrier to change in this area than the local banks. While there may be initial opposition from its membership, the NUBE is capable, in this view, of turning its members’ perceptions around. According to Western, the NUBE leadership is open to ideas of change and it is presently a critical player in the change process.

As it is, Western clerical employees receive two bonuses:

- the two-month contractual bonus set out in the CAs for all three unions;
- an ex gratia payment, worth an average of 1.5 months per employee, which is not negotiated with the unions. This is a pooled bonus in that divisions receive an amount, based on that division’s performance, which is then allocated to individuals based on their performance rating. The NUBE wanted these pooled bonuses to be the same for all employees, but accepted that the bank could pay performance bonuses to staff in addition to their existing entitlements.

Across the group, performance appraisal is said to be ‘open’, that is, transparent to employees. However, a union view is that it is subjective and difficult to get documented evidence on the basis for payments. A four point rating system (from outstanding to unacceptable) is used. Performance is assessed in two ways: performance against specified objectives is used to determine employees’ performance bonus, while overall performance (which need not calibrate with performance against objectives) is used to determine the merit increase. In some instances complaints have been successfully taken to the Industrial Court alleging
errors in the bonus paid to employees who had reached their targets. In some countries within the group, the merit increase has been abandoned and replaced by a market adjustment, but in Malaysia the CA is seen as restricting this.

Employees’ training needs are identified through personal development plans negotiated with their supervisors. These plans are meant to arise directly out of performance appraisals. This is only the second year these plans have been used.

The full-time permanent employment model still prevails in Western, due to the influence of the union and external impediments to the employment of part-time women and students. Western has two part-time employees, down from six a couple of years earlier. The clause in the NUBE CA that provides for part-time employees was instigated by Western, but as outlined earlier the costs of part-time employment are a major disincentive to its use, and the part-time labour market is shallow. Any form of employment other than permanent full-time has to be discussed with the unions. There are a small number of fixed-term employees.

Western was the first bank to outsource its IT function. Like other major changes, this was negotiated with the relevant unions (in this case, the IHUs) who were initially wary. It was the achieved intention of Western that the IT employees who previously worked for the bank would return as employees of the contractor, so outsourcing changed the employment relationship but it did not change the workers or the work.

The financial crisis has not had a huge impact on employment relations at Western. Employees have still received their bonuses. Wage increases under the CAs have held up. Benefits have been maintained.

Labour turnover has fallen, from 18-20 per cent per annum amongst clerical employees from 1992 to 1997, to 3-4 per cent now. Recruitment is negligible at present. The current downturn aside, there appears to have been a transition in recruitment practices, with a decline in the focus on domestic diploma holders and an increase in the reliance on foreign degree holders who are seen as having a better
command of English. The English language skills of domestic school leavers are seen to have declined, but MNC banks need people who can transact international business in English.

From the unions’ point of view, a key challenge will be dealing with the ongoing pressure for redundancies arising from mergers and new technology - and with increasing tendencies for burnout amongst employees.

Aside from the Bank Negara rules, Government is not seen as having a major impact on Western’s HR practices, though as a foreign bank Western is sensitive to the wishes of Government. Being a foreign bank probably makes Western more cautious in its approach to matters of industry concern - and less likely to break away from the pack - yet ceteris paribus one might expect the foreign banks to be the innovators who are most likely to break away.

Vignette 2: Local Bank

Local Bank (LB) is wholly owned by a government employee finance organisation. It has 76 branches with 2500 employees, claims to be ranked sixth in terms of market share, and has closer links to the Bumiputera community and the government than some other banks. LB regards itself as a ‘middle size’ banker and deals mainly with the corporate sector although its corporate plan may be changed following its planned merger with Commercial, a smaller bank with 23 branches.

LB’s profit levels grew substantially during the first half of the 1990s but declined with the onset of the economic crisis. The Bank has continued to make a profit, albeit a reduced one; e.g. in 1997 profit before tax was 16.9 per cent lower than in 1996. In 1999 the bank again expects to record a profit. LB had been less exposed than other banks to loans for the purchase of property or shares and therefore less severely affected by the downturn.
LB has not retrenched any employees during the economic crisis and they have continued to pay annual bonuses and increments to their employees. The Human Resources Manager indicated the likelihood of some staff redeployment and reskilling as a consequence of the proposed merger as well as possible retrenchments due to the bank’s increasing computerisation program.

**Employment relations at Local Bank**

The HR/IR function is still quite centralised at LB with the Branch Managers resisting attempts to devolve aspects to them. The bank showed some signs of introducing new management systems into the workplace but still has a long way to go in transforming it from its traditional practices. They have developed Work Improvement Teams at the branch level which conduct occasional problem solving exercises away from the workplace. In 1996 they conducted a climate survey amongst their employees. As part of their information technology program they have ensured that most employees now have computers on their desks. On the other hand it was acknowledged that the employees’ attitudes and ability were not matching the technology, and that the implementation of quality schemes had not progressed far. Whilst LB did terminate poor performers, the HR Manager described LB employees as “quite pampered, not sufficiently result driven”. The union delegates concurred with a description of the bank as an easy place to work.

Over 90 per cent of the employees eligible to belong to the NUBE do so at LB; union workplace delegates personally approach new employees after they have completed their three months’ probation. There was no indication of management opposition to union membership. Indeed, the HR Manager described himself as being on friendly terms with the NUBE Secretary General. On the one hand, management viewed the union organisation as being useful in gaining workforce compliance with management initiatives; once management has persuaded the union leaders of the merits of the proposed changes the members will accept their leaders’ advice. On the other hand, it was felt that the union delegates were a costly burden to the bank as much of their time was spent on union business and politicking rather than in their role as bank employees. The union was perceived by the HR Manager as “very strong” but co-operative with the bank, an example of the latter being its acceptance
of justified terminations. It was also suggested that the union officials were more advanced in their thinking than the members; for instance, their positive response to the introduction of information technology which it saw as providing more opportunities for members to advance.

NUBE’s strength, despite the many restrictions placed upon its ability to take industrial action, was illustrated in an industrial dispute at LB in 1995. The dispute was ignited by the dismissal of an employee but grew when management sought to reclassify the tellers as bank officers. Whilst this promised increased responsibilities and remuneration for the tellers it would also make them ineligible to remain as members of NUBE. LB union members were joined by NUBE members from other banks and picketed LB outside of work hours. Eventually management agreed to reclassify them as ‘Senior Clerk’ enabling them to remain in the union.

The wages and conditions of the clerks and officers are covered by the industry-wide collective agreements. In addition they receive an ex-gratia payment which varies depending on individual performance. Neither the union nor management expressed satisfaction with the implementation of the performance appraisal process. Management saw it as a case of the process needing refining. The union delegates rejected the concept of performance based pay with comments such as “If they’re going to give they should give to all” and “If someone gets less then they may work less”.

Following a consulting group’s report, LB’s senior management had concluded that their remuneration for senior employees, not covered by collective agreements, was not competitive within the industry. However, planned increases were put on hold due to the recession.

LB sought quite actively to promote from within, with management keeping lists of potential candidates for promotion to such positions as Branch Manager. In the previous year almost 10 per cent of the workforce had received a promotion. The bank provides substantial training within its own ‘School of Banking’, particularly for its management employees. All employees participate in a 1-2 day induction program
and can avail themselves of skill-specific courses such as computer training. A more structured program is offered to trainee executives who each spend an initial three months in the school followed by six modules of training, with each module being 2-4 days' duration.

One notable aspect of LB’s operations is the substantial degree of State influence in their activities, in part due to the bank’s association with an influential group of government employees as well as its close links with the Bumiputera community. The government is driving LB’s shotgun marriage with Commercial and, at a more micro level, Bank Negara questioned the payment of bonuses and increments during the recession in 1998 as well as auditing the training budget and the taking of annual leave. Following the arrest of the former deputy Prime Minister and Finance Minister, inquiries of a more political nature have also been made.

The workplace interviews revealed a number of changes to be implemented in the foreseeable future which are likely to have a substantial impact on the nature of work and workplace relations at LB. First is the pending merger with another bank, referred to earlier, as well as the plan to move into a new building. Second, and perhaps of more significance is the expectation of the increasing transformation of the banking system using up-to-date information technology. Finally, management indicated that they were aiming to change the current composition of their workforce (currently 60 per cent Bumiputera) by recruiting more non-Bumiputeras with the goal of attracting more new (particularly Chinese) clients.

**Vignette 3: Conglomerate Bank**
Conglomerate Bank (CB) is part of a Malaysian owned group comprising over 200 companies with 40,000 employees, of whom more than one-third are located outside of Malaysia. It was acquired from another Malaysian conglomerate five years ago. The group has an annual turnover of $US2.5 billion and has economic activities within a diverse range of industries including finance, hospitality, property, electronics and building materials. The conglomerate grew out of a Malaysian Chinese family-owned business and while the family still owns up to 60 per cent of
some of the companies, 20 of the companies are listed on the stock exchanges of Kuala Lumpur, Singapore, Hong Kong, Manila and London. The group sees itself as essentially a Malaysian based organisation with global goals. Thus the bank aims to increase its number of branches within Malaysia from its current level of 100 and at the same time join forces with a Hong Kong based bank within the group to expand internationally.

CB, like LB, estimated itself to be ranked sixth in terms of asset size. Like LB, it has approximately 2500 employees in Malaysia. CB has been associated more with the Malaysian Chinese community than the Bumiputeras although less overtly so than EA (the next vignette). Like EA, approximately 60 per cent of its employees are Malaysian Chinese; more than 50 per cent of CB’s workforce are women. At the managerial level two of the eight senior managers are women and approximately half of the general managerial/executive group are women.

The economic downturn resulted in the combined banking and finance section of the group posting an annual loss due to non performing loans. However, CB continued to be profitable albeit at a reduced level; its profit for the second half of 1998 was reported to be down by 25 per cent compared with the previous corresponding period (The Star, 13 March 1999). Management responded to the downturn by initially freezing recruitment and capital investments. This was followed by two rounds of retrenchment reducing the number of employees across the group by 10-15 per cent. Retrenchments were on the basis of ‘last on, first off’ and occurred at all levels of the group but they did not take place in the banking arm. The group also sold some non-essential businesses and reduced their managers’ perks and bonuses. The size of bonus for individual managers was related to the performance of the company in which they were employed but whereas the average bonus had been previously in the 2 - 4 month range it was reduced to 1 – 2.5 months. Management also approached the NUBE to see if employees covered by the collective agreement could forego their bonus but this was rejected by the union. During the downturn, CB also increased its expenditure on training more substantially than at any other time.
Employment relations at Conglomerate Bank

The wages and conditions of CB’s clerical and non-clerical staff are determined by the industry wide collective agreement, although only a quarter of CB employees are unionised, mostly in the clerical grades. CB management intend to continue with industry based collective bargaining despite feeling that they had little influence over the process. They regarded this as preferable to the possibility of enterprise bargaining whereby the union might play individual banks off against each other and enforce gains conceded by more ‘generous’ banks upon others.

There had been no industrial action within CB during the five years it had been part of this conglomerate and labour turnover had reduced from a high of 25 per cent during boom times to 5-7 per cent currently.

NUBE has workplace delegates in each branch and the union’s committee addresses safety issues, unfair and/or illegal practices and discipline issues. HR management did not regard the union’s presence as a problem nor did they regard it as particularly useful. They tended to approach it with a ‘give them what they want’ attitude (e.g. regarding notice boards, donations) in the belief that the union would then not cause CB any problems.

Management of human resources and industrial relations is still fairly centralised within CB, and more centralised than LB. While Branch Managers have been trained to deal with industrial relations and are delegated some responsibility for recruitment and promotion, decisions on appointment and dismissal are still made by HR within Head Office. Whenever an industrial relations issue arises the Branch Managers inform HR and liaise where necessary.

There is a strong ethos of human resource development underpinning the HR policies and practices at CB. The corporate mission statement includes human resources – “To enhance the quality of human resources as the essence of management excellence” – as one of its eight sections. Within the group’s Industrial Master Plan the HR goals are to recruit and retain the best people, to provide training, and to develop and propagate the corporate culture.
The group has a policy of providing a minimum of 56 hours training per employee per annum and is spending 4.5 per cent of its payroll (equating to $5-6 million) on training. They are seeking to broaden the skills of employees with a multiskilling focus in the training having commenced 2-3 years ago. The training and development program is an important vehicle for the group’s drive to implement a corporate culture. For example, staff unity is promoted within the induction program and within meetings of regional groups of managers.

CB’s management claims it is committed to the development and implementation of management systems which will enhance the quality of their employees and consequently their products and services. They have drawn on external expertise to assist in the development of their quality programs, benchmarking systems, assessment methods and in designing an appropriate remuneration scheme. CB is developing a series of benchmarking measures with the goal being to benchmark internationally. The performance of CB branches and managers is measured in relation to the return on funds, earnings per share and borrowing control action plans; for senior executives performance-related bonus can comprise 40-45 per cent of their pay and despite the economic downturn one executive still earned an 11 month bonus due to the extraordinary performance of his section.

CB had encountered very little direct impact from the government’s influential role in the banking industry. Management, while being aware of the government’s regulatory role in such critical areas as size of asset holdings (with the consequent implications for mergers) did not perceive CB as being vulnerable to any such directives due to their own strong position. CB management were appreciative of the government’s influence in IR/HR describing the government’s role as “very proactive to prevent stoppages and militant individuals taking law into their own hands.”

Vignette 4: Bank East Asia (Mal)
Bank East Asia (Mal) (EA) is a foreign bank with headquarters elsewhere within the East Asian region. It regards itself as a regional banker rather than a global bank as its focus is within the Asian region. It plans to continue to pursue its regional focus concentrating its efforts in Singapore, Malaysia and Greater China.

EA was established in Malaysia in 1932 and is 100 per cent owned by the foreign parent. They claim to be eighth or ninth in terms of market share and have 25 branches in Malaysia. Out of a total international workforce of 6000, some 1900 are employed in Malaysia. Whereas LB’s market is within the Bumiputera community, EA’s strength is the middle market Chinese business and consumer retailers. Their business is very dependent on personal relationships with clients. In keeping with its focus on the Chinese community, 60 per cent of the bank’s employees are of Chinese ethnicity.

EA made an after tax profit of $51 million in 1998, a 75 per cent decrease on their 1997 profit level. The crisis resulted in EA closing its finance company in Malaysia due to the government’s revised requirements for finance companies’ capital base. As EA’s finance company was a small operation they deemed the required additional capital investment (ultimately more than $500 million) to be not worth their while and so absorbed the 100 or so employees into EA’s workforce.

EA has not retrenched any employees during the economic crisis and their rate of turnover had reduced from 8-9 per cent in 1996/97 to 1-2 per cent per month currently. Overtime has been decreased dramatically; employees who might have previously been earning $400-500 per month in overtime were now earning only $50. In addition EA reduced the bonus paid to those employees not covered by the collective agreement from 4-5 months last year to 1 month and gave no increment to the same group where previously it had been 8 per cent. From the perspective of the unionised employees the most disappointing consequence of the economic crisis had been EA’s decision to not pay the special (non-contractual) bonus which had been previously paid annually from 1989 to 1997. As EA had made a profit in 1997 the members expected to receive the special bonus, albeit a reduced amount.
Employment relations at Bank East Asia

The HR Manager was included in the senior managerial decision making group within the Malaysian subsidiary ensuring that HR concerns were considered within the overall policy and planning operation. Whilst he also reported to the Corporate HR Manager at EA’s headquarters, he received little more than broad directives from there. These had little impact on HR/IR policies and practices in the Malaysian subsidiary. However, the union delegates expressed some resentment towards the foreign Head Office management for displaying insufficient interest in the Malaysian subsidiary and blamed the foreign management for the budget restraints which prevented Malaysian management from paying, for example, the special bonus. The employees complained that EA’s employees in their home country received a larger bonus than they did in Malaysia.

There had been several changes in the composition of EA’s workforce during the 1990s. First, there had been an increase in the proportion of young people in their employ with the consequence that the majority of their workforce was aged under 30. Second, there had been an increase in the percentage of women employees. This was explained as being due to the difficulty of recruiting Chinese males during the ‘boom’ years and the decline in the prestige of the job of bank clerk which had encouraged women to enter the occupation. At the management level, 20-30 per cent of the Malaysian Head Office’s ranks were filled by women but management deemed it essential that the Branch Managers be men so that they could mix with their male Chinese business customers.

In terms of productivity measurement, benchmarking and general quality management systems, HR management indicated that some initial steps had been taken along these paths. Like LB, however, they were still at a rudimentary level of implementation. For example, the teamwork concept been introduced and some teams formed but the HR Manager doubted whether they were working. EA has its own training unit and the most serious skill shortage identified by the HR Manager was English language literacy.
EA’s management displayed a remarkably tolerant approach to timekeeping and absenteeism as well as a degree of protection of those employees less able than their counterparts. They also aimed to avoid retrenchments during the economic downturn as well as when implementing major changes such as the introduction of new technology.

As with all the banks, wages and conditions for EA’s non-clerical, clerical and officer grades were set in the industry-wide collective CA’s. EA management were satisfied with industry level bargaining as they felt that EA could comfortably afford to pay the rates agreed to by NUBE and MCBA.

There was a good relationship between EA’s management and both unions’ officials and workplace delegates. The HR Manager described the former NUBE Secretary General as a “friend of mine” and the union delegates confirmed that individual employees were free to join the unions within EA if they so chose. An estimated 70-95 per cent of those eligible to join NUBE had done so while 40-50 per cent of eligible officers had joined ABOM. New employees are recruited via direct personal approach by the workplace delegates. Applications to join the union have increased during the economic crisis as rumours abound that non-union employees will be retrenched ahead of unionised employees. The union had not yet agreed to accept applications from employees who had not chosen to join the union earlier. The workplace delegates explained this in terms of the union needing “quality not quantity members” and that such members would expect the union to expend its resources to protect them when they made very little contribution to the union.

EA’s management viewed the fact that EA was a foreign bank potentially exposed them more to being targeted by the union or alternatively being open to complaints to UMNO or the government. Given this concern, they were particularly anxious to ensure a co-operative relationship with the unions. The last industrial dispute had occurred 10 years ago. Action had begun with the wearing of black armbands at work which had resulted in customer inquiries; this was followed by a greater than usual number taking medical leave and a work to rule campaign.
The role of government in the banking industry was highlighted also by this case study although, being a foreign bank, the government’s influence had impacts in different ways. While they were as accountable to the Bank Negara in terms of the regulations regarding training staff and the poaching of other banks’ staff, the greatest impact from government related to the impending deregulation of the banking industry, which would allow foreign banks to increase their penetration, and secondly, the changing regulations concerning the capital base required by the various financial institutions.

In looking ahead, EA had no plans to merge with another bank but they did foresee major changes to the nature of work in the banking industry due to information technology and also their changing clientele. Their younger more educated customers were expecting the latest technology and were more likely to use the bank which offered them the best commercial deal rather than being concerned about loyalty and personal relationships. Clearly these changes have major implications for employment relations with the increasing computerisation of the work and the pressures to increase efficiency.

**Conclusion**

MNCs in banking are leaders in some respects but followers in others. In particular, Western Bank, one of the three major non-Asian MNCs, was at the cutting edge in terms of changes in work organisation and empowerment, but was content to overtly fall into line with the industry norm on industrial relations matters while seeking flexibility through the union to accommodate its particular needs. Hence it was a signatory to the industry collective agreement but continued to pay generous bonuses and was looking to negotiate the introduction of performance-based pay.

In both non-Malaysian MNCs it was also apparent that HR innovations originating abroad were not being unquestionably implemented in the Malaysian operations. In the cutting edge UK-based MNC, Western, overseas innovations were still adapted to suit Malaysian conditions (in particular due to the constraints imposed by industrial
relations institutions and regulations). In the Asian-based MNC, EA, with its less sophisticated HR network, group directives had a very limited impact on Malaysia.

The transmission mechanisms for innovation were particularly interesting: new ideas came from the power structures of a large MNC (Western), and were then implemented in the Malaysian operations of Western following negotiations with the industry union (NUBE), which once satisfied the innovations were in the interests of workers then put pressure on Malaysian or other Asian-based banks to follow suit. So far, though, most Malaysian banks have been slow to embrace multiskilling and employee ‘empowerment’.

Interestingly, the union could in no way be seen as the lackey of the banks in general or of Western in particular. It clearly was a powerful and independent organisation which had the capacity to block most changes if it so wished but which would seek to ensure that its members interests were met - often by leading, rather than following, the wishes of its members. Its strong workplace structures and record of success in dismissal cases and negotiating CAs gave it a credibility with its members that enabled it to push them to accept changes they otherwise might not. The ability to lead its members to accept change but also to mobilise them against unwanted change in turn gave it credibility and considerable negotiating power in dealing with the banks. It therefore has cooperative or at least accommodative relationships with all the banks studied.

The pervasive influence of the state was a significant factor in bringing the MNC banks more into line with the industry norms in industrial relations. Because of a desire not to offend the body that provides them with access to the Malaysian market, the MNC banks did not wish to be seen to be creating major problems for their Malaysian counterparts in banking or their own employees. In that respect, the role of government has probably enhanced the position of the banking unions. The strong relationship between the former leader of the NUBE and various Ministers is probably a significant factor here but by no means the only factor at work here. The state has a strong interest in maintaining stability in the financial sector, for reasons that became especially stark during the financial crisis.
Other aspects of the banks studied are summarised in Table 4. Pressures for decentralisation of HR were evident but not being effectively implemented in several banks. Compensation is similarly structured across most banks, reflecting the influence of the industry collective agreement, though there is some variation at the margin as mentioned. Training is given significant attention by all players, in no small part because of the requirements imposed by Bank Negara, though in at least some cases (eg Western) it is obvious there would be a strong emphasis on training anyway. All the banks were affected by the financial crisis, but most avoided retrenchments, and no NUBE members were retrenched (though some left through voluntary separation schemes).

Overall, the banking industry illustrated both the means by which MNCs can transmit innovations into a local industry but take a back seat in relation to other matters. MNC linkages are a source of pressure for increased labour flexibility, with the main manifestations being increased functional flexibility. The leading edge MNC had led the field in utilising quantitative flexibility through the earlier round of job losses arising from a global restructuring of its operations, but it had been unable to institutionalise quantitative flexibility through mechanisms such as casual or part-time employment. The main barriers to quantitative flexibility were the union and, to a lesser extent, the nature of labour regulation - but the MNC showed every ability to adapt to those constraints and no desire to attempt to break the power of the union. Likewise, wage flexibility was achieved on only an ad hoc basis, with the union acting as a barrier through its ability to deliver industry agreements (and notwithstanding the government’s policy push to increase wage flexibility). The leading edge MNC adapted to these constraints and was leading the halting efforts to increase wage flexibility in the industry. Ironically, the union, while resisting numerical flexibility, was helping to transmit global functional flexibility pressures through the industry.
Table 4  Summary characteristics of banking vignettes

<table>
<thead>
<tr>
<th></th>
<th>Western Bank</th>
<th>Local Bank</th>
<th>Conglomerate Bank</th>
<th>East Asia Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
<td>MNC (UK-owned)</td>
<td>Malaysian - owned and influenced by</td>
<td>MNC (part of Malaysian-owned</td>
<td>MNC (owned elsewhere in East Asia)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>government body</td>
<td>conglomerate)</td>
<td></td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td>35 branches (2100 employees)</td>
<td>76 branches (2500 employees)</td>
<td>100 branches (2500 employees)</td>
<td>25 branches (1900 employees)</td>
</tr>
<tr>
<td><strong>Influence of parent</strong></td>
<td>Strong, but adapt policies</td>
<td>-</td>
<td>Limited influence of group</td>
<td>Broad directives - little impact on HR/IR</td>
</tr>
<tr>
<td></td>
<td>to local conditions</td>
<td></td>
<td></td>
<td>practices</td>
</tr>
<tr>
<td><strong>HR function</strong></td>
<td>Internationally coordinated,</td>
<td>Centralised, significant attempts</td>
<td>Centralised, smaller efforts at</td>
<td>Centralised, not very sophisticated</td>
</tr>
<tr>
<td></td>
<td>highly sophisticated</td>
<td>at devolution facing barriers</td>
<td>devolution, sophisticated rhetoric</td>
<td></td>
</tr>
<tr>
<td><strong>Union presence</strong></td>
<td>Strong industry union for</td>
<td>Strong industry union</td>
<td>Industry union, though outnumbered</td>
<td>Strong industry union</td>
</tr>
<tr>
<td></td>
<td>clericals, moderately</td>
<td></td>
<td>by non-members in non-clerical grades</td>
<td></td>
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<tr>
<td></td>
<td>influential IHU for officers,</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>weaker IHU for managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government impact</strong></td>
<td>As MNC, bank more cautious</td>
<td>Forced merger, close monitoring of</td>
<td>Limited impact, but Govt seen as</td>
<td>As MNC, bank keener to maintain good</td>
</tr>
<tr>
<td></td>
<td>and solidaristic on</td>
<td>activities</td>
<td>proactive in preventing stoppages</td>
<td>relations with union; affected by</td>
</tr>
<tr>
<td></td>
<td>industry matters</td>
<td></td>
<td></td>
<td>financial sector rules (mergers)</td>
</tr>
<tr>
<td><strong>Role in industry</strong></td>
<td>Leader in new technology</td>
<td>Follower</td>
<td>Reluctant follower - believes has</td>
<td>Satisfied follower of industry norms</td>
</tr>
<tr>
<td></td>
<td>and work organisation,</td>
<td></td>
<td>limited influence on industry policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>follows pack on IR but</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>seeks flexibility with union</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Work organisation</strong></td>
<td>Leading edge in industry reempowerment, multiskilling</td>
<td>traditional - rudimentary changes</td>
<td>Multiskilling employees past 2-3 years.</td>
<td>traditional - rudimentary changes</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------</td>
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</tr>
<tr>
<td><strong>Training emphasis</strong></td>
<td>very high</td>
<td>moderately high</td>
<td>high (increased in downturn)</td>
<td>moderately high</td>
</tr>
<tr>
<td><strong>Labour-management relations</strong></td>
<td>cooperative</td>
<td>cooperative</td>
<td>accommodative</td>
<td>cooperative</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>tenure-based increments plus contractual bonus, contingent bonus, possible shift to performance pay in future</td>
<td>tenure-based increments plus contractual bonus, contingent bonus</td>
<td>tenure-based increments plus contractual bonus. Contingent bonus for non-union occupations.</td>
<td>tenure-based increments plus contractual bonus, contingent bonus</td>
</tr>
<tr>
<td><strong>Profit environment</strong></td>
<td>moderately reduced profit due to financial crisis</td>
<td>moderately reduced profit due to financial crisis</td>
<td>major fall in profit due to financial crisis</td>
<td>major fall in profit due to financial crisis</td>
</tr>
<tr>
<td><strong>Employment levels/flexibility</strong></td>
<td>30% reduction before financial crisis</td>
<td>May be forthcoming redeployments due to merger</td>
<td>10-15% reduction across the group during financial crisis</td>
<td>No staff cuts.</td>
</tr>
<tr>
<td><strong>Labour adjustment mechanisms</strong></td>
<td>VSS before financial crisis, no retrenchments during crisis, bonus still paid</td>
<td>no retrenchments, pay rise for executives delayed</td>
<td>no retrenchments in bank (but retrenchments elsewhere in group), cut in contingent bonus for non-union employees, executive privileges frozen</td>
<td>contingent bonus not paid, no retrenchments, large cuts in overtime</td>
</tr>
</tbody>
</table>
AUTOMOBILE AND COMPONENT MANUFACTURING

Malaysia’s automobile industry dates back to December 1967 when a Volvo assembly plant began production (Chee, 1985:388). By 1981 there were 28 car assemblers completing final stage assembly for foreign producers seeking access to Malaysia’s protected domestic market. However there was hardly any technological transfer and the growth of the car assembly industry did not result in the development of a viable auto components industry (Chee, 1985:388). At the time of Chee’s study the number of assembly plants had declined to 12 but they were assembling 27 makes and 129 models of passenger cars. Such proliferation of models made it difficult for component manufacturers to specialise and develop both the necessary expertise to produce quality parts and to achieve sufficient volume of production to be cost competitive. Thus local components were confined to the more peripheral items such as paint, seat belt, safety glass, exhaust pipe, tyres and battery; local content at that stage was valued at less than 18 per cent of the final product (Chee, 1985:388).

The Malaysian Government then established a national car project with the aim of strengthening the Malaysian manufacturing base and, in particular, providing employment, managerial and business opportunities for Bumiputeras. Proton was established as a joint venture between the Malaysian Government and Mitsubishi and commenced production in 1985. Courtesy of favourable taxation policies its share of the domestic market rose from an initial 11 per cent in 1985 to 75 per cent in 1995 (Fujita and Hill, 1997:314) thereafter declining to 63 per cent in 1998 (Proton, 1998:19).

A second national car project was launched in 1994 – Perodua – to produce a minicar in a joint venture with Daihatsu aimed at the lower end of the market as consumers upgraded from motorcycles, and a third joint venture with Citroen was announced in 1995.

While Proton currently has 50 export markets and is actively seeking to increase its
exports, it is still very dependent on its domestic market with only 14 per cent of its cars being exported in 1997 (Proton, 1998:22). Perodua vehicles are being exported mostly to the UK, Singapore and Egypt (Ministry of Finance, 1998a:121) but in inconsequential numbers at this stage. Proton has joint venture assembly operations in the Philippines and Vietnam (Fujita and Hill, 1997:314).

The Malaysian Government has acknowledged that the parts and components industry is not fully developed yet (Malaysia, 1996:290); Proton continues to import engines and transmissions from Mitsubishi in Japan. However Proton has developed a high level of local content within their cars, of their two main models one has 80 per cent local components and the other 60 per cent.

The future for the Malaysian auto industry augurs much change; with the emerging regional and global economic order envisaged by the ASEAN Free Trade Association (AFTA) and WTO the State will be unable to promote and control the national car project in the manner in which it currently does. Removal of tariff and non-tariff barriers and local content requirements will mean that Proton and Perodua will face international competition. Their share of the local market would be expected to decline; both will need to increase their exports to survive. The formation of integrated regional production systems will challenge the whole concept of a national car program. The Malaysian Government has acknowledged these looming changes (Malaysia, 1996:290) but the Proton production plant is still a long way from being internationally competitive.

The automobile industry was one of the two sectors most badly hit by the economic downturn associated with the financial crisis - the other being construction. In 1997 314,399 new cars were sold, this decreased to 137,691 in 1998 (Australian Financial Review 22 April 1999). Proton sales decreased by 70 per cent and Perodua by 60 per cent (NEAC, 1998:162); commercial vehicles were the worst hit with sales declining 81 per cent for Jan-July 1998 compared with the same period in 1997 (Ministry of Finance, 1998a:81). Only 30 per cent of production capacity was utilised in 1998 compared with 75 per cent in 1997, having reached 600,000 units of passenger and commercial vehicles and 700,000 units of motorcycles per annum (Ministry of
The massive downturn in vehicle sales came as a result of the increase in interest rates which accompanied the Government’s initial reaction to the financial crisis, the fall in national income and demand that followed, and the decision by Bank Negara to instruct banks not to lend money for non-productive purposes amongst which car purchases were included. Once the impact on the car industry was realised this instruction was reversed, but recovery in the industry has been slow to date.

Car and component producers responded in a number of ways to the crisis. In our five case studies it resulted in a reduction in the size of their workforces but only one of the five retrenched local employees. Two reduced their number of employees by retrenching their foreign workers, one achieved a substantial reduction in numbers through non-renewal of contract workers’ employment contracts, and all relied on natural attrition. Management used a range of initiatives to cut their labour costs by methods other than making their employees redundant some of which were very innovative and displayed a high level of commitment to their workforce (e.g. the temporary shutdowns by Quality Assemblers and Midrange Assemblers with the workforce continuing to receive 75 per cent of their pay). Workers were employed in maintenance work and tasks normally completed by subcontractors, overtime was reduced or discontinued, and bonuses and increments were reduced. Whilst this ensured continued employment it did result in employees – particularly at the unskilled level – being required to do work which was less desirable and receiving a substantial cut in their income such that for some it was no longer possible to cover their living costs and it was more beneficial to return to their home town.

Our choice of case studies reflects different sectors of the Malaysian auto industry. Vignette 1, Volume Car Company, reviews a plant within the national car company; Vignettes 2 and 3, Quality Assembly Bhd and Midrange Assembly Bhd, deal with two of the major assemblers, each of which assembles cars for more than one producer; while Vignettes 4 and 5, Brake Bhd and Glass Bhd, are concerned with two suppliers to the industry, one of which was established principally to supply the national car project and is therefore currently highly dependent on it and the other of
which also supplies the national car project but has a much broader range of purchasers across and outside of the auto industry.

**Vignette 1: Volume Car Company**

With Volume Car Company (VCC) being a State initiative there is an overriding political context which influences their development and operations including their employment relations. VCC was established as a joint venture between the Malaysian Government and Mitsubishi with the aim of strengthening Malaysia's manufacturing base and, in particular, providing employment, managerial and business opportunities for Bumiputeras. Mitsubishi currently owns 16 per cent of the shares in VCC with the government through HICOM (Heavy Industry Corporation of Malaysia) and the Ministry of Finance owning 47 per cent and the remainder being distributed publicly.

The impact of the economic crisis upon VCC has been very severe with demand falling by 40 per cent in 1998. In March 1999 VCC was producing 14,000 units per month, which was an increase from its low point of 10-11,000, compared with its previous production level of 21,000 units. Plans for a second plant had been deferred indefinitely. Production had been reduced from two shifts to one and the line speed had been slowed from 39 units per hour to 36.

VCC has 5700 employees, the bulk of whom are Malay males. With the government’s objective of providing opportunities for Bumiputeras through VCC, it is not surprising to find that 95 per cent of their workforce are bumiputeras. There are no female production workers. Female employees are confined principally to clerical work, while a few are found amongst the engineers and managers. The lack of women in the production area was explained by management in terms of the nature of the work (physically demanding), the workplace culture and the long work shifts which are unattractive to women juggling paid work and domestic duties. Rasiah suggests that women have been excluded from employment in the production area also to avoid sexual harassment (1999:10).
Mitsubishi has 25 managers located on the VCC site, each of whom spends a minimum of two years there. They are continuing to provide critical technical advice both to VCC and their suppliers and within VCC they oversee areas of production, engineering, research and development and equipment maintenance.

Employment relations at Volume Car Company

In line with the government’s strategy VCC has developed a high level of local content within their cars, of their two main models one has 80 per cent local components and the other 60 per cent. VCC has 186 suppliers and is reliant upon their delivery of the necessary components in order to maintain production; management currently allows for up to 5 per cent downtime due to non-delivery by suppliers.

VCC’s mission statement includes employees as one of the five groups to whom the company has core commitments. In addition the Chief Executive Officer (CEO) espouses a strong commitment to the employees: “people make the difference to a company”. This sentiment was supported by comments from the Human Resources Manager and the union representatives that the CEO had very good rapport with the workers. The Human Resources Manager is part of the senior management committee and reports directly to the CEO.

Labour costs amount to less than two per cent of revenue. Rasiah (1999:13-14) comments that prior to the financial crisis in 1997 VCC’s approach to the management of labour was one of maintaining job security and providing reasonably generous remuneration packages rather than treating “its workers as a cost that needs trimming.” Certainly VCC has a more human feel about its labour management. However, VCC’s management systems and work organisation are a far cry from the flexible specialisation or lean production techniques which might be expected to be found in a modern car manufacturing plant. On the one hand, much emphasis is placed on Quality Circles (QC) but on the other hand there is little evidence of worker innovation being encouraged. The company has a substantial training program yet production is organised so that the workers perform the same task on the line each day, each week. Rasiah (1999:14) concluded that VCC “has been seriously lacking in
the application of productive process techniques reminiscent of state-of-the-art firms” and attributes this to both the protection provided by the State to the company as well as management’s lack of appropriate business experience.

VCC’s objective of providing opportunities for Bumiputeras has meant that little emphasis was placed when recruiting employees on past experience in the car industry. Like all other companies, VCC had found it very difficult to recruit during boom times. However a recent advertisement for 140 positions had resulted in 1500 applicants for interviews. Given its recruitment policy, VCC has had to provide much basic skills training and is currently spending $11 million per annum on training, equivalent to 10 per cent of the total cost of basic salary. VCC has established its own Department of Learning and Development with the emphasis being on technical skills training. The Japanese joint venture partners continue to play an important role in providing specialised training, batches of staff are sent to Japan each year and Japanese experts visit the VCC plant in Malaysia to provide training.

Wages and conditions are negotiated collectively between management and the in-house union and registered in a three year collective agreement. The previous agreement expired in December 1997 and negotiations to renew the agreement have been complicated by the onset of the economic crisis. Negotiations commenced prior to the crisis but with the changed economic situation management has modified VCC’s stance on the union demands resulting in a deadlock in the discussion. Formerly VCC’s wages and conditions have been comparatively high. Rasiah (1999:11) described the VCC employees as “among the best paid line workers in the country before the financial crisis hit.” While their basic wage is typical of the average for a manufacturing worker in that area, the total package includes a shift allowance, a transport subsidy, laundry allowance, subsidised meals and free rice, payment for dental treatment, interest subsidies for housing and car loans, entitlement to purchase a VCC-produced car at a discounted price once every two years as well as additional leave for the purpose of going on the pilgrimage. The total package together with the overtime available made VCC’s wages and conditions better than that available in most other places. Prior to the economic downturn the typical production worker who had been in VCC’s employ for 3-5 years would have been
earning approximately RM1800 per month with overtime; however with the cutbacks in production the same worker would now be earning only RM1000-1200 per month.

The VCC wage package differs from most collective agreements in that it does not include a guaranteed annual bonus, instead it incorporates an incentive payment based on the company’s financial performance. Whereas workers had been receiving an annual payment of four months’ pay, no incentive payment was made in 1998.

The CEO expressed strong opposition to the option of retrenchment as a strategy to cope with the impact of the economic crisis. Being mindful of the State’s goals in establishing VCC, this stance is not surprising. However, the sharp decline in the production workers’ remuneration had resulted in increased resignations, approximately 800 employees having left since the downturn.

VCC also addressed its excess labour situation during 1998 by either assigning them to tasks normally performed by contractors (e.g. cleaning) or by seconding them to suppliers.

Of the 5700 employees, 4800 belong to the in-house union. When VCC’s operations first commenced a substantial number of employees joined the relevant national union. However, in line with government policy and practice in state-controlled organisations, an in-house union was formed. The relationship between management and the union was described by both parties as amicable, reflecting the acceptance by the union of the boundaries set by management and the State for their role. For instance, the legal limits placed on collective bargaining and the taking of industrial action left few opportunities for the union and its members to express discontent should they have felt such over their decrease in income and allocation to other duties and/or other companies during the economic crisis.

Management meet with the union twice a month; the Human Resources Manager valued the union as a communication vehicle between management and the workforce commenting that the union helps to facilitate change. The company provides training for the union delegates so that “they understand management initiatives” and the
union provides one day’s training for all members each year in which they explain the
details of the industrial relations legislation: the Employment Act, the Industrial
Relations Act and the Trade Unions Ordinance. VCC’s IHU is not affiliated to the
MTUC although it was once. They are currently considering working more closely
with the other unions in the car industry.

There have been no overt displays of conflict since production commenced at VCC in
1985. Prior to the economic downturn turnover had been comparatively low (1-2 per
cent per month) but absenteeism had been averaging 20 per cent monthly amongst the
production workers (Rasiah, 1999:12).

In conclusion, Mitsubishi’s presence in the joint venture continues to be critical in
terms of supplying technical expertise and ongoing training. However the State’s
influence is omnipresent resulting in VCC’s priorities being determined by more than
just standard commercial considerations. As the CEO commented, government
sponsorship of the project means that they must bear in mind the country’s needs.
With regard to employment relations this has been reflected in the priority accorded to
Bumiputeras and the consequent lack of experience amongst those recruited, the
structure and nature of the union as well as VCC’s decision to not retrench employees
in response to the severe decline in demand for cars as a consequence of the economic
crisis.

Vignette 2: Quality Assembly Bhd

Quality Assembly (Malaysia) Bhd assembles, sells and provides after-sales service
on overseas-designed motor vehicles built with local and overseas components. It
was established 100 years ago as, remarkably enough, a grocery store, and was
subsequently involved in the manufacture of bicycles and then motorbikes before
moving into vehicle assembly. It is listed on the Kuala Lumpur Stock Exchange. Its
largest shareholder is a parent company, Quality Assembly Limited, based in
Singapore, which only has a minority shareholding in Quality Assembly (Malaysia)
Bhd. The Employee Provident Fund holds a smaller shareholding.
During the 1990s there have been three main marques produced through Quality Assembly:

- a luxury European car and truck;
- a Japanese car and truck;
- a Korean car and truck.

The European vehicle is the main line sold by Quality. Most European vehicles are assembled at Quality’s plant in Malaysia. A small number at the top end of the range are fully imported. The Japanese and Korean vehicles have been all assembled in-house. The Korean principal, however, was bankrupted and as a consequence assembly of the Korean cars has stopped. There are still 500 to 600 one-tonne Korean four-wheel drive (4WD) vehicles stocked on Quality’s premises, and sales of these have virtually stopped as customers have been wary of future service and spare parts problems. Quality had bought a considerable stock of spare parts and so is hoping to persuade potential buyers that they will be able to meet future requirements and so reduce its backlog of 4WDs, but it appears that this will be a very slow process.

Quality is required to have an average of at least 40 per cent local content in its products. It achieves this, with a higher proportion on the Japanese-based than the European-based vehicles. Local components include seats, tyres, batteries and carpets. The remaining components are imported in completely knocked down (CKD) format from the principals in Japan and Europe (and, until recently, Korea).

Quality’s competitive edge arises from the marketability of its internationally known marques, particularly the European models. Their main competition comes from other upper-end marques, also assembled from CKD components in Malaysia.

None of Quality’s products are exported. The ASEAN motor vehicle market is likely to be liberalised as a result of the ASEAN free trade agreement (AFTA) which will take effect in 2003. This may raise questions as to whether the vehicles produced by Quality are best manufactured in Malaysia, Thailand or somewhere else in ASEAN.
where they are already assembled for domestic markets. The long term future of Quality’s vehicle assembly operations are therefore far from assured.

Some 1330 people are employed by Quality, including 270 executives. The non-managerial workforce are divided fairly evenly between the assembly side of the operation and the trading side. The assembly workforce is mostly Malay, and relatively young with an average age of 25 to 27 years. The trading workforce is mostly Chinese and somewhat older with an average age of about 40. Women represent about 17 per cent of the total workforce.

Quality was seriously hit by the financial crisis. Sales of the Korean and Japanese-originated vehicles virtually halted altogether, while sales of the European vehicles fell by over 60 per cent. In total, monthly sales fell by 70 per cent between July 1997 and November 1998, with most of the fall occurring in the first half of this period. A pre-crisis operating profit of RM 200 million was turned to an operating loss of RM 20 million in the 1998 FY.

Since November 1998, there has been a small improvement. However, it would be surprising if sales returned to their previous levels when the economy is recovered. The price of imported components has risen sharply as a result of the depreciation of the ringgit and so there will be a permanent increase in the relative price of Quality’s products, once stocks imported before the crisis are exhausted.

Quality’s management benchmarks ER performance by reference to a number of indicators in a regular national benchmarking update: sick leave, labour turnover, training expenditure, remuneration, overtime, recruitment costs. Unfortunately, Quality is the only automobile company participating in the regular update. While it therefore finds itself comparing its performance against firms in industries such as banking, it nonetheless considers this to be a useful exercise.

Employment relations at Quality Assembly
There are two industry unions at Quality: the National Union of Commercial Workers, representing employees on the trading side, and the National Union of Transport Equipment and Allied Industries Workers (the ‘transport equipment union’) on the assembly side. Union density within both these areas is 100 per cent of eligible workers. There is a high degree of cooperation between management and the unions, as evidenced in the response to the financial crisis (discussed below).

The HR function deals with all aspects of HR, but is a relatively new function for Quality. Previously it was referred to as the Personnel function. A new CEO in 1994 considered that there should be greater emphasis placed on HR. The General Manager - Human Resources & Admin is a human resource specialist who has worked in the HR area for 23 years but with Quality for only 1½ years.

A collective agreement with the transport equipment union, providing for an 8.8 per cent salary adjustment for assembly employees, was concluded in June 1997 and covers the calendar years 1997 to 1999. Entry level salary is RM 520 per month, with annual salary increments ranging from 9 per cent for the newest employees to 4 per cent for employees approaching the top of the highest classification. The agreement is a typically comprehensive agreement, containing provisions for such things as maternity leave, medical expenses, compassionate leave, an additional four hours overtime pay when employees are unexpectedly called from home to work overtime, a two month contractual bonus, retirement benefits and (perhaps not so typically) a provision that the company will endeavour to obtain the service of the Family Planning Association to instruct employees on family planning. Employees are also eligible for an ex gratia bonus based on the performance of the company, worth 1.5 to 3 months pay per year.

Communication with employees occurs through a number of mechanisms, with general meetings of all staff being one occasionally favoured by the MD. The union is perhaps more commonly used as a mechanism of communication: management first sells a difficult idea to the union, which then uses its stores of trust to sell the idea to its members. Equally, the union is a mechanism for the transmission of employee concerns to senior management.
Work organisation on the assembly line is relatively Tayloristic with tasks of employees quite specialised. They are rotated from one area to another every 3 to 4 months but there is a limit to the number of areas an employee would be skilled enough to work in. A typical assembly employee on rotation would find themselves back doing the same task again after 12 to 15 months. In the workshops greater encouragement is given to multiskilling. Mechanical and electrical trades are often combined in the workshops.

Quality circles - referred to as ‘Production Improvement Teams’ - were commenced in early 1998 in the workshops. It is considered to be an area in which the company aims to make improvement. Supervisors in the workshop were trained and then sessions were held for rank and file employees. Error rates fell. The Production Improvement Teams have not yet spread to the assembly lines.

Training has not been a high priority in the past but is growing in importance. Annual expenditure on training is RM1.5 to 2 million. The company set a target of 4 days of training per employee per year. In 1998 actual training was about 2.5 days, but the company considers it is moving towards its target. When this target is reached training will represent about 3.5 per cent of the payroll. A substantial amount of training was delivered while the company was on downtime, discussed below. Similarly, the Production Improvement Teams were developed during the downtime period. Union representatives are sent on leadership training courses. Unions are also consulted on training needs, and participated in an external analysis of training needs undertaken in 1997.

Just-In-Time (JIT) is not used. Quality Assemblers has no major role in supervising or advising component vendors about the nature of their production processes or quality control processes, or in transmitting human resource management practices or ideas. The role of monitoring of the production and quality of components is instead taken by the principals from Europe and Japan, who make regular visits to the Malaysian operations of both Quality Assemblers and its local component vendors.
These principals are talking about the need for improvements in production processes including through the introduction of JIT.

The Singapore-based parent company does not have any role in shaping human resource management policy or practice. Its only influence is on the product side, for example in relation to decisions on product lines.

The company is trying to create a culture of common situation - in the reputed words of the MD ‘if we have to sink, we sink together; if we have to float, we float together’. Union representatives indicated that this culture was very different to that which had been promoted under predecessor CEOs and endorsed the new approach.

Performance appraisal is considered to still be relatively underdeveloped. At present most appraisal is done at the end of the cycle, and many supervisors do not carry out interviews with their appraised subordinates. The HR Manager referred to his belief that 90 per cent of appraisal results were satisfactory but 90 per cent of the appraisal processes were unsatisfactory. Unions are not involved in appraisal. Training of supervisors in appraisal is to be improved, but HR management believes that there is a general difficulty in applying the western concept of appraisal, with its directness, to Malaysian (especially Malay) employees.

The most notable aspect of ER at Quality Assemblers is the way in which the company responded to the collapse in sales associated with the financial crisis. A chronology of events is as follows.

- In August 1997, the first signs of a downturn were being felt, recruitment was frozen, employees were encouraged to make savings in utilities (power, water etc) and other expenses were cut (the annual dinner and sports meeting were cancelled).
- In September 1997 overtime was reduced and assembly activities thereby slowed.
- In October 1997 overtime was abolished. Cuts were made in petrol allowances paid to employees with company cars, and on expenditure on business travel and outstation allowances.
• In November 1997 the importation of CKD parts was halted.

• In December 1997, with still further reductions in assembly, excess employees were redeployed to other departments or to maintenance.

• On 1 April 1998 the assembly plant was closed for three months and 435 employees temporarily laid off.

It is this last step that is of most interest. Some 435 assembly employees were laid off. During this period they were paid 75 per cent of their base salary. In addition they received their RM 50 per month attendance allowance. Other benefits set out in the collective agreement remained intact. While laid off, they were able to seek and obtain work elsewhere, and a number were successful in doing so. The temporary lay-off was initiated by HR management and negotiated with the unions over three meetings involving ‘hard bargaining’. In the end it was fully endorsed by the unions and indeed union representatives are positively enthusiastic about the management style of the company and the terms of the lay-off agreement. The unions had been kept informed of business developments, they were consulted at every step prior to the lay-off, and information was openly shared between management and the unions.

Employees still received their two month contractual bonus and 100 per cent of base pay for public holidays. With all other benefits being maintained, employees taking ‘medical leave’ (sick leave) would still be entitled to 100 per cent of their base pay for any period of the lay off for which they produced a doctor’s certificate. Despite the financial incentive for employees to do this, the only cases of medical leave taken during the lay-off were two employees involved in motor vehicle accidents. A sharp drop in medical leave did not so much reflect malingering during ordinary working hours as a recognition by the employees that the company had been doing everything reasonable for the employees and they therefore should not seek to exploit the situation when they did become ill. As it was, workers had already faced substantial reductions in pay from the loss of overtime, so the 75 per cent base pay rate was more like about half of their normal income.
Seventy maintenance workers were still needed during the shut down. To avoid inequity with and resentment of assembly workers who were receiving 75 per cent base pay for doing no work, it was agreed that maintenance employees would receive 100 per cent of base pay while on maintenance duties but only had to do 75 per cent of a normal workload (ie would be paid as five days for working slightly under four). These employees were free to seek alternative employment after normal working hours.

While unionised employees still received their annual increment, managerial employees did not. Both managerial and non-managerial employees received contractual bonuses, but not the ex gratia bonus.

At the end of the three month lay-off, production resumed at approximately half normal capacity, the level at which it still was at the time of writing. All but ten employees returned to the company, despite the opportunities available for taking up alternative employment in the meantime. This low attrition rate might be understood by the reported comments of one worker during the shutdown: ‘when you look at this deal and the way [Quality] has treated us over the years, we should help them and not ditch them in their time of need’.

During July and August 1998 there was therefore still considerable idle time. Many returning employees were used for building maintenance work such as painting. External contractors that had previously been used for this activity had been terminated, and there is little likelihood that such contractors will be reinstated. Thus an activity previously outsourced was now undertaken in-house.

The Managing Director (MD) of Quality said that the company’s actions were undertaken ‘with the objective of keeping the [Quality] family intact for as long as possible, as it regards every one of its 1400 employees as family’. While it appears that a sense of obligation to its employees was probably the biggest single reason for the approach that was taken, several other factors also worked in its favour. There was an expectation that sales would revive to some extent - though, as mentioned, no expectation that they would return to previous levels. The company would face the
risk of having to recruit and train new workers in a tightening labour market if it had laid off a substantial number of employees. Perhaps more importantly, if Quality assembled cars without adequate sales it could face major cash flow problems, as each assembled car required local components to be bought and attracted government duties, regardless of whether it was sold. Stopping assembly achieved savings in these respect and in areas such as power and other non-labour costs. There are also, of course, significant expenses associated with paying retrenchment benefits. For employees with three or more years of service, retrenchment benefits are more costly than a 75 per cent salary for three months. For the small number of employees who found new jobs, retrenchment benefits did not need to be paid. But it needs to also be recognised that the direct cost to the company of its extensive labour hoarding strategy goes well beyond the three months of salary at 75 per cent. The company has been overstaffed since late 1997 and is likely to continue in that position through at least the rest of 1999 and possibly beyond that.

Certainly, there appeared to be a shift in the company’s approach to its employees following the change of management in 1994. This MD was perceived by others in the company as understanding how workers felt and how terrible it was to have no job. This in turn was attributed to his coming from a financially poor background. It was also claimed that ‘Asian culture’ influenced the company by giving emphasis to notions of familial responsibility. The company also appeared to have learned from the previous downturn of 1985-1987. Half the staff were lost in retrenchments then.

**Vignette 3: Midrange Assembly**

Midrange Assembly Sdn Bhd (MA) assembles Japanese and European designed cars as well as a small number of trucks and buses for the local Malaysian market. The Japanese brand product provides its largest volume of work with the two European brands which it assembles being at the more-expensive end of the car market. MA is owned by a Malaysian Chinese family whose business also includes investments in the travel, property and specialist garment industries.
The economic crisis had a severe impact on MA as it did with Quality. Prior to the crisis they were assembling 2900 units per month and contemplating a second shift, at the time of our visit in March 1999 they were assembling 600-650 units per month. They now employ 400 workers having previously employed approximately 1000. Despite this substantial decrease in production, MA was continuing to make a profit, albeit a much reduced one.

Like Quality Assembly, MA does not export any of its assembled cars although they expect the opportunities to do so to increase with the implementation of AFTA. The Japanese car company has other assembly plants in the region but MA had been ranked number one on the Japanese company’s passenger satisfaction index in 1998.

The Japanese car company sets the assembly standards for MA and audits their work. They provide the technical knowledge and, as indicated, rate MA against their other assembly plants in the region. MA measures its productivity in terms of time taken or people required to complete a job.

MA’s production workforce is comprised principally of young Malay males; their average age is 22 while the supervisors’ average age is 33. Twenty-five per cent of the production workers are women and in terms of ethnicity the HR Manager expressed difficulty in recruiting Chinese and Indian production workers. Prior to the economic downturn MA had employed 350 foreign workers, this had been reduced to 18 with the sharp decline in production.

*Employment relations at Midrange Assembly*

The HR/IR function is performed by a small group within MA’s administration and is not involved in the broader decision-making process outside of HR. In the main, HR/IR practice is determined within MA. The owning group has a common emphasis on training and a standard policy across the subsidiaries regarding allowances to be paid to supervisors. In addition, the car companies have input into the training. Apart from these factors MA’s HR/IR policies are fairly autonomous. MA is a member of both the MEF and the Association of Automotive Assemblers but the HR Manager does not use either as a resource for his purposes.
The HR Manager’s goals focus around two objectives: first, to make MA’s workforce more knowledgeable and consequently more productive; second, to achieve a stable workforce. He lamented the amount of time spent by HR due to the high turnover and subsequent recruitment and felt that this inhibited the development of productivity. Between 1994 and 1997 MA’s turnover had averaged eight per cent per month and even in recent times they had found it difficult to retain recruits. The HR Manager reported that out of 200 workers recently recruited only 80 remained. In a survey of the workforce no single factor had emerged to explain the high turnover. For some their dissatisfaction related to the working hours, for others it was the high cost of living in KL relative to their pay. Numerous other factors were also raised.

MA was certainly finding it easier to recruit new workers in the current economic climate. All new recruits are given three days’ induction which includes production training, safety training, introduction to the 5S program and a health talk by one of the company’s doctors. They are then allocated to an assembly line for further on-the-job training. Additional training needs are identified as and when necessary, for instance, when a new model is introduced. Sometimes senior employees are sent to Japan and Europe for specialised training by the car companies for whom MA is assembling. The Japanese company sends trainers to the MA plant at least once a year.

MA does not contract out any of its work apart from building maintenance; everything is completed in-house.

The wages and conditions for the non-managerial workforce are set in a collective agreement which was renegotiated in September 1997 resulting in an 11 per cent increase in the base pay. Because the terms of pay are set in the collective agreement the company had paid the two month bonus and annual increment in 1998 despite the major downturn in its business. The union delegates regarded MA’s pay and conditions as at least comparable to that of other car plants. The employees work a five day week and some overtime had been recently reinstated.
A number of procedures were in place to ensure workplace health and safety. In addition to the training component in the induction program there was a formal safety policy including standardised safety check procedures to be completed by individual workers, an active Safety Committee and weekly safety checks on compliance by employees with machine maintenance and procedures.

The work is broken down into the individual steps in the assembly process and each worker is allocated to a spot on the assembly line so that they are indefinitely repeating the same task, e.g. fitting the windscreen to one of the European models. Occasionally the workers are transferred to different tasks. This has been necessary particularly with the reduction in the workforce. However, there has been no conscious attempt to multi-skill their employees. The production workers clearly regard some tasks as easier than others, working on the trucks assembly line, for instance, was agreed by all to be “tough”. The interviewees had been in MA’s employ for more than five years each and as such did not find it difficult to keep up with the moving assembly line. They did comment, however, that it was not unusual for new recruits to do so and leave as a consequence.

MA employees belong to an IHU with almost all (more than 95 per cent) of those eligible to join having done so. The union delegates approach new employees to join the union and there is no opposition from management to union membership. The workplace was previously covered by the relevant industry union, the Transport Equipment and Allied Industries Employees union, but following a dispute in 1991 in which the union leader was dismissed an IHU was formed. Several interpretations of this were presented; on the one hand it was suggested that management had been influential in the decision to form an in-house union, on the other hand, it was suggested that there had been misunderstandings between the union and its members.

The IHU is not affiliated to the MTUC but is connected to the union which covers the Japanese car company’s employees in Japan. This union assists with training the union delegates in Malaysia. The IHU delegates are also currently meeting with representatives from at least one other IHU in the transport industry to consider the possibility of combining resources initially for a union training seminar.
There is an amicable relationship between MA’s HR management and the IHU leaders with management describing the union leaders as “very co-operative” and “mature people” and similarly the union delegates declaring their trust in the company’s management. The company contributes towards the cost of the training for union delegates. The HR Manager regards the union as a very useful vehicle for communication both in terms of obtaining the workers’ viewpoint(s) and in communicating plans to implement change.

The union representatives meet monthly with management and then disseminate information to their members informally through their network across the workplace with each delegate communicating with members on their production line. The issue most concerning the union at the time of our visit was their allowances which had been removed due to the downturn and which they were seeking to have reinstated. While the presence of the union served as a check on management’s intentions there was no evidence of it challenging managerial prerogative. Management used their meetings with the union representatives to inform them of what was happening and the union representatives felt that their suggestions would be listened to, there was certainly no sense of union demands.

Finally, MA management’s response to the economic downturn reveals much about their industrial relations. As the effects of the recession translated into decreased demand for their products towards the end of 1997, MA’s first action was to reduce overtime and to reduce the hours of work from five days to four. In accordance with government policy they then retrenched their 300 foreign workers. The position of their core local workers was further protected by the presence of 200 workers from Sarawak who had been employed on fixed term contracts. MA was able to reduce its workforce further by not renewing these contracts.

During the first half of 1998 demand for their assembled cars had all but disappeared. Morale amongst the remaining workers was very low as they were concerned not only about their reduced income but also about their future employment prospects. The company concluded that it could no longer sustain production and decided to close the
plant for the three months of June-August 1998 and to retain their remaining employees on 75 per cent of their pay. Furthermore MA’s management contacted nearby factories and found alternative employment for the period of the closure for those who wanted to earn an additional wage on top of their guaranteed 75 per cent pay from MA.

In September the MA plant reopened and 300 of the employees opted to return. Demand was not sufficient to restart production until November so in the interim employees were given work servicing the machines.

The proposal to close the plant temporarily was discussed with the union for several months prior to implementing it. While the company was concerned to retain a core of experienced workers for when they recommenced production, their concern for the wellbeing of their employees was reflected in their efforts to obtain additional employment for them during the shutdown.

**Vignette 4: Brake Berhad**

Brake Berhad assembles brakes and clutches, 90 per cent of which is supplied to Volume Car Company (VCC). It is a fully owned subsidiary of an Australian multinational corporation which has three main divisions – automotive parts, plastic products and building materials – and employs 4800 people across 12 countries. In the early 1990s the MNC sought to expand its activities into the Asian region by targeting ‘young’ markets at an early stage of development. The corporate goal is to be the leader in each market they enter, both technologically and in sales volume, thus they regard it as essential to manufacture locally rather than to attempt to achieve this via exports from Australia. In the case of Malaysia, local content in the car industry has been a critical issue thus a local manufacturing presence was a prerequisite to making inroads into the market.

Brake Bhd commenced production in 1992 as a Malaysian/Australian joint venture (ownership: 49/51 per cent of company respectively). The Australian parent
company’s influence is principally in terms of technology and the subsidiary’s budget. Initially a Malaysian was appointed General Manager but subsequently an Australian manager was placed in the Malaysian plant with part of his brief being to standardise company practices. Brake Bhd is now serving as a training base for employees of the company’s new plant in Thailand.

Since its establishment Brake Bhd has been the sole supplier of brakes and clutches to VCC and as the latter’s sales grew so did Brake Bhd’s. However, with the slump in demand for cars Brake Bhd suffered a 60 per cent decline in production in 1998 resulting in a trading loss. In early 1999 they are still operating substantially below full capacity although there had been a modest upswing in demand.

Brake Bhd reacted very quickly to the economic downturn and their response was developed in close consultation with the Australian Head Office management. In November 1997 Head Office directed Brake Bhd to halt their planned capital investment of approximately $16 million in new equipment; simultaneously Brake Bhd began a cost reduction exercise and eliminated overtime. Following the major slump in demand in January 1998 Brake Bhd immediately retrenched 28 of their 85 employees. The “last on, first off” principle was applied to avoid losing the more experienced employees and the company hired a placement agency to assist skilled staff to find new jobs. Whilst management saw this as ‘good management’ of a crisis situation and acknowledged that morale had been affected, employees felt that it had reflected very poorly on the company.

Like the other companies in the car industry the economic crisis is viewed by Brake Bhd’s management as a temporary downturn in business. At the corporate level the decreased sales within the Asian subsidiaries of the automotive division has been offset by increased sales in their North American and Australian operations (1998 Company Annual Report). The Malaysian subsidiary’s management are optimistic about the future anticipating new investment in the factory, diversification of their products and the possibility of organising production regionally as a consequence of the future decrease in tariffs being introduced due to the implementation of AFTA.
With 90 per cent of Brake Bhd’s production supplying VCC, Brake Bhd is highly dependent on this contract. The Japanese joint venture partner in VCC had been very influential in the decision to accept Brake Bhd’s products and that had been quite a lengthy process. VCC completes an annual audit of Brake Bhd’s production line, re-evaluating their capability, processes and documentation. VCC has not required Brake Bhd to benchmark nor to establish any particular management systems, nor have they attempted to influence directly their HR/IR policies.

However several recent decisions by VCC have substantial ramifications for Brake Bhd’s operations. Until now Brake Bhd has been the only supplier of brakes and clutches to VCC, however, the latter’s decision to have more than one supplier of each component threatens Brake Bhd’s position and at the very least pressures them to be as competitive as possible. Brake Bhd’s management understand that two other companies – a Japanese company and an American company – have been accredited as brake/clutch suppliers at this stage.

The second decision which is affecting Brake Bhd’s production is VCC’s decision to adopt a JIT system whereby VCC set a specific delivery time and date and at this stage with no established pattern of when the next demand for delivery might be nor the amount of product required. This clearly creates difficulties for Brake Bhd in planning their production and as VCC had set the next delivery time outside of Brake Bhd’s normal work hours this also had cost implications for the company.

Employment relations at Brake Bhd
As mentioned VCC have not influenced Brake Bhd’s management systems nor benchmarking. These are very much driven by the Australian corporate Head Office requirements. Productivity targets are set per month and measured by volume of pieces assembled per production line and per person. The number of line stoppages is also recorded and the causes assessed. The Malaysian subsidiary’s management were very pleased with the performance within the plant. The productivity of the Malaysian plant is compared with that of the company’s Melbourne plant although the latter is more automated, making comparison difficult.
Brake Bhd has been awarded both ISO 9002 and QS 9000 certification. This initiative was encouraged by the corporate Head Office with the Australian brakes and clutch plant having achieved the same certification and plans for the new Thai plant to seek it as well.

Another example of the corporate influence upon Brake Bhd’s production process is the organisation of production into teams. Team based units had been implemented in the Melbourne automotive plant and were subsequently put in place in the Malaysian subsidiary. Each assembly line forms a team with a team leader appointed by management.

Safety standards and outcomes are also monitored at a corporate level. Head Office audits Brake Bhd’s OHS and the corporation’s insurance company completes a risk assessment of all subsidiaries. Brake Bhd’s lost time injuries and number of days lost due to accidents are compared at the corporate level with other subsidiaries’ performance. In 1997 their performance had been poor but in 1998 there had been no accidents, largely as a consequence of their program to address the causes of the accidents including the removal of an unsafe machine. Brake Bhd’s management concluded that there was more emphasis on safety within their plant than was typical for a Malaysian factory due to the requirement that they meet both Malaysian and Australian corporate standards.

As of March 1999, Brake Bhd had 48 employees, much reduced from their peak of 85 in 1997. Fifty per cent of their employees are of Malaysian Indian ethnic origin, 15 per cent Chinese (all in management and administration) and 35 per cent Bumiputera. The gender ratio is close to 50:50 with women employed both within the administration and the production lines. Labour constitutes 30 per cent of their costs.

HR, according to management, has become more important within Brake Bhd. This is reflected in their appointment three years ago of their current HR Manager who has postgraduate qualifications in IR as well as 10 years experience in HR/IR. Previously the section had been confined to drafting job descriptions and determining benefits and had been staffed by a personnel officer.
The current HR Manager views his role as to ensure that HR meets the broader corporate needs which now means helping to save the company money and cultivating “the right culture”. Brake Bhd’s HR goals included in their current business plan focused on training and improving the key performance indicators such as turnover and absenteeism. Brake Bhd’s HR policies and plans are developed in consultation with the corporate HR Manager although the day-to-day operational detail is influenced primarily by the local regulatory environment.

Turnover has reduced from a high of 45-60 per cent per annum in 1997 to currently 15-20 per cent per annum. It is no longer difficult to recruit operators or engineers as it had been in the past. Brake Bhd spent $89,000 on training, substantially more than their compulsory payment to the HRDF which was in the range of $10,000-20,000. Training is skill based. A skill matrix has been developed for the operators and there is a standard format which team leaders follow in providing on-the-job training for the operators. As operators master each skill they receive an incremental increase in pay. For senior staff core competencies have been identified and training focuses around these and individual needs. For example, two of the Team Leaders who were interviewed had received specialised training in analysing and modifying production failures as well as more general skills training in the computer applications of Excel and Word.

Brake Bhd have a performance appraisal system for administrative, supervisory and managerial staff. The performance appraisal is open, conducted annually and not related to the employee’s remuneration. Management felt that if performance appraisal was linked to pay then employees would focus on this to the detriment of the desired outcome of changing performance of the task.

Brake Bhd’s employees are not unionised. The first two General Managers had opposed the unionisation of the plant claiming that it decreased their flexibility. The industry union had approached employees but, according to management, there was insufficient interest amongst the majority of the employees.
A Joint Consultative Committee operates within Brake Bhd quite effectively, from the perspective of both management and employees, meeting monthly and providing a forum in which issues such as safety or disciplinary matters can be raised. There are also regular production meetings between managers and team leaders on the one hand and team leaders and teams on the other who meet at least once a week. The employees who were interviewed described the accessibility of management and the close relationship between ‘supervisor’ and ‘supervisee’ as one of the best aspects of working at Brake Bhd.

Wages and conditions are set unilaterally. Management survey the surrounding industrial estate and aim to keep their remuneration package at the top end of those offered within the area. The non-managerial workforce are paid a basic wage which is supplemented by an attendance allowance, an annual bonus which is related to the company’s performance (a two month bonus had been the norm but in 1998 this was reduced to a one month payment), and the skill based increment. The skill basis of the increment system is popular with the employees as it enables them to obtain several increments within one year. In addition, half the factory is air-conditioned and transport to and from the factory is provided by the company. At the time of writing production employees were earning an additional 10 per cent in overtime which is much less than they were getting during the boom time. The opportunity for overtime was highly valued by Brake Bhd’s employees who hoped for more.

In terms of the employees’ experience of work at Brake Bhd, they regarded the production targets as quite manageable and felt that it was not difficult to achieve the schedule and quality which was required. They also appreciated the freedom they were given to have brief breaks, for example, to go to the toilet or have a cigarette compared with the more highly regimented environment often found in larger factories.

**Vignette 5: Glass Company**
Glass Company (GC) is a Malaysian-Japanese joint venture producing a range of glass products – flat glass, windscreens, safety glass, mirrors, etc – principally for the car and building industries. It supplies Volume Car Company as well as several of the car assemblers and as such is the main supplier of glass products to the Malaysian car industry.

The Japanese parent company owns 49 per cent of GC; 30 per cent of the local ownership is divided between two Malaysian Government bodies and 21 per cent is owned by individual Malaysian shareholders. Eight Japanese managers are present within the company and interestingly GC has two Managing Directors, one Japanese and the other Malaysian.

GC commenced production in 1973 and has a subsidiary in Johore. There are 1590 employees in GC’s factory, approximately 1300 of whom are involved directly in production while the Johore factory employs another 350 workers. One half of the administrative staff are female but women constitute less than 10 per cent of the production workforce due to the work process which requires the employees to lift large weights. The women production workers are employed in the packing section. The company’s geographical location in the midst of a number of Malay villages has resulted in the workforce being predominantly Malay. GC had also employed up to 300 Bangladeshi and Indonesian workers although with the recent downturn in business they had retrenched over 200 of them.

GC dominates the flat glass market in Malaysia being the only large scale company in this field. The production of such glass products is very capital intensive requiring a minimum investment of at least $US100 million for a basic plant. It consequently needs a market larger than the demand generated locally in Malaysia to sustain it. The proportion of GC’s product which is exported has been fluctuating between 40 to 70 per cent due to varying demand. Prior to the Asian economic crisis their largest export markets had been the United States and the ASEAN region but demand from the latter has declined substantially.
Prior to the economic downturn GC was operating at full capacity but with the drop in demand from both the building and car industries production had decreased by 30 per cent. In addition, as GC imports some of its inputs, the devaluation of the ringgit had increased their production costs. All in all, GC had run at a loss during 1998. However, this tended to be viewed by management as a temporary situation with the future being viewed optimistically including further opportunities for product diversification.

In responding to the economic situation GC declared a “no redundancy” policy in relation to its local employees. This was facilitated partly at the expense of the foreign workers as mentioned earlier. Costs were further reduced by

- decreasing the level of the bonus paid from its previous range of three to four months to the two month minimum stipulated in the collective agreement,
- not paying the annual increment to management, and
- incorporating work which had been formerly contracted out into the jobs of the workers on the GC payroll, e.g. cleaning.

By early 1999 GC’s workforce was still larger than necessary for the level of production but the company’s call for ‘voluntary separations’ only elicited less than 30 responses. At the time of our visit management was still committed to not undertaking compulsory retrenchment.

For much of GC’s market quality is the critical variable for success; while the company –like most – is always seeking ways to reduce costs, the nature of their product is such that cost reduction goals absolutely cannot compromise quality without jeopardising their market. GC benchmarks its production with that of its Japanese parent company and has a quality control department which sets annual targets for each section to increase productivity; for example, increased output, reductions in industrial accidents and, in the case of IR, to reduce the disciplinary problems to below a certain percentage.
**Employment relations at Glass Company**

While the HR/IR of GC is determined very much by the Malaysian legal and regulatory context, the Japanese parent company influence is apparent in the management systems, the emphasis on punctuality and their contribution to training. The Japanese managers had introduced Quality Circles (QCs) to the GC workplace during the 1970s and there continues currently to be an active QC program functioning across the worksite. Each department has at least one QC (e.g. HR has two), these feed into the QC promotion Committee which is comprised of the managing Directors and Heads of Departments and sets targets for the departmental QCs. The QCs are concerned with operations procedures, examples of recent projects which have resulted in improved processing and/or cost reduction include the redesign of the HR filing system, HR investigating and deciding that they could administer the applications for foreign workers rather than paying an agent as they had been, and the redesign of the Security Guards’ caps.

Other systems which had been introduced to the GC worksite through their Japanese partners include the ‘5S campaign’ and the Total Preventative Maintenance system. In addition, some of the engineering and managerial employees are sent to Japan for training. Finally, the HR management described their Japanese managers as “very particular about discipline” which is reflected in their insistence on punctuality.

GC’s workplace is unionised with all eligible employees belonging to the appropriate industry union; there has been no suggestion of an IHU from the management, neither local nor Japanese. New employees are given information and union membership applications by the HR staff and management described the union as “no problem” and “easy to handle”. The management/union relationship had particularly improved after a series of company-sponsored courses at resorts between 1992 and 1997 attended by union delegates and management “to foster a closer relationship”. The workplace delegates meet monthly after work and the only industrial action which could be recalled over the life of the plant was a picket which had been staged in 1975 at the time of the negotiation of the first collective agreement.
Wages and conditions for non-managerial staff are covered by a collective agreement which had expired in December 1998. The renewal of the agreement was being delayed by an impasse in negotiation over several points which had been referred to the Ministry of Human Resources for recommendation. The company expected to grant an 8-12 per cent pay increase with the new agreement.

The employees work a 40 hour week and, despite the recession, continue to earn an average 20 per cent extra income through overtime. They are also paid a monthly attendance allowance and, depending on their hours and location, shift, dust and heat allowances. GC also sponsors an annual dinner, an annual family day as well as an in-house sports club.

Occupational Health and Safety has a high profile within the workplace not surprisingly given the nature of the product being handled – glass. A fulltime Industrial Safety Supervisor is employed and safety committees were established prior to the government requirement to do so. Each department has safety targets, for example, 100 accident free days, and safety and first aid training is provided.

As had been the case for most other companies, GC had experienced difficulties in recruiting sufficient employees prior to the economic downturn, particularly in terms of obtaining engineers and experienced operators. New recruits receive an induction program followed by one month of on-the-job training. Most of the training for the production workers is on-the-job and skill based with the goal being to develop multi-function production operators. The previous job classification system had separated workers by function; for example, welders, machinists etc., whereas now they are all classified as operators and expected to do a range of tasks.

All of GC’s employees have their performance assessed and this is related to the annual increment for the management staff. The performance appraisal is a closed system which has caused a number of grievances particularly where employees have been unaware of their negative assessment until they inquire about promotional opportunities.
Conclusion

Our vignettes are summarised in Table 5. The impact of globalization on the Malaysian auto industry is apparent in terms of capital, influence on management systems, the provision of technical expertise and the presence of foreign labour but local influence is still very strong in IR/HR.

The development of a national car project clearly runs counter to the globalisation trends in the auto industry but on the other hand the influence of the Japanese joint venture partner in the project has been and continues to be far greater than is suggested by the current 16 per cent share holding by Mitsubishi. The importance of foreign capital was exemplified in our other case studies with 100 per cent Australian corporate ownership of Brake Bhd, 49 per cent Japanese corporate ownership of Glass Bhd, and the presence of Singaporean capital in Quality Assembly Bhd. There was a significant contingent of Japanese managers present on both the VCC and Glass Bhd sites and foreign technical expertise played a critical role at all 5 sites. At VCC the Japanese partners were influential in the choice of suppliers and at all 5 sites the production quality was monitored by the foreign owners. Similarly foreign input was critical in the provision of specialist training.
Table 5  Summary characteristics of automobile vignettes

<table>
<thead>
<tr>
<th></th>
<th>Volume Car Company</th>
<th>Quality Assembly</th>
<th>Midrange Assembly</th>
<th>Brake Berhad</th>
<th>Glass Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
<td>Joint venture (Mal Govt 47%, Japanese MNC 16%, public shares 37%)</td>
<td>Public company listed on KLSE, parent company in Singapore</td>
<td>Malaysian family business with investments in other industries</td>
<td>MNC (Australia)</td>
<td>Joint venture (Mal Govt 30%, Japanese MNC 49%, public shares 21%)</td>
</tr>
<tr>
<td><strong>Main product</strong></td>
<td>Car production</td>
<td>Car assembly</td>
<td>Car assembly</td>
<td>Brakes and clutches</td>
<td>Glass products</td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td>5700 employees</td>
<td>1330 employees</td>
<td>400 employees</td>
<td>48 employees (4800 globally)</td>
<td>2 production sites in Malaysia, 1940 employees</td>
</tr>
<tr>
<td><strong>Influence of parent</strong></td>
<td>Mal Govt: tariff protection, preferential employment for Malays Japanese MNC: technical advice &amp; training</td>
<td>No influence on HR/IR practices, some influence on product decisions. Foreign car companies influence production and design</td>
<td>Influence on remuneration of management. Foreign car companies influence production and training</td>
<td>Very influential on technology, budget, management systems, safety.</td>
<td>Japanese MNC influence on management systems, training</td>
</tr>
<tr>
<td><strong>HR/ER function</strong></td>
<td>Accorded importance by CEO but still developing. Centralised</td>
<td>Becoming more sophisticated</td>
<td>Not very sophisticated, not influential within broader management group</td>
<td>In consultation with corporate H.O. becoming more sophisticated</td>
<td>Centralised, conventional</td>
</tr>
<tr>
<td><strong>Employee representation</strong></td>
<td>Weak in-house union representing trading and production employees. Moderate influence</td>
<td>Two industry unions representing trading and production employees. Moderate influence</td>
<td>In-house union, little influence</td>
<td>Non-union. JCC meets monthly</td>
<td>Industry union, not very influential</td>
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<tr>
<td><strong>Government impact</strong></td>
<td>As a State initiative, dominant political context. Tariff policy critical</td>
<td>Local content policy, tariffs favouring national car project</td>
<td>Local content policy, tariffs favouring national car project</td>
<td>Government’s requirement for local content forced MNC to produce in Malaysia rather than export from Australia</td>
<td>Taxation; restrictions on foreign expats.</td>
</tr>
<tr>
<td><strong>Role in industry</strong></td>
<td>National car project, 63% of market</td>
<td>Assembler of foreign cars</td>
<td>Assembler of foreign cars</td>
<td>Supplier to VCC; 90% of product going to VCC</td>
<td>Supplier to VCC and assemblers</td>
</tr>
<tr>
<td><strong>Work organisation</strong></td>
<td>Very Tayloristic</td>
<td>Tayloristic, some job rotation. Introducing Quality Circles</td>
<td>Very Tayloristic</td>
<td>Team based units, multiskilled operators</td>
<td>Production workers multifunctional, Quality Circles</td>
</tr>
<tr>
<td><strong>Training emphasis</strong></td>
<td>High – 10% of basic salary cost; specialist training by Japanese</td>
<td>Growing; external analysis of needs completed; 2.5 days/year, aiming for 4 days/year</td>
<td>Limited on-the-job, some from foreign car companies</td>
<td>In-house, formal skill matrix based</td>
<td>High, mostly in-house. Some engineering and managerial training in Japan</td>
</tr>
<tr>
<td>Labour-management relations</td>
<td>Was seen as attractive employer pre-recession; less so now with reduced remuneration</td>
<td>Very cooperative</td>
<td>Paternalistic, high level of managerial prerogative</td>
<td>High level of managerial prerogative; management viewed as very accessible; dissatisfaction with company’s approach to retrenchment</td>
<td>High level of managerial prerogative; cooperative</td>
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<tr>
<td>Compensation</td>
<td>Pre-recession: comparatively high. Increment, contingent bonus, array of allowances and subsidies</td>
<td>Tenure-based increment, contractual bonus, company performance bonus</td>
<td>Increment, contractual bonus</td>
<td>Skill-based increment, company productivity bonus, allowances</td>
<td>Increments, contractual bonus, allowances</td>
</tr>
<tr>
<td>Profit environment</td>
<td>40% decrease in demand</td>
<td>Monthly sales fell by 70%, small improvement since</td>
<td>Massive fall in demand</td>
<td>Slump in demand, 60% decrease in production. Modest subsequent upturn</td>
<td>Drop in demand, 30% decrease in production. Costs increased by ringgit devaluation</td>
</tr>
<tr>
<td>Employment levels/changes</td>
<td>Falling through attrition</td>
<td>Small reduction through attrition during the financial crisis</td>
<td>60% reduction during financial crisis</td>
<td>40-45% reduction during financial crisis</td>
<td>15-20% reduction during financial crisis, continuing reduction through attrition</td>
</tr>
<tr>
<td>Labour adjustment mechanisms</td>
<td>No retrenchments, reduced line speed, seconded employees to suppliers, insourcing, no bonus paid, no overtime</td>
<td>Temporary 3-month closure of assembly plant with 75% of base pay still paid. Insourcing, no overtime, cuts in travel allowances, redeployment of production employees</td>
<td>Non-renewal of contract workers, retrenchment of foreign workers, temporary 3-month closure of assembly plant with 75% of base pay still paid. Redeployment of production workers</td>
<td>33% retrenched, overtime frozen, no increment paid</td>
<td>Retrenchment of foreign workers, VSS for local workers, reduction in bonus paid, no annual increment paid to management, insourcing</td>
</tr>
</tbody>
</table>
In regard to work organisation there was very little evidence in the factories we visited of the advanced lean production techniques more typical of the international auto industry. While the Japanese influence was apparent in the establishment of active QCs at VCC, Quality Assembly Bhd and Glass Bhd, the adoption of the 5S program by Midrange Assembly and Glass Bhd and the consideration being given to the introduction of JIT in two of the factories, the organisation of the work was relatively Tayloristic with limited multiskilling taking place. The most advanced work organisation was perhaps at Brake Bhd where teams had been formed and remuneration was directly related to skill acquisition. At Quality Assembly Bhd and Glass Bhd there was a limited degree of multiskilling but at VCC and Midrange Assembly production workers were allocated to a single task indefinitely.

The presence of Japanese expatriate managers in two of the sites and Bangladeshi and Indonesian production workers in two of the factories reflected the growing global nature of the labour market, particularly in the Asian region. The utilisation of foreign labour enabled both companies to reduce the size of their workforces at the onset of the financial crisis without retrenching local workers; thus the foreign workers bore the brunt of the downsizing.

Global economic forces are likely to have a much more substantial impact in the future with the implementation of the AFTA plans. Management at the two assembly plants were expecting increased opportunities to export their assembled cars while management at Brake Bhd were already working closely with a new plant in Thailand, owned by the same parent company, envisaging regional integration of production of the car parts between their Australian, Thai and Malaysian factories. The implementation of the free trade plans will clearly increase each company’s need to be competitive, thus we would expect to see substantial changes in their IR/HR practices as they aim to compete via either increased efficiency or/and cost reduction.
ELECTRONICS AND INFORMATION TECHNOLOGY

The electrical, electronics and machinery sector accounts for 37 per cent of Malaysian manufacturing output and is the largest export sector. It experienced a decline of 3 per cent in production during the first seven months of 1998, less than half the decline of 6.7 percent for manufacturing overall. Within this sector, the semi-conductor and other electronics industry declined by just 0.4 per cent, whereas the much smaller radio and television sets, audio-visual recording and reproducing equipment industry grew by 10.6 per cent \(^\text{10}\) (Ministry of Finance 1998:74). The semiconductor/electronics decline was a result of global oversupply of Dynamic RAM and lower demand from Asia as a result of the financial crisis.

Employment in the electrical and electronics subsector (ie excluding machinery) was 481,000 in 1996, over double the level of 214,000 in 1990. This is despite the recent departure of Thompson from Penang to China, in search of lower labour costs.

Operators (assemblers) in electronics factories are almost exclusively female, except where large electronic components (eg television parts) involve heavy lifting - in which case the jobs are almost exclusively male. Companies employ female assemblers principally because males are seen as lacking the patience and discipline to concentrate on assembly work, particularly, as one manager said, in a sitting position. They also are not seen as handling the products with the delicacy of women. One HR Director referred to previous experience in hiring male operators - even though they were trained for twice as long as the women, they still did not work to the efficiency of female employees. Another employed men when the company was desperate for staff and found that there were more problems with discipline: the men were more stubborn and were more likely not to turn up for work. A third commented that most misconduct cases involved men.

The electronics industry is notoriously non-union, due to a combination of the demands of MNC capital (particularly US) and consequent State regulation. The
pervasiveness of the non-union culture was illustrated by a conversation one of us had with a government official in Penang, who was unaware that it was actually legal for employees to unionise in the electronics industry and was unconvinced by our insistence that it was permissible. There is no industry union in electronics but there are six companies (out of about 50) who have in-house unions (IHUs). Two of these IHUs are affiliated with the MTUC. Total membership in these unions is less than 6000, or equivalent to slightly over one per cent density in the industry. One company was organised by the Electrical Industry Workers Union (EIWU) ten years ago - at the employer's initiative! The firm had endured a two week illegal strike by unorganised employees, before letting in the EIWU as the lesser of two evils. This naturally required an appropriate definition of the company’s industry. The EIWU also has cooperative relationships with a couple of IHUs in electronics.

Pay and conditions in the electronics manufacturing industry is generally inferior to that applying in the electrical manufacturing industry, home of the industry union which tried to unionise electronics workers. Unionised electrical workers typically work a 40 hour week, compared to 48 in electronics. Workers in the electrical industry will have access to increments worth up to 10 per cent per annum, and an annual contractual bonus, typically of two months’ pay.

Coordination of employer behaviour occurs through several mechanisms. At a regional level, MDs or HR Directors are represented on the Penang Skills Development Centre (PSDC). The Personnel Managers Group is a forum for personnel managers (who may be reporting to HR Directors). Companies in Penang's Free Industrial Zone (FIZ) participate in regular market surveys of wage and salary levels. The Federation of Malaysian Manufacturers has a northern region branch, which deals with new legislation and regulation on various matters such as the environment. The Malaysian Employers Federation (meetings of which are often attended by IR managers) discusses developments in IR such as dismissals law. There is also informal coordination of employers through personal contacts. Thus managers will call their equivalents in other companies to seek their advice, seek verification of retrenchment rumours, and so on.
Much training for electronics companies in the Penang FIZ is undertaken through the PSDC. This non-profit organisation was established in the early 1990s by the companies (not just in electronics) in the FIZ, the state government, and the Penang Development Corporation. The PSDC has performed a lot of training on behalf of the large key component manufacturers - several of whom have donated facilities (such as a laboratory) to the PSDC - but it is increasingly focusing on training for small and medium enterprises that are vendors to the larger companies.

One of the endemic characteristics of the electronics industry, especially in Penang, is high labour turnover. In companies we visited it ranged up to 8 per cent per month. In smaller companies it could reportedly be as high as 12 per cent per month. As with every other industry, electronics employers reported significant drops in labour turnover as a result of the recession, mainly because of the drop in alternative employment opportunities in other industries. Although labour turnover is particularly high for operators, it is also observable amongst other occupations. For example, one HR Director said that it is reasonable for a managerial employee to move firms after three years - if one stays with a company for too much over five years, suspicions are raised about the employee’s capabilities.

**Vignette 1: Nippon Electronics (Mal)**

Nippon Electronics (Mal) (NE) produces colour picture tubes for televisions and monitors and is a subsidiary of a large Japanese multinational corporation which has 20 other subsidiaries in Malaysia. The Malaysian subsidiaries employ a total manufacturing workforce of 30,000, have an annual turnover of $9 billion and produce approximately three per cent of Malaysia’s exports. Hence NE is part of a corporation which makes a substantial contribution to Malaysia’s economy. NE itself has 2000 employees in the urban region south of Kuala Lumpur.

NE commenced production in January 1992 which made them a comparatively late entrant to the market. The timing of their commencement also appeared to be influential in terms of NE’s union status. Four of the other 20 subsidiaries are
unionised and this was explained as reflecting their having been established in Malaysia earlier, at a time when their management was more open to unionisation.

NE has Licensed Manufacturing Warehouse status which accords them virtually the same privileges as being part of a Free Industrial Zone and requires that they export at least 80 per cent of their product. Their product market is extremely competitive with new producers entering the market and existing ones increasing their production. The parent company has 13 per cent of the picture tube market worldwide while NE has eight per cent of the regional market. Product demand is changing as television screen size changes. NE is producing picture tubes for the 17” screen but they anticipate that the demand for this will decrease substantially after another two years. The cost of converting the production lines to enable the manufacture of a different size picture tube is approximately $US 25 million, necessitating a large volume of production to make the investment worthwhile. NE is currently in the process of converting several production lines to produce three new models and consequently only had one and a half out of four production lines operating at the time of our visit.

Due to the highly competitive nature of the picture tube market, companies have little scope to increase the price of their product. NE regard quality as the critical variable and are constantly searching for ways in which they might add value to their product; for example, they had locally developed a device which they claimed eliminated radiation from the screen.

With the changes which were taking place in NE’s production, the subsidiary was not making an operating profit. Indeed, the latter half of NE’s time in Malaysia had been less profitable than the first half. Labour costs amount to only seven per cent of total costs; productivity is assessed through a number of measures including production yield compared with planned yield as well as product returns by customer. They benchmark their outcomes with the parent company using the Japanese plant as a model. At the same time they compare themselves to their competitors, identifying some areas where they regard themselves ahead and others a little way behind.
NE’s workforce of 2000 employees is 95 per cent male with an average age of 26. The high percentage of male employees is due to the nature of the work which requires workers to be capable of regularly lifting 15kg as well as being available for 12 hour shifts, although management declared a preference for female inspectors because “they can concentrate better than men.” In some of the production areas the working conditions are extremely uncomfortable in terms of heat and/or very low illumination; in these areas NE had experienced up to 90 per cent turnover of workers each month so had resolved it by recruiting Bangladeshi labour. The ethnic composition of NE’s workforce is 51 per cent Bumiputera, 30 per cent Bangladeshi, 8 per cent Indian, 6 per cent Chinese and 5 per cent Others.

NE had found it necessary to employ two recruitment officers prior to the recession as it was so difficult to recruit new staff; these officers were located outside of Selangor. As one manager commented, the nature of the labour market had certainly inhibited the transplant of the Japanese HR system to NE. Employee turnover has declined dramatically from its 1997 level of 4 to 5 per cent per month (which the company regarded as quite reasonable compared with some of their competitors) to an average of one to two per cent per month. NE has a policy of never rehiring employees who leave the company.

NE (Mal) reports directly to the group’s management in Japan. There is no overarching management group for the subsidiaries in Malaysia. NE’s Malaysian management regard the influence of their parent company to be most focused on the accounting and technical areas, by comparison they consider their HR/IR very localised. The HR Managers of the group’s subsidiaries in Malaysia meet monthly but because of the differing nature of the production or assembly between the plants they have not attempted to formulate a common HR/IR policy. However there were aspects of NE’s management of their employees which were clearly related to the corporate approach such as the ‘no redundancies’ policy mentioned earlier, the compulsory morning assemblies in which employees perform 15 minutes of exercises and individual employee’s birthdays are acknowledged, and the extensive training program which taps into the corporate training facilities in Singapore and Japan. In addition, NE had gained ISO 9002 accreditation, had adopted the 5S system, operated
21 Quality Control Circles as well as a series of Joint Consultative Committees which might also be seen to be reflecting the corporate culture.

The HR/IR function is very centralised within NE with all major decisions and policy formulation coming from the HR management rather than line management. NE is a member of a number of employers’ federations including the MEF, the Federation of Malaysian Manufacturers, the Malaysian International Chamber of Commerce and Industry, JETRO and the Japanese Malaysian Industries Corporation. NE management view these forums as particularly useful for lobbying government when necessary.

NE management consider training as critical to their success and invest far more in it than is required by the HRD Act. NE has an in-house training centre and those employees requiring more specialised skill and advanced management programs are sent to the corporate training centres in Singapore and Japan. NE’s policy is to provide 40 hours of training per employee per annum and often specialist training is additional to this. New recruits receive a five-day orientation program and spend their first three months in intensive on-the-job training.

In determining wages and conditions NE management monitor surrounding factories – particularly those which are unionised – to ensure that their terms are at least comparable. Employees work a 44 hour week generally over five days whilst those who work 12 hour shifts complete their hours over four days. An annual increment and an annual bonus are paid at the discretion of management with the latter depending largely on the company’s performance and the former being linked to the twice-a-year closed performance evaluation. During the recession there has so far been no reduction in either the bonus or the increment although management predicted that the 1999 increment would be likely to be three to five per cent rather than the usual eight per cent. Management’s goal is to introduce a more flexible remuneration system within the next few years and are examining ways to further link wages with productivity. Finally, NE also provide the extra activities which Malaysian workers have come to expect, particularly from MNCs – the annual dinner, the sports activities and the annual family day.
As mentioned earlier, NE is not unionised. Whilst management explained this in terms of lack of employee interest in joining a union – albeit acknowledging that there had been an attempt by some employees to unionise the plant – an employee representative suggested that workers were not allowed to form a union within the plant, pointing out that that was why the company included ‘Electronic’ in their title.

NE has a number of structures to facilitate communication between management and workers: Joint Consultative Committees (JCC), daily briefing meetings, and a monthly assembly which is addressed by the Managing Director. Whilst the rhetoric is that the JCCs provide many opportunities to raise issues and that employees are free to pose questions directly to the Managing Director at the assemblies, the reality is that the latter has never happened and that the former – the JCCs – do not deal with the mainstream workplace relations concerns, except for perhaps the Safety Committee. The JCCs include the Sports and Recreation Committee, the Big Sisters Committee (inactive), the newsletter committee, the canteen committee, the Muslim employees association, the technical skills committee, the suggestions committee and the housekeeping group.

During the financial crisis in the region, NE have not retrenched employees including their foreign workers. They have taken the opportunity of reduced demand to convert their production lines as outlined above and to train their employees in preparation for the new products. They have also absorbed maintenance work which was previously contracted out. NE’s ‘No redundancies’ policy was in accordance with the parent company’s preference for lifetime employment which the Malaysian management commented was more likely to be observed by the company within Asia but generally not adopted in Europe or the United States. In addition, NE’s management regarded the ‘No redundancies’ approach as important in demonstrating their commitment to their employees and pointed out that from an economic angle, the cost of redundancies and the nature of the labour market were also influential factors. Being part of a large organisation and with other subsidiaries located nearby, NE and other companies within the same group had transferred groups of employees on a
temporary basis between companies in response to fluctuations in product demand across the group.

Vignette 2:  Micro Company

Micro Company is one of the world’s major IT companies. It is the leading manufacturer of a key computer component. Micro is a US-owned MNC with 65,000 employees globally and branches in 30 countries. The design facilities are located in the US, Japan and Israel. Manufacturing is conducted in Malaysia, the Philippines, China and Costa Rica. In addition to assembly operations, Malaysia has some design capabilities, with responsibilities for the design of certain key support components that optimise the operation of Micro’s signature product. These design functions are undertaken in Malaysia because it is cheaper here, but Malaysia lacks the number of specialised doctoral-level specialists to enable the core design work to be undertaken.

Despite Micro’s leadership role in the market, it views the market as highly volatile. When asked about its competitors, the HR manager indicated it had about 15 - but these were competitors for labour, not in product market terms. He cited just three major product market competitors. Competition between firms for staff mainly occurs at the officer level. Pay for operators is quite similar across Penang.

There are 8500 Micro employees in Malaysia, of whom 5500 are employed in Penang, the location visited for this project. Three factories are in Penang, where Micro has had a presence since 1972, and two in Kulim Hi Tech Park. Kulim was chosen because of infrastructure and incentives provided by the state government, and MITI support for development outside of Penang. The Multi-Media Corridor (MMC) south-west of Kuala Lumpur will not include a new Micro establishment, but it is expected that most of the companies there will use Micro products and that Micro will provide expertise.
Included in this head count are 120 contract employees from the Philippines and Indonesia, who will be returning to their home countries later this year as the skills they brought with them can now be found locally. Operators account for 6500 of the 8500 Micro employees Malaysia-wide. Amongst operators, 70 per cent are bumiputera, 20 per cent Chinese and 10 per cent Malay (even though in Penang the Chinese are the dominant ethnic group). The officers have a very different composition: 80 per cent of management are Chinese, with 13 per cent bumiputera and 7 per cent other groups. Women make up 85 per cent of operators but only 25 per cent of officers, though the company apparently aims to increase this share to 40 per cent.12

Micro’s ‘charter’ is ‘to develop the Malaysian PC consumer market, promote Micro’s brand awareness, and work closely with the government and OEMs to help grow the Malaysia computer market’. Micro Penang expresses its key strategy as being its belief ‘that the development of core competencies is vital to its continued success and growth. In addition, total quality management and unbeatable customer service is an unwavering commitment to its customers, employees, and the company.’

Employment relations at Micro Company

The HR Director has over 16 years experience in Micro, 2 ½ of which have been in HR. He shares his responsibilities with another HR Director of equivalent rank. Across the five factories there are 185 HR staff, including trainers. Slightly under half are in Penang. The proportionately greater number in Kulim (given the workforce size) reflects the greater number of HR issues that arise in new factories.

The HR function at Micro has sections that deal with: training; compensation and benefits; staffing (recruitment etc); HR information systems; relocation and immigration; and human resource development (HRD). It is this last section that Micro sees as setting Micro apart from other companies. HRD covers several key activities: management coaching; management development; organisational development; performance appraisal; discipline; and employee counselling. The HR Director contrasts the situation at Micro with that in Malaysian companies - where
HR is seen as being mainly about training - and with that in other MNCs - where the HR function is generalised to cover almost anything - and with that in Micro in earlier years - when HR was seen as being employee relations.

Each of the five Malaysian factories has a HRD manager. Each HRD manager has a set of officers - ‘HRD consultants’ - to assist him or her.

A substantial amount of personnel planning is undertaken within a strong internal labour market. For example, each factory manager must have a successor identified and there must be a potential successor to the successor.

The vision as expressed by the HR Director is that Micro needs ‘to equip managers with the skills to manage people’. Micro is well known as a technical leader in its market, but had not been recognised as a leader in managing people. This led to a shift in corporate strategy regarding HR. Micro now considers that HR ‘has to be a strategic partner’ in business. HR is no longer ‘second’ in line to hear about changes.

The initiative for the HRD approach came from Micro’s US head office. The HRD function has been operating in Micro’s Malaysian plants for two years, but before that had existed in the US head office for six years.

Starting wage Remuneration includes:

- base pay - a new employee starts at RM 490 per month;
- attendance and productivity incentives and shift allowances (together worth another RM 160 per month);
- an annual increment, based on a combination of performance appraisals (to determine which employees get increments of what size) and market surveys (to determine the size of the average increase). The most recent market average was an increase of 2-3 per cent, with many companies paying nothing, while Micro and a small number of competitors paid about 6 per cent;
- a contractual bonus, worth one month’s pay in December and two weeks pay in June;
• an ‘employee cash bonus plan’, based on pre-tax profit, and payable every six months. Over the past three years it has averaged 11 days pay per bonus (ie 22 days per year);

• a stock option plan. Micro sees this as something that cannot be truly matched by its competitors, though its attractiveness is dependent on Micro continuing to do well. In this five-year program staff are offered shares at a discount;

• an ‘employees bonus’ based on the performance of the company and the individual employee over a year, paid in February. Every organisation within Micro is given, by the head office and regional office, certain strategic objectives to deliver. It is scored on how well it meets or exceeds each of those goals. Micro Malaysia’s objectives relate to quality, yield (the inverse of the reject rate), and employee attitudes. Individual employees are also given a target and scored on how well they meet that target. The process, however, is not transparent. Part of the employee bonus relates to employee satisfaction (as an indicator of how well the branch is managed), and is measured by biannual surveys of employees. While this theoretically presents the opportunity for employees to overstate their satisfaction, employees do not realise how much of their bonus (or the bonuses of their managers) are determined by answers to the employee survey.

Operators work 12 hour shifts, typically on a 4 days on 3 days off basis, which is, according to Micro management, becoming a norm in Malaysia. They receive three legally obliged breaks - two of 15 minutes and one (lunch) of 45 minutes. Management views these shifts as benefiting workers by giving them more rest and higher shift allowances. We were unable to directly obtain employees’ views.

The financial crisis affected Micro’s market in the Asian region. However, the majority of Micro’s market is in the US, and was not directly affected. The main impact of the financial crisis on Micro’s employees was to reduce the size of increments - not so much because of the impact on demand for Micro’s product, but because of its impact on the going rate in the industry. There have never been retrenchments in Micro Malaysia’s operations although, ironically, Micro has recently retrenched 3000 employees in the US, due to restructuring of the service workforce and cutbacks in areas that had already become obsolete.
Labour productivity is measured as output per operator per hour. This measure is standardised across the company. ‘Indirect productivity’ is also measured, as an indicator of the ‘burden’ of indirect employees on the production process. Standards for the average employee are set by industrial engineers.

The production process is substantially automated, with the most labour intensive activity being the visual quality inspection process. Operators now are mostly operating machines, a contrast to the 1970s when there was a substantial amount of manual work. Operators are now expected to be able to know how to run a computer and a machine. They usually cannot see the production process.

Micro’s disciplinary procedure is influenced by the Employment Act, which is seen as being very pro-employee. It is designed to give employees every opportunity to make corrections to their performance, and it may take 9-18 months to lead to the dismissal of a poor performing employee, including the ‘domestic enquiry’ (an internal tribunal which hears charges against poorly performing employees).

Benchmarking occurs on a continuous basis. Micro Malaysia benchmarks against other Micro factories - ‘internal scanning’ - and against other companies in the Asia region, in particular Japan, Korea, China and the Philippines - ‘environmental scanning’. Micro management sees this as a means of obtaining new perspectives on production processes - whether other firms are undertaking similar processes in shorter times or with fewer people. A group of specialists travel overseas for the benchmarking exercises, examining production costs, productivity and/or technology. A report is presented to senior management.

There are also collaborative benchmarking arrangements with companies in the local area, who will visit Micro and are provided with a wide range of non-confidential information (that is, information not relating directly to the technology). Some of these companies are simultaneously contractors to Micro and competitors with Micro.
Micro takes a significant role in disseminating information about HR management. Micro tries to ‘educate’ its contractors on its HR policies and practices. It gives talks to counterparts and suppliers in the industry, and has even put on the internet information about the nature of the jobs of HRD managers and HRD consultants to enable other companies to learn from their experience. It suggests that its contractors should try to emulate Micro practices. It does not impose this as a requirement on them, however. Some, but not all, of Micro’s ideas have reportedly been taken up by other companies. Some contractors have adopted Micro’s disciplinary procedures, but none have attempted to emulate its HR development model in toto. Even where they are inclined to take up Micro ideas, many have not been able to make major structural changes in their HR function without the consent of their parent companies.

Each country in which Micro operates has its own culture, taboos and religions. Micro attempts to build a common culture through the company by espousing six ‘Micro values’ in all countries:

• a ‘results orientation’;
• belief in good quality;
• belief in discipline;
• risk taking;
• being a great place to work;
• customer orientation.

Managers are expected to provide role models of these values and their performance is measured by reference to them. There is extensive induction over a twelve month period, starting with an induction class lasting two weeks full time.¹³

Labour turnover before the recession was 3-5 per cent per month for operators, and 1-2 per cent per month for engineers. Micro redesigned job interviews and selection processes to try to attract the ‘cream of the crop’. Potential recruits were shown a video about the job, with a view to weeding out those who may not like the level of security or the gowns that have to be worn. This was perceived as reducing labour attrition, though of course the recession had a major influence. Absenteeism was a
major problem in much earlier times, especially when the factory was relatively new, but is now below one per cent, influenced in part by the attendance bonus.

Training is curriculum based. Engineers can obtain basic skills in Malaysia but receive more advanced training in the US. Operators skill training is more hands-on, and there is significant computer-based training in the first year. New training takes place when a product is changed. Some operators have been sent to the US Micro training facility, in effect to become ‘super-operators’, who are then able to train operators in Malaysia.

Part of the HRD function is managerial coaching and development. There are three phases of management development, for first line managers, middle managers and senior managers. Most courses are run in the US or other countries, though some are now being brought to Malaysia. Managers are also assessed by such mechanisms as 360 degree feedback to identify which of four types they fit into, with the aim being to fall into the ‘balanced’ category. Criteria for ‘balance’ include having ‘fun’ in the job.

One of the more interesting roles of the HR function is organisational development. The HRD consultant looks at the capacity of the organisation to achieve its objectives and anticipate change, and identifies weaknesses in being able to meet challenges. For example, it may focus on the number of organisational layers. This means that HRD consultants must have a combination of business knowledge, political skills and organisational understanding. They are therefore difficult to recruit - Micro often looks for people who have worked as consultants, rather than as HR managers, for this role, though some may have been HR Directors in other companies with 10 or 12 years experience.

Management sees itself as now getting closer to employees when they start. On factory floors, service centres have been set up to enable finance and HRD staff to spend two hours, twice a week on the floor. Communication with employees occurs through a web page, e-mail, pamphlets, a bulletin board, and business update meetings. The latter are held quarterly, go for about 2 ½ hours, and involve the site
manager meeting with all employees. Topics will include Micro’s current focus, performance and profit, and the implications for the local operation. Employees have the opportunity to ask questions.

One of the most significant changes in Micro in recent times has been a change of senior management - an American MD has been replaced by a Chinese Malaysian. The other major change has been the expansion of the operation, including into Kulim, such that employee numbers have quadrupled. ‘We used to be able to know each other’, as the HR Manager put it, but now this is not possible with such a large operation and it is seen by management as creating real challenges for it. Suggestions that management is getting closer to employees need to be seen in this context.

Quality circles for operators focus on the ‘five Ss’ with a sixth one, safety, added. They are not seen as relevant for engineers and officers because of the nature of their work. In many respects their work is standardised across the world - ‘like McDonalds’. For engineers, the key networks are global, not local. If an engineer in Malaysia has an idea, he communicates it to his colleagues in the US and elsewhere.

The state is seen as influencing HR practices at Micro through its regulations and laws. These are perceived as being more pro-employee than US laws. Yet when pressed on whether this made life hard for Micro, the HR manager responded that instead it probably made things better, as it required managers to ensure that ‘people management’ was done well.

Vignette 3: Drive Company

Drive Company is a relatively new US-owned MNC. It manufactures innovative computer disk drives and disks for export. The Malaysian plant is located in the Penang Free Industrial Zone. Drive bought the site in 1996 from another disk drive manufacturer which in turn had bought it from another. Each time the site changed hands the workforce and much of the management remained on the site.
The Malaysian operations are the main location for Drive’s manufacturing. Design is undertaken in the US (where the company has three locations). Manufacturing was originally undertaken in the US but moved to Asia fairly quickly. In other countries the company operates distribution centres.

Drive has 2700 employees in Malaysia, representing over half the company’s world-wide workforce of 5300. About 70 per cent of the workforce is bumiputera, with most of the rest Chinese. Most bumiputeras work as operators, or lower level technicians. Four fifths of employees are women - almost all of them operators (and almost all operators were women). The workforce is fairly young, with 60 to 70 per cent of operators being below 30 years old.

The company has been growing rapidly, with the global workforce quadrupling in three years. However, in the last couple of years Drive’s sales have flattened and dropped. Its share price has performed disappointingly given the earlier rapid growth of sales. Globally, a loss was made in 1998. The Malaysian operation is one of the best performing ones and helped keep the loss low. A goal was set, and achieved, of cutting costs by half in the Malaysian operation 1998. The company is about to launch a new, third disk drive14 aimed at recovering some of its lost growth.

One of the company’s lines was made by a sub-contractor in the Philippines. This contract was not renewed in 1998 and the Malaysian operation now undertakes in-house the manufacturing that was previously out-sourced to the Philippines. Drive also had a distribution centre in Singapore which was recently relocated to Malaysia.

The US Head Office takes an active interest in Drive’s Malaysian operations only when the operations are failing to meet the standards set out in the company’s ‘performance matrix’. The matrix includes profitability, manufacturing conversion costs, material costs and labour costs. Performance targets for individual targets flow from the matrix. If it fails to meet a performance standard for two successive quarters Malaysia will receive a visit from Head Office managers and technicians aimed at identifying and solving the problem. The strategy of Drive’s Malaysian management
therefore is to regularly satisfy the performance matrix and avoid the disruption caused by these visits. With the matrix satisfied, any visits by Head Office staff are restricted to dealing with relatively innocuous matters. Drive in Malaysia is able to maintain a high degree of autonomy but the price for avoiding Head Office interference is a constant focus on short term movements in performance indicators.

The company is attempting to operate on a Just-In-Time basis, and has contracted a company to organise this for them.

*Employment relations at Drive Company*

For operators, work organisation is quite Tayloristic. Each step in the production process is meant to take a specified target time to complete. This target time is determined by in-house industrial engineers. Each quarter, the target time on the new product line will be reduced - typically by one or two seconds at a time - as workers become more used to the production process. Thus over time work is intensified until it appears that it is not possible to speed up the process any more. Operators can obtain some variety in their working lives by being trained to work in new stations - usually in their own product line. In theory a worker can be trained for over 20 stations. A worker who is trained in four stations is considered to be a ‘manufacturing specialist’, the highest classification for operators. Most workers appeared to be trained in just one station, sometimes two.

Head Office has almost no influence over HR policy - though the Malaysian operations are unable to close during religious festivals because of the requirements of the US market. When the Philippines contractor was in operation, several Drive managers worked there. The HR manager there reported directly to the MD of the Philippines operation but also in a ‘dotted line’ relationship to the HR Director at Drive Malaysia. Drive’s HR Director has until recently had no relationship with component vendors in Malaysia. However, a relationship with vendors - including overseas vendors - is starting to develop regarding the training program.
The number one responsibility of the HR function is for training. Drive employees average about 50 hours per year on training. Training is ‘not refined’ but it is hoped that it will be approached more systematically in 1999, with a greater emphasis on developing specific competencies. The training program is focused on technical and managerial workers (‘indirect workers’), with little emphasis on training of operators, other than that directly required to enable them to do their immediate tasks. Drive’s aim is to have all indirect employees formally trained or preferably certified in their relevant professional area. Indirect employees are encouraged to study for one of a variety of formal qualifications. While most qualifications would be offered at the certificate level, some employees could progress to diplomas or degrees. Depending on the qualification, these may be provided in-house by accredited trainers, at the PSDC, through the Malaysian Institute of Management or through private consultants who have linked up with (usually British) universities to offer degrees. An education assistance program facilitates Drive employees obtaining these external qualifications. Induction takes a day, in which employees are introduced to the company, its products, ISO9000 requirements, safety issues and their bosses.

Labour turnover has been high, especially amongst operators. In Drive’s first year turnover was 6 per cent per month. It reported a fall in the past year - from 6 per cent in January 1998 to 3 per cent in January 1999. Management attributed the fall to the economic downturn and to the ‘maturing’ of the company, for example in relation to training. Drive wishes to be the employer of first choice for workers in the region - a big call, considering the size of labour turnover. Employees that were spoken to said that if they did not like Drive they would simply find another company to work for, though some admitted to being a bit more apprehensive about the prospects of quickly finding another job in the current environment.

One unusual aspect of Drive is that, in addition to recruitment, compensation, training, canteens and bussing, HR houses a public relations (PR) function, headed by a relatively senior officer and PR specialist. As the main manufacturing element in the commodity chain, it would not be expected that the Malaysian operation would have a significant PR function. The location of the PR function within HR reflects one of the key purposes of PR in the environment in which Drive operates: to assist in
the attraction and retention of workers. Drive perceives stiff competition in the market for good workers in the long-established Penang Free Industrial Zone from the large key-component manufacturers. Drive has to market itself in order to attract those workers. The PR specialist also has responsibilities for facilitating communication within the MNC and with other manufacturers within Penang.

There are several components to remuneration. Base pay at entry level is RM 470 per month. There are several bonuses:

- A ‘thirteen month’ salary is paid, as in Singapore. That is, a bonus, referred to as an ‘annual wage adjustment’, is paid each December. Like a contractual bonus in a unionised company, it is assured.

- A profit sharing bonus, based on the global profits of the company, is paid annually. It is worth a maximum of one month’s salary for non-managerial employees. In 1998 it was not paid.

- A variable bonus is tied to the performance of the Malaysian site. It is based on measures such as timeliness of delivery, quality and cost. It is paid twice a year and has a maximum value of 1 month’s salary per year. In 1998 a bonus of 0.8 months was paid.

- In 1998 a ‘BHAG’ bonus was paid. The company was pushing employees ‘like you wouldn’t believe’ to achieve the 50 per cent cost cut target. The target was referred to as the ‘Big Hairy Audacious Goal’ (BHAG) and the payment of the bonus was tied to achievement of this goal. This one-off bonus was worth one month’s salary and so offset the effect of losing the profit-sharing bonus.

- A ‘spot’ bonus is paid to employees who have done something over and above their normal duty and who generate a ‘big result’ for the company. This bonus, worth up to RM 3000 (several months salary for lower paid employees) can be paid on the authorisation of the relevant line manager.
Employees are also recognised by gifts such as a t-shirt or free lunch if they reach a target.

Wages in Drive are set by reference to market surveys. Drive positions itself in the middle to upper part of the market, which is one of the attractions for operators. Salaries of direct and indirect workers are reviewed every six months, while those of executives are reviewed annually. Everybody except non-performers would receive a salary increase, equivalent to an increment. When the economy was doing well, increments were worth about 10 per cent per year. The increment has two components: a ‘normal increase’; and an ‘adjustment’ based on individual performance. Departments are given a budget for increments which they then deploy with some discretion, but there is a fair degree of central tendency around the ‘normal increase’.

Performance appraisal is open, measured on a five-point scale, and based on objectives deriving ultimately from the performance matrix. For operators, performance is appraised by reference to attendance, punctuality and discipline. Perceived unfairness in the way the performance appraisal system sometimes operated - for example because insufficient account was taken of the quality of workmanship - appeared to elicit the most negative response from the employees spoken to.

Employees also receive a subsidy of RM2.80 per day towards food bought in the cafeteria. Worth up to about 10 per cent of lower paid operators’ wages, this is enough to pay for the lunches of many employees. The company provides bus transport to work for employees from around the island - the trip to work taking 1 ½ hours for the most distant employees - and prayer rooms. Such facilities are not trivial. When the researcher asked a small number of employees about the best thing about working there, the most common responses were the cafeteria (bigger than elsewhere), the prayer rooms (also bigger), the toilets (cleaner) and the transport. On the last of these, a key consideration was that, when female employees worked overtime, transport would be made available for them to go home, even when only one worker was involved. At other companies, a minimum number of people would
be required before such transport was provided. Transport is one of Drive’s major expenses, at over RM300,000 per month.

The other favourable comment made by some employees about Drive, relative to other firms, concerned supervisors. The supervisors at Drive were considered to treat their staff better than those elsewhere. Compared to other firms there was an absence of tension between supervisors and operators. HR management emphasised that the company was attempting to develop a culture in which people did not feel intimidated. This involves trying not to penalise mistakes and encourage new ideas and innovation, especially amongst indirect employees. Management perceived - consistent with employee comments - that other companies, especially in the high-volume parts of the electronics industry, did not give attention to the development of people-related skills in their supervisors. The grievance procedure, which has the MD as its last point of the chain, is most commonly activated when new supervisors are recruited from such companies.

Poor performers are dealt with by a process involving three warnings, a ‘show cause’ letter, and a domestic enquiry, the finding from which is referred to the HR Director for decision. The MD is a final point of appeal within the company. Absenteeism is seen as a problem but manageable.

Communication with Drive employees occurs through direct contact. There are no joint consultative councils or other forms of representative participation. A quarterly ‘business review’ is held of all staff at least once a quarter. The MD holds ‘round table’ meetings at lunchtimes with up to ten operators and indirect employees at a time. No efforts to establish or join a union were identified.

When Drive’s sales fell in 1998, rumours circulated that it would undertake retrenchments, as it was carrying 300 surplus employees. At most of Drive’s operations outside of Malaysia, retrenchments occurred. However, in Malaysia retrenchments were avoided, principally through not renewing the Philippines contract and instead undertaking all assembly operations in-house. Thus part of the adjustment process involved in-sourcing an activity that was previously out-sourced.
However, in-sourcing was not primarily motivated by the desire to avoid retrenchments in Malaysia (though this accelerated the decision to in-source). The principal factor was that this line could be assembled more productively and at lower cost in Malaysia than in the Philippines, even though overall labour costs in the Philippines are substantially less than in Malaysia. The relocation of MNC activities does not always involve their transfer from high-wage to low-wage countries.

Other adjustment mechanisms included encouraging employees to take their accrued (or anticipated) annual leave entitlements while business was slow.

In deciding not to retrench people, an important consideration was the implications for the company’s reputation. The policy of devoting resources to PR and locating it within the HR function would be wasted if the company was seen as retrenching employees.

The change that had the biggest impact on employees in the last two years was seen as being the economic downturn in Malaysia. It cut down employees’ alternative employment opportunities, reducing labour turnover. It also put downward pressure on market-related salary increases. The HR Director would have preferred to increase entry wages to RM 500 per month but other companies in the area were freezing or cutting salaries so entry salaries remained at RM 470 in order to avoid problems with other companies. Increments were worth an average of 7 to 8 per cent in 1998, down from the usual 10 per cent, because of the downturn: the average increment in the region was 5-7 per cent in 1998 and Drive did not wish to exceed that by too much.

Government influence on ER in Drive is seen as being mainly a result of the HRDF, which has meant the company has spent more on training than it otherwise might have in order to claim back its expenditure. The PSDC is another vehicle by which the state can influence HR practices. However, more subtle influences are seen as operating through such mechanisms as licenses and tax incentives. A company which meets government targets in relation to such matters as the hiring of bumiputeras and their employment in managerial positions is less likely to have to answer embarrassing questions from the Ministry. A firm that does not have to answer such
questions will be more confident of securing Government agreement to requests in relation to licenses or incentives. Drive would presently prefer to negotiate a lower level of local content than it presently employs. Individual deals on such issues are frequently negotiated with companies. Drive is optimistic about its chances of securing Government support for its proposals.

**Vignette 4  Elecomp**

Elecomp is a US-owned MNC. It makes computer heads that are used in disk drives to read information. It supplies a number of major disk drive manufacturers in the Penang Free Industrial Zone, and in turn is supplied by a large number of local components vendors.

Elecomp has 4000 employees worldwide, of whom 1800 are in the Malaysian plant, including 1400 operators. Some 90 per cent of the workforce is reportedly female, including 99 per cent of operators. About 80 per cent of the workforce is bumiputera, with 15 per cent Chinese and 5 per cent Indian. The operators are mostly young - aged under 30 years - and many leave when they marry. There have been a number of MDs through the company during the 1990s. There is a smaller manufacturing operation in Korea and a much smaller operation in China.22

The company has been struggling for the past year and is about to enter a critical phase in its development which will determine whether it survives at all. It operates in a market where the key to success is high quality at a low price. Near the end of 1997 worldwide demand for disk drives, and therefore components, slumped because of excessive inventory build-up. Since then there has been increasing competition amongst head manufacturers, with disk drive companies cutting prices paid for heads. A new technology, magnetic resistance (MR), has also come onto the market. A number of companies have adopted MR but as yet Elecomp has not been able to perfect the technology. Its already small market share is shrinking. The future of the company hinges on the performance of its engineers over coming months.
Labour productivity is measured in terms of units per hour. However, there are no benchmarks against which performance is judged. Just-in-time is not used.

**Employment relations at Elecomp**

The HR function is a ‘typical’ HR department, dealing with recruitment, training, salary and benefits, welfare and health. It is involved in major decisions that affect employees - including in relation to facilities, finance, etc.

The parent company has very little influence over ER in the Malaysian operations. Decision making is decentralised and ER is run in very different ways in the different countries in which Elecomp has operations.

In terms of its relationship with the companies it supplies as a vendor, the transmission of ideas on ER is not an issue. The major purchasers do not try to impose particular styles of ER on the component vendors.

Much more important in the transmission of ideas about ER are the local employer networks. The HR manager at Elecomp meets regularly with HR managers from other companies. They exchange information about the going rate for salaries and benefits. Elecomp participates in the salary surveys that are conducted in the area. The network also enables participants to confirm or deny rumours about particular companies (eg about whether a company is about to commence retrenchments). The HR Director attends meetings of the Penang branch of the MEF, but not of any other employer association. The MEF provides information on IR legal developments and helps HR managers confront their ‘biggest fear’ - that of ending up in the Industrial Court. So far Elecomp has managed to avoid that trauma.

It is the informal networks, rather than the formal ones, that provide the most useful and influential transmission of ideas. If the HR Manager wants to find out or share information about HR practices, he will contact other HR managers with whom he is friends. The key links are personality-based, not directly vendor-supplier based -
though the informal network is definitely within the electronics industry (rather than extending into other manufacturing or non-manufacturing industries).

The training activities of the HR department are focused more on supervisors and management than on operators. A training calendar is developed based on the outcomes of yearly training needs analyses. Supervisors are trained in IR (that is, discipline, dismissals and legal considerations) but not HR. However, it appears that Elecomp is trying to decentralise HR to the line areas, forcing supervisors to handle ER while the HR section takes on an oversight role. A ten-module training program for supervisors is run annually. Most training is done in-house.

Training for operators is handled by the relevant production areas. It covers the development of process skills for use on the assembly line. New recruits go through a half day induction, which covers safety, benefits, conditions of employment, facilities and rules. The requirements on new employees are fairly simple: ‘two hands, two eyes’, and the ability to read and write Bahasa. Operators are sought who are not too highly educated.

Work organisation is strongly Tayloristic and follows the assembly line model. Each assembler (operator) is a specialist in their area. They are only moved around if a need arises, for example because of a change in the production process. Before that they must be trained and certified in the relevant process. All operators are certified in at least one process. It is up to the company, not the employees, to decide which processes employees are trained on. Employees work to specified target times that are calculated by in-house industrial engineers.

Employee influence in decision making is minimal. There are no quality circles or related organisational forms. The company has a mixed history of such innovations. Three years ago Elecomp had ‘manufacturing improvement teams’ (MITs), similar to QCs, in place in one of its departments. These teams were empowered to identify problems on the line, create solutions to them and make recommendations for change. Work group performance, as measured by reject rates, was dramatically improved as quality consciousness was raised. However, there was weak organisational support.
for the MITs. It was not driven by top management of the company but by the relevant department head, who was also a quality assurance manager. When she left, the MITs withered. Operators reported to managers in production groups which gave precedence to quantity rather than quality. Quality consciousness declined. There are now indications of top level support for initiatives along the lines of the MITs. This represents a change from managerial philosophy under the predecessor MD who was in charge when MITs were first introduced, which gave top priority to turning out large quantities of product. If MITs are to be introduced it will certainly require MD-level enthusiasm; there appears to be a significant degree of resistance to change and that requires a lot of effort to be overcome.

The major internal change affecting employees has probably been the increasing demands that are put upon them. Targets on the production line have been increased. HR management recognises, however, that there is a limit to how far this can be done, and management sometimes receives a deputation from employees if the rate is tightened too highly. Problems can arise from supervisors being too strict on operators and not helping them. The most common complaint about supervisors, according to the Employee Relations (EeR) section, concerns favouritism of some employees over others (eg on the basis that some operators are ‘prettier’ than others). EeR feels that the majority of complaints about supervisors have been justified.

Problems, especially regarding overstrictness, are generally believed to be worst amongst those supervisors who have been promoted from the rank and file. Tertiary educated supervisors and managers are seen as making better efforts to deal with problems. Despite the ‘one company one family’ slogan there is no single practised or recommended managerial style. So some supervisors adopt people-oriented approaches while others have a ‘no nonsense’ style. However, the problems also appear to relate to the way supervisors’ goals are set: presently the focus is on numerical targets, with people management skills having no role in supervisors’ performance appraisal.

Ordinary-time working hours are 44 per week. The elements of pay include:
• a base salary, with new recruits receiving RM 400 per month. This is an increase of RM 25 (6.7 per cent) on the starting salary of three years ago (during this period consumer prices rose by over 11 per cent and food prices over 19 per cent);

• a productivity-related bonus, usually worth 1.5 to 1.8 months’ pay, but only 1 month in 1998. The bonus is valued at the same number of months’ pay for all staff;

• a profit-related bonus, introduced in 1996, paid on a quarterly basis. In 1997 it was worth 0.5 months pay over the course of the year. Employees generally do not understand how the bonus is calculated;

• a performance-related component, the annual increment. This is determined through a formal performance appraisal process using a 5 point scale. The standard increment (for someone on the midpoint of the scale) was 8 per cent in 1998. The various points on the scale generate increments worth nil, 50 per cent, 100 per cent, 150 per cent and 200 per cent of the standard increment as one moves up the scale.

HR management does not expect base pay to change much in the next one or two years because of the supply of labour.

The cafeteria is subsidised - though even with the subsidy, employees could easily spend 20 per cent of their daily earnings on cafeteria meals. The company also provides bus transport and will reimburse taxi expenses in perceived genuine instances of failure by the bus to pick up employees (otherwise the taxi fare would cost a whole day’s pay).

Performance appraisal is usually undertaken through a one-on-one process involving the employee’s supervisor. It is approved by the relevant department head and moderated by a meeting of all department heads. For indirect employees, appraisal is based on two broad criteria: personal attributes (eg whether they are team players); and how well they meet specified goals and objectives. For operators, appraisal is simple and is based on: attendance; quality (measured by the reject rate); output; discipline; and safety. Several of these are standardised across all employees,
though output targets vary according to the product and the stage of the product life cycle (whether it is a new product, for which expectations are lower, or a well-established one).

There are problems with performance appraisal being perceived by some employees as ‘lopsided’ and not fairly carried out, with the ‘loudest’ getting the most. EeR receives a number of complaints about appraisal and it believes about half of them are well founded. The views of some employees on the bell curve distribution are summed up by one reported remark: ‘why is everybody average in an excellent organisation?’ On the agenda is a major shift to performance appraisal that would give greater emphasis to people management. However, it is unclear how far this will proceed. In 1998, there was no serious performance appraisal undertaken because positions were frozen anyway. There might be a similar problem this year; it will be a major challenge for HR to make major changes to performance appraisal in the current uncertain context.

The company sees itself as promoting an open culture. Although there is nothing formal in place to create or reproduce a particular culture, there is at least a slogan: ‘one company one family’. Communication occurs through noticeboards, newsletters, weekly bulletins disseminated and discussed by supervisors (for example, dealing with a new policy that employees should not wear cosmetics on the production line), and a quarterly plant-wide meeting held in the canteen and run by the MD. The MD also has lunches (‘dialogs’) with varying groups of eight operators. There is no union. The HR Manager agreed that the HR function attempted to perform the function that would otherwise be performed by the union. Nor is there any joint consultative committee: the company expects supervisors to ‘speak up on behalf’ of employees.30 There is a suggestion scheme, through which employees who generate significant savings can receive a reward (up to 10 per cent of the estimated savings). The response to the suggestion scheme is described as ‘luke warm’, especially at the moment when employees are ‘more concerned’ about keeping their jobs. Operators are seen as ‘too reserved’ when the company wants them to be more open about what their problems are. Management attributes this to the fact that many come from villages, where such behaviour is not encouraged.
Labour turnover was 4 to 5 per cent per month before the financial crisis. It is presently 2 to 2.5 per cent. When they get a chance, employees move to larger key-component employers who are seen as being more stable. Perhaps the biggest change affecting employees has been the change in the labour market context. HR management took the view that, in earlier times, if the company said or did the wrong thing by operators they would ‘say goodbye’. It is no longer believed that this is the case.

Voluntary retrenchments have already happened early this year. Packages were taken by 800 employees. They were paid the legal minimum of one month’s salary per year of tenure. HR management understands that many employees, who took the package expecting to find another job, are still having difficulties finding work. Some have returned to Elecomp.

Before retrenchments took place, the company had already cut overtime and then reduced the number of working days in the week. The cut back in overtime has a severe effect on employees who have built their income expectations on regular overtime, and some are wondering how they will make ends meet. Incidences of theft (absent before the downturn) have increased.

On a few occasions the plant was shut down for a week or so; employees were required to take their vacation leave or, if they did not have any owing to them, to take an advance on their leave. Opportunities were also made available for people to take leave without pay, but these were rarely accepted.

The influence of Government on HR policy was mainly seen as operating through the HRDF. Management at Elecomp believed they spent more on training than they otherwise would have because of the HRDF.

**Conclusion**

MNCs dominate the electronics industry and all four of our vignettes were oversea-
based MNCs. Because of its strategic role in Malaysian economic development, the electronics industry has a special framework of regulation surrounding it that means some companies choose whether or not to label themselves as ‘electronic’ on the basis of whether they wish to be subject to that particular mode of regulation. Hence one of our vignettes called itself ‘electronics’ even though it manufactured cathode ray tubes which might not seem part of the IT-based conventional picture of the electronics industry. One reason for this might have been to avoid unions, even though it felt it had to match the pay and conditions of unionised companies within its group. On the other hand, one electronics company not covered by this study evaded that nomenclature in order to allow its employees to be covered by an industry union, enabling employee dissent to be structured and managed.

Our vignettes are summarised in Table 6. They show some common features that reflect the nature of the industry and/or the non-union status which all of them have. These include high labour turnover, the use of variable bonuses, and the use of contingent pay increments. In only one instance, though, were formal representative structures established as an alternative to union representation. To varying degrees they relied on mass assemblies, ad hoc lunches involving the managing director and rank and file employees, or the HR function itself, to transmit the concerns of employees to management. It is difficult to know how effective these mechanisms are. However, the high level of labour turnover - even though it is costly to employees to change employers and start again on the bottom increment - suggests that none of them have found the formula for consistently satisfying employee requirements and maintaining worker commitment. Work organisation is often Tayloristic - perhaps most so in Elecomp - and this would not be expected to promote employee commitment. In most cases quality circles have been used, though in Elecomp they were aborted, in the face of an obsession with quantity rather than quality, after the particular change agent moved on. Only in Micro have highly automated systems - in which operators may not even see the products they are manipulating - replaced production lines relying on either manual dexterity or heavy labour.

Each of the companies appears to like to see itself as having fairly well developed HR
systems, though Drive recognises that high labour turnover suggests the need for some improvements in some areas and has incorporated public relations into its HR function - not so much to target customers but to target potential and existing employees. It was probably the company most willing to engage in self-examination (or external examination) of its ER practices. By contrast Micro certainly had the most sophisticated HR function, with its focus on HR Development and its HR Consultant structure, but it was also least willing to permit investigation of the employee perspective.

The ideas behind Micro’s HR practices are being disseminated in the industry and the region (even outside the industry), as Micro is quite keen to encourage other firms to emulate its model. However, it does not impose the adoption of any particular ER techniques as a condition on its suppliers in the region. The dissemination of ER ideas is occurring not so much through the imposition of procedures through vendor-purchaser relations as through informal networks and contacts within the region and the industry. Local employer networks also help shape remuneration practices, with employer surveys showing norms in wage increases. Hence Drive, despite facing problems of labour turnover, gave increments that are below what it would have preferred, in order to keep in line with the industry practice. Micro, with its leadership position, did not feel constrained to keep to the industry norm, but even there the increment was less than in previous years due to the weaker labour market.

The degree of influence of the parent companies varies significantly. Two of the four are part of major global corporations. In one of them, Micro, the parent company is clearly responsible for driving the ER policy and other activities in Malaysia. In the other, Nippon Electronics, the parent company’s influence is mainly in the technical and accounting areas. Its ER philosophy is critical in such areas as the ‘no retrenchments’ policy and the approaches to training and morning assemblies, but it has not had much involvement in more day to day ER matters. In our other two vignettes, the parent company has little influence on ER. In Drive, head office would leave the Malaysian operations alone unless they failed to meet standards set in the performance matrix. Drive Malaysia usually achieved its autonomy at the expense of a focus on short-term results.
The perceived influence of government varied. Even though each firm put a strong emphasis on training, two of the four vignette firms indicated that the HRD Fund had probably led them to spend more on training than they otherwise would have. This was probably enhanced at the regional level by the role of the Penang Skills Development Corporation. Micro was more aware of the impact of regulations regarding employment security, which although being ‘pro-employee’ were conceded to have ‘probably made things better’.

Being export-based, the electronics industry was not so much affected by the Malaysian financial crisis as by the vicissitudes of the global electronics industry. Indeed, the main impact of the financial crisis was to change the labour market context within which the industry operated: reducing labour turnover and upward pressure on remuneration. It had very little overall impact on the product market context. Hence there was wide variation in the product market experiences of the four vignette firms, and the labour adjustment mechanisms they had to put in place. One, Micro, was continuing to prosper at the leading edge of the IT sector, and was able to take advantage of lower wage pressures and greater availability of Malaysian labour. Nippon and Drive had experienced downturns in demand, but had managed to avoid redundancies. They had adjusted by insourcing activities that were previously outsourced (in Malaysia or overseas), reducing or not paying variable bonuses, encouraging the use of leave and, in the case of Nippon Electronics, redeploying labour in other companies and making use of time out to train up employees. The Japanese influence on Nippon Electronics’ ER philosophy, and the Malaysian context in which it operated, partially explained why it had never compulsorily retrenched Malaysian employees. Elecomp was in the most vulnerable position of all, and had reduced its workforce by 30 per cent through voluntary separations. Bonuses and overtime had been cut, and employees required to take leave. If it is unable to address the technical challenges now facing it, no amount of government intervention to inhibit unionism or promote skills will protect the jobs there.
<table>
<thead>
<tr>
<th>Ownership</th>
<th>Nippon Electronics</th>
<th>Micro</th>
<th>Drive</th>
<th>Elecomp</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MNC (Japanese)</td>
<td>MNC (US)</td>
<td>MNC (US)</td>
<td>MNC (US)</td>
</tr>
<tr>
<td>Main product</td>
<td>Cathode ray tubes</td>
<td>Key computer component</td>
<td>Drives and disks</td>
<td>Heads for drives</td>
</tr>
<tr>
<td>Size</td>
<td>2000 in NE (one of 20 subsidiaries, with total employment in Malaysia of 30,000)</td>
<td>5500 in Penang (8500 through Malaysia, 65,000 globally)</td>
<td>2700 (5300 globally)</td>
<td>1800 (4000 globally)</td>
</tr>
<tr>
<td>HR/ER function</td>
<td>Centralised within NE head office. Exchange of ideas with other subsidiaries but no common ER policy.</td>
<td>Highly sophisticated ‘Human Resource Development’ approach.</td>
<td>Public relations function included within HR, to target employee recruitment &amp; retention.</td>
<td>Conventional. Attempting to decentralise to lines.</td>
</tr>
<tr>
<td><strong>Government impact</strong></td>
<td>HRDF and other regulation mainly seen as affecting other companies.</td>
<td>Discipline procedure. ‘Has probably made things better’.</td>
<td>HRDF -&gt; increased training. Skills (PSDC). Bumiputera representation.</td>
<td>HRDF -&gt; increased training.</td>
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<tr>
<td><strong>Role in industry</strong></td>
<td>Follows unionised subsidiaries in same group in setting remuneration. Regular meetings with fellow subsidiaries and other Japanese companies.</td>
<td>Leading edge supplier, global market leader. Provide information and training for other companies on ER, HRD etc.</td>
<td>Minor purchaser. Sticks to regional/industry norms -&gt; wage increases currently held down.</td>
<td>Vendor. Recipient of ER ideas through local employer networks. (Purchasers not requiring particular ER practices.)</td>
</tr>
<tr>
<td><strong>Work organisation</strong></td>
<td>Use of quality circles</td>
<td>Highly automated. Quality circles.</td>
<td>Tayloristic (for operators). Some cross-training to enable mobility. Moving towards JIT.</td>
<td>Very Tayloristic. Quality circles aborted. Resistance to change. No JIT.</td>
</tr>
<tr>
<td><strong>Labour-management relations</strong></td>
<td>High labor turnover (5%/month) before recession (though lower than competitors). Now under 1-2%.</td>
<td>High labour turnover (3-5%) before recession. But seen as attractive employer.</td>
<td>High labour turnover: 6% Jan 98, falling to 3% Jan 99. Wants to be an attractive employer in industry. Problems with performance appraisal.</td>
<td>High labour turnover: from 4-5% pre-recession to 2-2.5% now. Problems with performance appraisal, supervisors.</td>
</tr>
<tr>
<td>Compensation</td>
<td>Increment (individual based); contractual bonus (2 months); 1 variable bonus (profit-based). Aim to increase flexibility.</td>
<td>Starting wage RM490 + RM 160 allowances. Increment (individual and market); contractual bonus (6 weeks); 2 variable bonuses (profit, individual, work area: quality, rejects, attitudes); stock option plan.</td>
<td>Starting wage RM470. Increment (individual and market); contractual bonus (1 month); 4 variable bonuses (company profit; site performance - quality, timeliness, cost; ad hoc).</td>
<td>Starting wage RM450. Increment (individual); 2 variable bonuses (productivity, profit).</td>
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<tr>
<td>Profit environment</td>
<td>Fall in demand (mostly exported).</td>
<td>Decline in Asian market, but growing globally. Minimal impact from financial crisis.</td>
<td>Falling sales due to global market changes, though Malaysian plant is more profitable than others.</td>
<td>Global fall in demand, not directly due to financial crisis. Facing crisis of technology - future uncertain.</td>
</tr>
<tr>
<td>Employment levels/ changes</td>
<td>Falling slowly through attrition.</td>
<td>Major expansion in Malaysia.</td>
<td>Falling slowly through attrition.</td>
<td>Falling significantly.</td>
</tr>
<tr>
<td>Labour adjustment mechanisms</td>
<td>No retrenchments. Insourcing. Increase training time. No payment on variable bonus. Redeploy labour between companies.</td>
<td>Reduced increments due to slower market growth - still higher increase than industry. Reducing use of foreign workers as locals become available.</td>
<td>No retrenchments. Insourcing (work formerly done in Philippines). Reduced increments. Reduced bonus. Encourage use of leave.</td>
<td>800 layoffs (30%) through voluntary separation. Major cut in overtime. Reduce working days per week. Reduced bonus. Compulsory leave.</td>
</tr>
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</table>
HOTELS

The hotel industry has been experiencing rapid growth leading to oversupply of rooms. Between 1992 and 1995 the number of hotels (defined as having 10 rooms or above and excluding service apartments and condominiums) grew from 989 to 1253, and the number of rooms from 45,000 to 95,000. Growth was concentrated in large hotels, with pre-1992 hotels having an average capacity of 46 rooms but the figures implying those built in the 1992-95 period had an average of 188 rooms (the actual figure would be a bit lower because of the expansion of existing hotels). Employment in the hotel industry grew from 40,000 in 1992 to 69,000 in 1995 (Malaysia 1996:505).

The sector grew at a frenetic rate after 1995, partly in anticipation of the 1998 Commonwealth Games. The Seventh Malaysia Plan projected further growth to 1340 hotels with 139,000 rooms - implying new hotels would have an average of about 500 rooms. In fact, actual growth in the industry up until the financial crisis was triple the projected rate. By 1997 there were 1365 hotels, already exceeding the 2000 target. This growth in rooms coincided with a 13 per cent drop in in-bound tourism in 1997 as a result of the smoke haze problem from bushfires in Indonesia. Tour operators (and hence hotels dependent on them) with domestic markets were even more affected by the recession. Hence the National Economic Recovery Plan noted an oversupply of hotel rooms, especially in the Klang Valley. The Plan recommended ‘in view of the glut in hotel accommodation’ that new projects for hotel developments be rejected, and that ‘flexibility should be given for the conversion of hotels into apartments based on market demand and supply conditions’ (NEAC 1998:198-203).

Occupancy rates had already fallen slightly between 1992 and 1995, from 73 per cent to 68 per cent (Malaysia 1996:505). In the first half of 1997 they dropped to 58 per cent and in the first half of 1998 they were 50 per cent (Ministry of Finance 1998:91). These falls prompted a price war in which each hotel tried to stem further declines in occupancy. The price falls have stabilised but occupancy rates have not yet started to recover towards pre-recession levels.
Although hotel employees rarely take strike action, employers were susceptible to other forms of action such as picketing because of the great damage that could be done to a hotel’s image. With the drop in occupancy rates (in some regions to as low as 10 per cent) some employers are no longer as put off by the prospect of pickets or even strikes damaging their reputation as they are by the need for survival. That said, the hotels we visited showed no signs of imminent closure.

In the hotel industry, unlike secondary industries, production coincides with consumption - that is, customers consume the services generated by hotels as they are produced, whereas in manufacturing consumption occurs much later than production. This gives a particular imperative to maintaining a high level of employee satisfaction and commitment to the job, as the effects of poor performance cannot be weeded out at a quality control stage before they affect a customer’s utility.

Until recently, however, training has been a very low priority. Few colleges have offered vocational training for the hospitality industry. The hosting of major events, such as CHOGM in 1989, was the impetus for the first moves in this area, but it was not until 1995 that the Government extended the three year old HRDF to the industry, though it had established in 1992 the National Tourism Human Resource Development Council to coordinate planning and development of human resources within the tourism sector as a whole. This Council has, along with the National Vocational Training Council, begun the development of national occupational skills standards for the hotel industry in areas such as reservations and food and beverage services (Malaysia 1996:509). However, many areas have had no attention given to standards (such as the weight of mattresses or whether they should have handles). An apprenticeship scheme has been established under the auspices of the Human Resource Development Council, but participation is low. In the last five years Malaysian universities have been offering degrees in human resources. In these respects also then, there are significant differences between hospitality and manufacturing.

Overall, HR has not traditionally enjoyed high status within the hospitality industry, but its importance is now increasing. Historically the HR function has been quite
simple, as the tasks undertaken in hotels (making up rooms etc) were simple. Now there are higher service customer demands. There is growing impetus for multi-skilling, led by the Xanadu chain discussed below. Other hotels may be waiting to see what develops in Xanadu.

Most large hotels in the main urban areas are unionised. Although there are a small number of in-house unions (two in Kuala Lumpur, including in one of the vignettes) most hotels are covered by the industry union, the National Union of Hotel, Bar and Restaurant Employees. A third KL hotel previously had an IHU but it has now joined with the national union. In hotels with an industry union, the service charge income that employees receive is shaped by the unions through CAs, though it does not apply a standard formula across all properties.

Many hotels belong to the Malaysian Employers Federation, which deals with industrial relations and HR issues. There is no industry-specific forum for HR directors. Regionally based organisations such as the Penang International Hoteliers Association and the Malaysian Hotels Association (based around Kuala Lumpur) provide forums for general managers.

Regional attributes appear to influence industrial relations patterns. One respondent characterised differences between the Kuala Lumpur and Penang regions in this way: greater union militancy in Penang reflects the greater time that people there have to devote to union activities compared to the time spent in traffic in Kuala Lumpur. We had insufficient information to verify this (though we saw little to refute it) but it stands in stark contrast to the situation in the electronics-dominated Penang Free Industry Zone which is heavily non-union.

**Vignette 1: Fourstar Hotel**

Fourstar Hotel is owned by a very large Malaysian conglomerate with diversified interests. The group owns three hotels in Malaysia, five in Australia and a chain of hotels in the United Kingdom. Fourstar is approximately 15 years old and in recent times has lost market share partly as a consequence of the economic climate and
partly due to the oversupply of hotels in Kuala Lumpur. With the economic downturn there are fewer business people travelling to KL from overseas and some companies are choosing to send employees to cheaper accommodation. In addition, Fourstar has lost corporate clients to new hotels. All in all, Fourstar is operating well below capacity with management estimating that it had lost at least 40 per cent of its market. Revenue has decreased by an even larger percentage as, like many of the other hotels, Fourstar has attempted to attract business by reducing its room rate and food prices. Nor was management optimistic about the future as they expect that even if the economy improves substantially there will still be an oversupply of rooms.

Employment relations at Fourstar
Fourstar currently has 270 employees, including 20-30 casual part-time staff, having declined from a pre-recession high of 400. Only two staff have been retrenched during the economic crisis, the hotel preferring to rely on staff turnover to reduce their numbers. (When the car park was closed the two attendants chose not to be relocated to other duties within the hotel.) The hotel contracts out very little of its work only using contractors in the air conditioning and maintenance area due to the difficulty encountered in recruiting a suitably qualified technician.

The ethnic composition of the workforce is 50 per cent Bumiputera, 33 per cent Chinese, 14 per cent Indian and 3 per cent others. The only foreign labour employed by Fourstar was three Filipino women formerly in housekeeping. The HR Manager indicated that they had preferred not to be reliant upon large numbers of foreign workers and had previously managed to fill vacancies through “friends of friends”, newspaper advertisements and agency referrals.

The workforce is 46 per cent female, and there is a similar proportion within the management ranks. Women managers are predominant not only in the more traditional sections such as HR and housekeeping but also in financial management positions. There is the traditional gender divide with housekeeping being all women, the kitchen staff being virtually all men, and the drinks waitresses in the lounge being all young women because their customers “like to look at pretty girl”.
Labour productivity is considered only in terms of costs. Currently labour costs represent 35-40 per cent of revenue. The hotel is presently operating at a loss. In an attempt to increase productivity HR has set multiskilling as a goal. Multiskilling has progressed some way: administrative staff assist housekeeping when the latter is short-staffed and reception staff assist with telephone operator duties.

The group has a corporate plan including a section on HR. While there is a corporate HR manager, Fourstar’s HR section operates with a high degree of autonomy. Currently the principal concern of the corporate HR manager is to minimise costs. Similarly the Fourstar’s HR Manager’s goals are to lower costs and increase multiskilling. There is no defined corporate culture within either the hotel or the broader conglomerate.

The HR function is centralised within Fourstar. Whilst some department managers (for example, within the kitchen) exercise quite a lot of influence over selection of employees and training, the administration and policymaking of HR/IR remains within the HR section. Fourstar is a member of the Malaysian Employers’ Federation and the HR staff make use of their library, consult them from time to time and use their expertise when dismissal cases are taken to Court.

Fourstar is not benchmarking its performance against that of other hotels or companies within the group nor with hotels outside of the group. Nor has it chosen to implement management systems such as TQM, JIT or QCs.

Although Fourstar has frozen most recruitment in response to the downturn in business, HR is maintaining lists of prospective employees who are referred to them. The HR Manager commented that they could now ‘pick and choose’ when recruiting compared with the very difficult labour market situation prior to the economic downturn. Training is not accorded as high a priority as in some of the other hotels. Fourstar has a comparatively low training budget and decided recently to not replace the Training Manager who had been relocated to another position. The HRD fund is viewed, not surprisingly, by HR management as a financial burden, though they did acknowledge its role in enforcing training. All new recruits receive a half-day
induction program. Apart from this most of the training is conducted by external trainers and is skills related, for example telephone courtesy, sales skills, handling guest complaints and OHS. The performance of all employees is assessed formally in an open appraisal system and, for those employees not covered by the collective agreement, the annual increment is related to their performance appraisal. In addition, there is a merit-based bonus for outstanding performance that is paid to approximately 20 per cent of employees.

Wages and conditions for the majority of the staff are determined by the collective agreement. The most recent collective agreement expired in June 1998 and was extended, rather than renegotiated, for one year. Under the terms of the agreement all employees other than clerical work a 48 hour week; clerical employees work a 44 hour week although their hours were recently extended to 48 within the context of increasing individual productivity during the economic crisis.

Wages are influenced quite substantially by the hotel’s economic performance. Firstly, unlike in many collective agreements, the annual bonus is at the discretion of management. Consequently no bonus was paid in 1998 where previously a two month bonus had become the norm. Perhaps more significant is the service charge component of pay. For those at the lower levels this can be equivalent to more than half of their wages. The service charge collected by the hotel is divided between employees on a points basis with each employee allocated between two to five points depending on seniority and length of service. During the economic boom times one point had been worth approximately RM 170-180 per month whereas during the recession it has declined to around RM 130. It is this component of the pay which becomes the main wage differential between hotels with employees in the top five star hotels earning more because the hotel’s higher charges result in a larger service charge pool to be allocated.

Fourstar has an in-house union and approximately 60-65 per cent of those employees who are eligible to belong do so, that is about 40-45 per cent of all staff. (The collective agreement lists 83 positions as being ineligible for union membership, a substantial number but seemingly not unusual for the industry.) Fourstar’s union was
the first IHU created in the hotel industry. In the early 1980s when the hotel was being established management decided that it would be easier to bargain with an IHU and so sought to have one formed.

Management neither encourages nor discourages membership of the IHU. Union delegates approach new employees personally. The monthly subscription has been RM 2. The HR staff viewed the union as “very co-operative”, willing to accept management’s point of view as well as being the source of some useful ideas to improve the hotel’s operation. The union delegates confirmed this description of their relationship with management claiming that they certainly trusted management and that the issue of how to increase Fourstar’s business was currently a “hot issue” among members. The union’s acceptance of management’s request to extend the collective agreement rather than attempt to negotiate an increase in wages also partly reflects the relationship between management and the union.

The union delegates meet with management representatives once a month. The most commonly discussed issues in recent times have been staff meals and how to increase Fourstar’s business. The union has minimal dealings with other unionists outside the hotel and the location of their office within the hotel helps to confine their focus to the immediate workplace. No training is provided by the union for its delegates or members.

The union has become perhaps the main communication vehicle between management and the workforce. Apart from this, communication takes place within individual section meetings and via general memos and the notice board.

There have been no overt forms of industrial conflict at Fourstar. Grievance procedures for individual concerns are set out in the collective agreement. Turnover has declined from a high of six per cent per month in 1996 to two per cent in 1999, reflecting the labour market rather than any changes in levels of conflict or worker satisfaction. The general perception was that those employees who had chosen to remain in Fourstar’s employ for a long period felt a ‘sense of belonging’ within the
hotel and that they operated within a comparatively friendly unpressured work environment. In the main, those who left were said to be seeking higher wages.

With regard to OHS, Fourstar has an active safety committee which meets bimonthly and conducts periodic safety check walks around the hotel. Both HR and the union delegates view the hotel as a safe workplace and reported that there had been no major accidents and nor were there any major issues pending. The most frequent site for accidents was in the kitchen where incidents such as cuts and falls occurred, according to the HR management, “due to carelessness”.

Management perceived the State as exercising quite a degree of influence over their business environment in terms of encouraging the development of so many new hotels. In addition, the State’s role in promoting Malaysia as the host for international events such as the Commonwealth Games was also seen as critical.

**Vignette 2: Fivestar Klang**

Fivestar Hotel is located in an urban area near Kuala Lumpur. It is part of the multinational Fivestar Chain, based in the US. There are six Fivestar properties in Malaysia, which between them employee over 1500 full-time employees.

The Fivestar Hotel is managed by the Fivestar Global Chain but it is owned by a local company which also owns or co-owns four of the five other Fivestar properties in Malaysia. The head office of the Malaysian Fivestar group is located in Kuala Lumpur itself. The Asia-Pacific head office is in Singapore. The sales strategy is described as being that every guest should have a pleasant time and want to come back.

Fivestar has been seriously affected by the financial crisis. Corporate travel, meetings and dinners have been severely cut back. Revenue fell by about 50 per cent, resulting from a drop in occupancy rates of about a quarter and a drop in prices of about one third that arose from price wars.
Fivestar has 320 full-time employees and 50 casuals. The average age is 25-30 years. The majority of the workforce is bumiputera.

*Employment relations at Fivestar*

In terms of staffing, Fivestar has a ‘lean’ operation which relies on ‘cross-exposure’ or multiskilling to cover occasional staff shortages. As examples: food and beverage staff are able to do bell services; front office staff can work in banqueting; account staff are trained in waiting; HR staff are trained in aspects of room cleaning; and the HR Director is able to undertake room supervision if necessary. This is something which, internationally, the Fivestar chain has in theory at least had in place for a long time, but which was not evident in Malaysian Fivestar properties until the financial crisis. Its application varies substantially between properties. For example, it is not practiced at Fivestar Penang.

Procedures and standards for every department are set by the Fivestar Guest Service Standard (FSGS). This goes to a high level of detail, such as how to serve tea and how to fold napkins. Four levels of certification against the FSGS are available, with the expectation that employees will attain level 4 after about two years. The HR Director considers that Fivestar Klang is one of the top spending hotels in relation to training.

Fivestar Klang employees are covered by the industry union, with union density at about 50 per cent amongst eligible employees. Density has not changed since the financial crisis. The HR Director describes the relationship with the union as being very good, with a high level of communication and mutual respect. (This is contrasted with the relationship in Fivestar Penang, which is described as being more ‘calculating’ and influenced by personality differences, and where agreements take longer to be reached.)

Pay and conditions are governed by a collective agreement (CA). Remuneration is composed of:
• base pay which starts at RM 350 plus increments;
• a contractual bonus of one month’s pay;
• various benefits such as marriage leave.

There are no other bonuses for non-managerial employees. Managers usually received a one month fixed bonus and a variable bonus worth up to three months salary.

The three year old CA only specifies RM 300 as the starting salary, but Fivestar is paying RM 350 for new starters as this is what the market was demanding. When it is negotiated, the next CA could be expected to contain rises in minimum starting salaries - for one thing, management would like to formalise practice - but it is uncertain how much actual starting salaries will rise. Some standardisation of benefits might also be expected: marriage leave is presently six days for most employees but only four days for managers, and if the rate was standardised at the (lower) managers’ entitlement this might be offset by something like the introduction of leave for the marriage of children.

When FSGS was designed it was intended that it be linked to pay. However, this is not practiced at Fivestar Klang. Instead, annual pay rises for Fivestar Klang employees are governed by the increment scale that is set out in the CA. The HR Director sees the inability to ‘give good employees higher pay’ as being a disadvantage of having a unionised company. Yet Fivestar Klang has no desire to introduce performance-related pay, due to experience elsewhere with this payment system. Another company in the ownership group introduced a performance bonus in combination with a contractual bonus which led to some employees receiving more and some receiving less than under the previous system. The consequence was substantial resentment, manifested in responses that went as far as sabotage and heated meetings in which chairs were broken. The company dropped performance-related pay and Fivestar Klang is not keen to work out how to run it better. Fivestar Klang management would like to introduce performance appraisal for non-managerial staff but without the link to pay.
Fivestar prefers to reward its employees through other mechanisms: promotion and formal recognition. The latter occurs at quarterly tea parties, attended by the GM, where a presentation is made to the top performing employees. Over the three months preceding this, comment cards have been given to all hotel guests and each day these comment cards have been examined. Results, tabulated at the end of a week, are put in a bulletin and used to select, on a quarterly basis, the ‘manager of the quarter’ and six ‘employees of the quarter’. Their photographs then adorn the walls for the next three months.

Communication with employees also takes place through a bulletin board, and through a hierarchy of meetings associated with the daily briefings. There is no joint consultative committee in place but management is considering establishing one to improve communication flows.

Workplace performance, including labour productivity, is gauged through a set of measures known as OP10, which has been used in a number of Fivestar properties worldwide for many years. This provides a mechanism for benchmarking against local and overseas performance but at the time of the interviews the Fivestar Klang was the only hotel in the Malaysian group implementing it and is not looking at any comparators. Eventually all six Fivestar properties in Malaysia will use it. OP10 encompasses measures such as revenue per month, room occupancy, staff per cover, and revenue per employee.

The HR function does not have a role in developing corporate strategy and does not get heavily involved in the operational side of the hotel. However, the HR Director is involved in daily morning briefing meetings with the GM and other Directors and departmental heads. Once a month HR is also involved in meetings of ‘excom’, comprising the GM and five other senior directors.

There does not appear to be a huge effort put into promoting a corporate culture amongst all employees. It appeared, though, that there were some changes underway regarding the culture of senior management within the Fivestar chain. Previously, a
visit by the CEO of the chain would have led to special banners, flowers and other
accoutrements. The new CEO, in place for about a year, has a more ‘simple’ style
which discourages such extravagances. This is in better tempo with the more austere
and realistic approaches to planning and management that are being taken generally
within Fivestar Klang. Previously, planning and budgets were based around targets
that were set so high they were not achievable. More recently, performance targets
are set at realistic levels on which managers’ bonuses are dependent.

The response to the financial crisis and the accompanying severe fall in revenue has
been to put the greatest burden of adjustment on senior management. No
retrenchments or voluntary redundancies have taken place. At one stage it was
thought that this would occur but the owner of the hotel (not the Fivestar
management) decided against it. It appears that he did not wish to wear the odium of
retrenchments. Management tried to negotiate some pay cuts but this was
successfully resisted by the union. Employees have instead faced three types of
adjustment costs.

First, no new CA has been negotiated, even though one was due at the start of the
year. Neither the union nor management wished to open negotiations.

Second, payment of the contractual bonus has been staggered. The full bonus was
due to be paid in January, in time for the festival season. Instead, 50 per cent was
paid in January, 25 per cent in March and 25 per cent in April.

Third, the employer contribution to the Employee Provident Fund, previously 15 per
cent, has been cut to the statutory minimum level of 12 per cent.

A much heavier burden has been placed on management employees, who have all
experienced pay cuts. These pay cuts were differentiated according to pay levels,
such that managers on pay bands of:

- RM 1500-3000 received a 3 per cent cut;
- RM 3000-7000 received a 6 per cent cut;
• RM 7000-10000 received a 10 per cent pay cut.

In total some 80 Fivestar employees were affected by these cuts. Interestingly, these cuts were accepted without question by all but one of the managers concerned, and some said they had expected worse, given that cuts of 15 to 25 per cent had been common in other hotels and in some cases they had reached 50 per cent.

Managers also received no bonus, whereas in previous years these had been worth one to four months salary. In recognition of these sacrifices, administrative employees are being asked to only work one Saturday a month, instead of the previous four.

Several activities have been contracted out, including elements of public area cleaning, engineering and banqueting. These outsourcing arrangements were developed during labour shortages but are now proving expensive. It is expected that outsourcing will be phased out.

With no retrenchments despite the crisis, there is strong pressure to be much tougher on non-performers. Some 15 employees have been dismissed in the past year, including the ‘queen of absenteeism’ and the ‘king of absenteeism’. This is seen by HR as reflecting a change in managerial approach, rather than a change in the labour market, but it is difficult to see the latter as having no influence on this trend. Labour turnover has fallen by over half, to the present level of about 5-6 per cent in a year.

The influence of government is mainly seen as being through the HRD levy, which forces the hotel to actively look at its training activities. Although it creates an imposition on the company, it is seen as a good idea by the HR Director, because of the large number of companies that would not spend anything on training in the absence of the levy.

**Vignette 3: Resort Hotel**
Resort Hotel is a leading hotel in Malaysia. It has 514 rooms and was built about 25 years ago. It is located on a waterfront property in a tourist stronghold, and has a book value of $US440 million. It is a member of the Xanadu chain which in turn is part of a Large Conglomerate which includes other industries such as sugar, insurance and supermarkets. There are 38 other hotels in the Xanadu chain in eleven countries in the Asia-Pacific region.

Decision making within the Large Conglomerate is decentralised. There is no significant interaction between divisions in the Large Conglomerate organisation, except when occasional senior personnel moves take place (for example, the chair of one division may be shifted into another division).

Within the Xanadu chain, hotels in Malaysia (six properties), Thailand (one) and Myanmar (one) constitute the regional division. Each regional division has a Vice President (Operations). Even with Xanadu there is a significant amount of decentralisation; for example, different properties use different consultants for the same purpose.

Resort relies heavily on overseas guests and repeat guests, who are encouraged by ‘golden circle’ loyalty program. Between 90 and 95 per cent of its guests are foreign nationals, with the largest share coming from the US and UK. Local guests are usually leading political or corporate figures.

Reflecting its clientele, and unlike our other hotels, Resort has not been hit hard by the financial crisis. Indeed, occupancy rates have increased as the fall in the RM makes Malaysia a more attractive location than previously and enables foreign guests to stay longer. The property is very effectively marketed and is sometimes overbooked, leading to guests being ‘farmed out’ to other hotels in the vicinity. Management at Resort is looking at increasing room charges, as under current management its reference points for comparing charges is shifting from other Malaysian hotels to other luxury hotels in the region (eg in Phuket).
Some 700 full-time employees work at Resort. It is a long tenured workforce, with half of employees having at least ten years of service with the firm. There are also about 200 casual staff. However, it is not considered a high quality workforce by management, as many people who are attracted to work in hotels are people who were unable to get jobs elsewhere and who therefore have low educational qualifications.

*Employment relations at Resort Hotel*

Each property in Xanadu has a Human Resource Director. Each HR Director reports to the Regional Director of Human Resources who has oversight of these eight properties. Each Regional Director of HR reports to the General Manager of Xanadu.

The Regional Director HR visits a property if there is some major problem or issue, such as a labour dispute, restructuring, or new performance appraisal scheme. Otherwise, the Regional Director HR’s influence is limited.

There has been a fairly consistent turnover of General Managers at Resort. The current Resort General Manager came to the organisation through Club Med, having worked his way up from activity instructor. Like the GMs of most hotels in the region and in Kuala Lumpur, he is an expatriate.

HR Directors in Xanadu have mostly started their careers amongst the rank and file, as cooks, pool attendants or the like. However, at Xanadu, especially in Resort Hotel, HR sees itself as moving towards taking the role of a ‘strategic partner’ in the organisation. This move appears, however, to be in its formative stages, with a perception within HR that people issues are given a lower priority by top management than financial matters. For some parts of the organisation, the extent of ‘partnership’ is seen as wanting HR to do something about problems of discipline and absenteeism. However, HR sees a more proactive role for itself, engaged in identifying the training and systems needs of the organisation.

In that context, HR wants to replace performance appraisals - which have tended to be closed, that is not actively involving the employee being appraised - with
‘performance development’. The term is intended to put the emphasis on providing feedback to employees to enable them to gain promotion and better careers. HR has run performance development workshops for supervisors. Problems of communication are perceived as involving both inadequate feedback from supervisors to employees and difficulty in encouraging subordinates to speak up to their superiors. This is something which Malaysian employees generally are often reluctant to do and which reflects the characteristics of Malaysian culture. They also appear reluctant to criticise management to researchers.

In a ‘control’ environment (Walton 1985) this communication issue would not be seen as a problem. However, Resort now sees itself as trying to develop a participative management style. Employee input into decision making is greatly limited when many employees are reluctant to speak their mind. To date it does not appear that this cultural conflict has been successfully addressed.

Communication from management to employees is handled simply, through notice boards and meetings. There is little emphasis on written documents, and much emphasis on pictorial presentations, reflecting the literacy levels of the workforce. There are also property-wide meetings held at least every six months, at which the GM addresses that half of the staff who are able to attend and explains the business situation, market expectations, areas in which improvements could be made, and where the hotel has done well. Whether these are pitched at a level most employees can understand is another matter - HR considers that most employees are more concerned with such matters as why their leave was not approved or whether their supervisor was being rude than with interpreting the GM’s vision.

The HR function is involved in many traditional HR activities, such as recruitment, dismissal, training, compensation and benefits, and performance appraisal. Approximately 2 per cent of the payroll is spent on training, and it involves the average employee for 20 to 25 hours per year. Training includes a knowledge-based induction period and on the job training in areas such as ‘upselling’ (especially in food and beverages), wine service, dealing with difficult guests, dealing with Japanese guests, and, for supervisors, discipline, counselling, grievance procedures,
performance review and recruitment. There is also environmental training associated with ISO14001 (Resort claims to be the only Malaysian hotel with this certification) and dealing with issues such as chemicals, safety and recycling. Our main informant considered, however, that training could only address the 15 per cent of problems that are people-related - the remaining 85 per cent are seen as being systems-related. For example, training in interpersonal skills will be of limited impact unless the nature of the relationship between employee and supervisor is also addressed.

The main theme of Xanadu’s vision concerns quality assurance. Here Xanadu is reliant on feedback from selected customers. A sample of customers is selected from a database and given a simple questionnaire which amongst other things enables numerical ratings to be calculated. Resort aims to secure an average score of 8.8 out of 10, based on about 450 responses, through this rating system. This is a benchmark that a number of other hotels outside the chain are also seeking to reach. Analysis is undertaken in head office, and the results fed back to each property. So far Resort has not achieved this - having reached 8.6 in 1997 but falling to 8.4 in 1998. The qualitative and numerical feedback is used to set a number of directives, in areas such as training and discipline. However, there is no separate mechanism in place to evaluate the effectiveness of the implementation of changes arising from this mechanism.

In the past five years HR has undertaken three major staff surveys aimed at measuring acceptance of the organisation’s core values. HR also facilitates focus groups aimed at generating action plans for key areas.

Because of the simultaneity of production and consumption, and the focus on quality, there is some emphasis at Resort on employee recognition and reward. Staff recognition events are held quarterly, and employees are shown appreciation when they ‘delight’ customers. Emphasis is given to the development of ‘soft’ skills (how to please customers, how to diffuse a complaint) rather than ‘hard’ (technical) skills.

Like all other major hotels in the district, Resort is unionised. Over 95 per cent of non-exempt employees are members of the union. Management believes that most
people join the union for protection in case they get into trouble, for example as part of a discipline or dismissal procedure. The union is part of the industry union, though it acts with a considerable degree of autonomy. Management thinks of it as an in-house union, even though it also deals with the national office. Of the six Malaysian properties, four (in Penang and Kuala Lumpur) are unionised, two in Sabah are non-union. Xanadu employees account for four of the seven members of the national executive. Accordingly, the union uses Xanadu - in KL and at Resort Hotel - as the benchmark when negotiating collective agreements. Resort tends to have the highest wages.

Management meets monthly with the local union delegates, and typically discuss such matters as grievances, disciplinary issues and shift changes. It meets with the national union three or four times a year, but speaks more often on the phone.

Resort is covered by a collective agreement (CA). The national office of the union plays an important part in negotiating the CA. The regional director of HR sits in on CA negotiations in Xanadu. Hence there is a substantial degree of similarity in the CAs across the Xanadu sites.

Remuneration is composed as follows:

- base rate of pay, which starts at RM 350 per month and follows an incremental scale. The increments provide annual rises of 4 to 6 per cent;
- service charge. Employees receive ‘service charge points’ based on tenure and position. In essence one year of service is worth one point. These points determine their entitlement to a share of the service charge. For example, if an employee had 3 service charge points and the sum of all employees’ service charge points in the ‘pool’ was 600, then that employee would be entitled to 0.5 per cent of the total service charge revenue;
- overtime (at a higher rate than the industry norm) and allowances;
- contractual bonus of one month’s pay;
- a bonus based on gross operating profit, which ranges up to two months. In 1998 this bonus was worth 0.5 months’ pay for non-managerial employees (it is worth double these amounts for executives).
The latest CA (negotiated in 1997) provided for wage rates 8 per cent higher than under the previous CA. The structure of the service charge points is set out in the CA and is in effect determined by the union. Casual employees are not entitled to share in the service charge or other non-salary benefits; instead they receive a loading of 7 to 8 per cent.

HR Management believes it works as a ‘team’ with the union. It believes that involving the union at a fairly early stage of the change process, explaining what it wants to do and why, helps get the union onside. The union’s role in persuading its members of the merits of a particular proposal minimises resistance to change.

The HR Department is considering ways of improving productivity amongst employees. HR believes that supervisors may overstate their labour requirements in particular areas - for example by saying that ten people are needed to do a task that could really be performed by eight - and is seeking to apply more ‘scientific’ approaches to staffing. However, it is difficult to do this in the absence of standards relevant to the industry. The challenge is to do this without ‘overworking’ staff. This is particularly important because of the simultaneity of production and consumption, so short cuts or employee disaffection can quickly translate into customer disaffection.

There is very little scope for improving productivity through technological improvements. The focus instead is on reducing idle time, through increasing multiskilling, cross-training and mobility amongst employees. However, the national office of the union, and the local union, are both seen as being opposed to multiskilling. This reflects the resistance of employees and the union’s fear of setting a precedent. Although some employees already do it on an informal basis, they do not want this to be regularised through job descriptions. It is not clear how successful the company will be in seeking to introduce multiskilling.

HR also would like to develop self-empowered work teams, something which is presently notable for its absence in the industry. HR plans to involve the union in this
project, but only after having identified a strategic area where it can be piloted and obtaining the consent of employees in that area.

The Assistant HR Director is engaged in a project which seeks to identify productivity and performance targets for different work areas, based primarily on observation of work processes. Target improvements of 5 to 20 per cent are being set, depending upon the degree of staff ‘idleness’ observed. The challenge as seen by this manager is to persuade supervisors of the merits of this review and the changes that may be proposed. It may involve looking at whole processes - including whether management has the tools it needs to undertake such functions as devising rosters and administering leave.

A devolutionary reorganisation of the HR function is being mooted, derived from the HR Development model developed at Micro. If the reorganisation is implemented the Assistant HR Directors would become HR managers in particular functional divisions (food and beverages, rooms) and therefore be more actively involved in operational decisions.

Management perceives that there is a problem with absenteeism arising from a culture in which employees feel they are entitled to use up their medical leave entitlements, assisted by cooperative medical practitioners. The problem is seen as residing in part with supervisors, whom HR is trying to persuade to refer absentees to HR.

One of the major recent changes affecting employees has been an increasing emphasis on discipline. In 1998 there were 68 discipline cases; the figures for the year to date suggest the rate of cases has nearly trebled. More emphasis is being placed by HR on giving ‘letters of advice’ to employees as a way of dealing with discipline cases.

As elsewhere, labour turnover is lower than in previous years. Some 10 per cent of staff had left in the previous three months. Detailed analyses of departures by HR indicates the most common reason for leaving is to take a job in a MNC manufacturer in the free trade zone, rather than to work in another hotel. Many also leave for personal reasons, such as study. Study assistance used to be provided to employees
but this was terminated because of its cost. Assistance is still provided to some individuals but on a case-by-case basis. Each year several employees in the Xanadu chain are sent to the US to study a Certificate in Business Administration with a major in Hotel Administration.

Resort hotel is influenced by developments in MNCs through three mechanisms. First, and most importantly, there are linkages through its own MNC structure, though as mentioned above there is a moderately high degree of devolution of authority. Second, it is influenced by developments amongst MNCs in its region - for example, the Micro HRD Manager model has influenced plans for the restructuring of HR in Resort, even though it operates in an wholly different industry. This does not, however, appear to reflect the operation of formal regional mechanisms so much as informal and vague networks of influence. Third, there are influences from the large MNC customer base that Resort has. The GM of Resort may meet with a visiting VIP from another MNC and talk about how they do things. Course materials from MNC conferences may be obtained. International HR conferences are held at Resort, and there are spillovers from these.

Government is seen as having influenced HR at Resort in three ways. First, the HRD levy has required a certain amount of resources be devoted to training. Second, regulations regarding dismissal have encouraged the development of better in-house discipline procedures. The role of government is seen as being very pro-worker. Before disciplining a worker, HR at Resort takes what it sees as a proactive role in considering how the Labour Department and the Industrial Court would interpret its actions. This means that attention is given to identifying and remediing training and other deficiencies as well as establishing proper in-house ‘domestic inquiries’ to deal with discipline cases. Third, government encouragement of apprenticeships in the hospitality industry has improved the availability of training. This is seen as important in the light of the low qualifications of the workforce. In other respects, however, the government is seen as being of little assistance - for example, in the setting of standards for the industry, the development of multiskilling and the development of strategic alliances between government agencies and the industry.
Conclusion

The hotel industry vignettes showed partial effects of globalisation and varied impacts from the financial crisis (see Table 4.4). On the former, it was apparent that each of the hotels was influenced to some degree by its parent company (in two cases, an overseas MNC) but each maintained a fairly high degree of autonomy. In one case, not unlike what we have observed in some other industries, the parent chain required its hotels to meet global service standards but did not get heavily involved in HR or other aspects of implementation. In two others there was a corporate/regional HR office but its involvement in HR matters was episodic, depending on whether there were critical issues needing resolution. There were signs of moves towards functional flexibility through multiskilling in all the vignette hotels but it had been completed in none, with Fivestar having gone the furthest in this regard. Resort, as mentioned below, was showing signs of absorbing and implementing new HR ideas with overseas origins.

The HR function had a central role in none of the vignettes, but its importance was increasing and it was seeking a strategic function in Resort. Indeed, Resort showed the way MNCs influence national practices through informal networks: Resort’s HR function was attempting to model itself on the highly sophisticated setup at Micro Company in the electronics sector, geographically close but industrially a world apart. It will be interesting to see how far this progresses, given also that Micro is a nonunion factory in a nonunion company while Resort is a heavily unionised hotel in a heavily unionised chain. While regional linkages are important, it is also clear that the nonunion ethos of the electronics industry that dominates the free industrial zone has not prevented activist unionism elsewhere in the state. Still, we do not assume that new hotels setting up in the area nowadays would be unable to stifle the development of unionism through mimicking the practices of their electronics counterparts. Training was treated unevenly between the hotels, with the overseas-based MNC hotels giving it the highest priority, but it was clear that the HRDF had had a significant impact in boosting training in an industry which had afforded it low priority in the past. Views concerning the role of government in encouraging the expansion of the hotel industry were not as complimentary.
The differential impact of the financial crisis was very evident in hotels. Occupancy rates varied from 95 per cent to under 10 per cent (about 50 per cent in two of our vignettes), reflecting the way hotels targeted at the international luxury resort market had been able to sidestep - and even benefit from - the depreciation of the ringgit while the majority of the industry were being decimated by the combination of falling domestic demand, price wars and a supply glut, especially in the Klang Valley. Responses to the financial crisis varied between the two Klang Valley hotels we studied. In the hotel with a seemingly ineffectual IHU all employees lost their bonus in 1998, whereas in the hotel with an industry union the sacrifices were concentrated amongst managerial employees, who experienced pay cuts that became disproportionately higher as salary rose. There unionised employees retained their contractual bonus while managerial employees received nil through their variable bonus. There were similarities as well as differences in their responses. In both cases the CA was extended rather than renegotiated, though of course employees received their increments. In the Malaysian-owned hotel with an IHU there were just two retrenchments, while the hotel with an industry union had none - although in the latter case it was only because of the decision by the Malaysian owner (rather than the US-based MNC management chain), who wished to avoid the opprobrium of retrenchments.

Curiously, in the Klang Valley hotel with an IHU, hours of clerical/administrative workers were increased (as an element of adjustment through cost minimisation), whereas in the one with an industry union hours for those workers were decreased (as a payoff for their cooperation with other elements of adjustment). Elsewhere, at Resort, management was starting to develop measures that would appear to involve work intensification (measures which would, it should be added, require the support of the union if they were to be implemented). This did not reflect any pressures arising from the financial crisis or falling profits, but rather the pressures for increased flexibility that arose from the global positioning of the property. While the HR function at Resort was seeking to empower employees it was also seeking to deploy a form of scientific management to measure, broaden and possibly intensify work. The apparent conflict between these simultaneous ‘commitment’ and ‘control’ approaches
has yet to be played out.
Table 7  Summary characteristics of hotel vignettes

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Fourstar Hotel</th>
<th>Fivestar Klang</th>
<th>Resort Hotel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Large Malaysian-owned conglomerate</td>
<td>Owned by local company which owns four Fivestar Hotels; managed by US MNC Fivestar chain.</td>
<td>Part of large Hong-Kong based MNC conglomerate</td>
</tr>
<tr>
<td>Main market</td>
<td>Domestic, some international</td>
<td>Domestic, some international</td>
<td>&gt;90% international</td>
</tr>
<tr>
<td>Size</td>
<td>270 full-time employees (plus 20-30 casuals)</td>
<td>320 full-time employees (plus 50 casuals) at Fivestar Klang; 1500 employees in 5 properties across Malaysia</td>
<td>700 full-time employees (plus 200 casuals) at Resort; 8 hotels in and near Malaysia</td>
</tr>
<tr>
<td>Influence of parent</td>
<td>Corporate HR section, but property operates with high autonomy.</td>
<td>International Guest Service Standard driven by parent. Influence on other areas weaker (eg work organisation: multiskilling slow to implement).</td>
<td>Moderately high devolution to Resort. Decision making decentralised; regional HR Director only gets involved in major issues.</td>
</tr>
<tr>
<td>HR function</td>
<td>Centralised.</td>
<td>Centralised. Moderately influential - involved in daily meetings with GM but not involved in corporate strategy design.</td>
<td>Attempting to take a strategic role; attempting to devolve some activities to functional areas</td>
</tr>
<tr>
<td>Employee representation</td>
<td>Weak in-house union. 60-65% of eligible employees unionised.</td>
<td>Industry union. 50% of eligible employees unionised.</td>
<td>Industry union, fairly autonomous and activist. 95% of eligible employees unionised.</td>
</tr>
<tr>
<td><strong>Government impact</strong></td>
<td>HDRF has increased training expenditure. Role in promoting international events. Encouragement of new hotels led to falling profits.</td>
<td>HRDF means company looks actively at training (and has increased training by other hotels).</td>
<td>HRDF has ensured resources devoted to training. Apprenticeships have assisted training. Pro-worker dismissal regulations have led to better discipline procedures.</td>
</tr>
<tr>
<td>-----------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Relationship with industry</strong></td>
<td>Member MEF. Not a leading edge hotel but one of small number with IHU.</td>
<td>Leading edge within Fivestar Group in Malaysia.</td>
<td>Takes lead in some areas. Exposed to MNC influences through: parent company; regional (non-hospitality) MNC networks; international customer base.</td>
</tr>
<tr>
<td><strong>Work organisation</strong></td>
<td>Some multiskilling to cover occasional staff shortages.</td>
<td>Moderately developed multiskilling to cover occasional staff shortages.</td>
<td>Attempts to introduce multiskilling to increase productivity and work intensity. Contemplating self-empowered work teams.</td>
</tr>
<tr>
<td><strong>Labour-management relations</strong></td>
<td>Very cooperative to acquiescent. Turnover from 6% (pre-recession) to 2%/month.</td>
<td>Cooperative.</td>
<td>Cooperative. Labour turnover 3%/month.</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>48 hour week. Discretionary bonus (not paid in 1998). Service charge on top of base pay and increments.</td>
<td>Contractual bonus (1 month). (Management receive variable bonus, up to 3 months.) Service charge on top of base pay (starting wage RM 350/month) and tenure-based increments. Other benefits.</td>
<td>Contractual bonus (1 month). Variable (profit-related) bonus (0.5 month in 1998). Service charge on top of base pay (starting wage RM 350/month) and tenure-based increments. Other benefits.</td>
</tr>
<tr>
<td><strong>Profit environment</strong></td>
<td>Revenue fell by over half due to financial crisis and oversupply. Currently operating at a loss.</td>
<td>Revenue fell by half due to financial crisis and oversupply.</td>
<td>Not adversely affected by financial crisis. Small improvement in high occupancy rates due to fall in RM.</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Employment levels/ flexibility</strong></td>
<td>Employment fall of 30%.</td>
<td>Employment falling through attrition.</td>
<td>Stable.</td>
</tr>
<tr>
<td><strong>Labour adjustment mechanisms</strong></td>
<td>Labour attrition. Two employees retrenched. CA extended. Bonus not paid 1998. Some work intensification (eg increased hours for clerical employees).</td>
<td>Labour attrition. No retrenchments, no VSS (owner opposed). Poor performers removed. CA extended. Contractual bonus staggered. Reduced employer contribution to employee provident fund (from 15% to 12%). Tiered pay cuts for managers: • 3% cut for &lt;RM3000 • 6% cut for RM3-7000 • 10% cut for RM7-10,000 No managerial bonuses. Reduced hours for administrative employees. May insource more.</td>
<td>Some work intensification.</td>
</tr>
</tbody>
</table>
CONCLUSIONS

As mentioned earlier, the generalisability of our findings is constrained by several factors: the limited number of industries and firms we have studied, the limited depth with which we have been able to undertake the research, and the method of firm selection. While there is a danger that the degree of cooperativeness indicated in the vignettes may over-represent the overall degree of cooperativeness through the economy, our interviews with union, employer and government officials at industry and national levels should provide some counterbalance to this.

Whereas other studies in this project have shown the impact of globalisation on economies currently in transition to more market-based, trade-exposed structures, our study of Malaysia has been of a country that has long been relatively liberal and exposed, but which has recently been subject to one of the most capricious consequences of globalisation: the economic crisis arising from the collapse of the ringgit in global financial markets. Malaysia is the most developed of the four developing countries in our study, the most trade-exposed, the biggest recipient of FDI (on a per capita basis), the most globalised, and the most severely affected by the financial crisis. However, Malaysia’s integration into the global economy does not mean that the forces of globalisation are untrammeled or ubiquitous. On the contrary - the Malaysian state has played an influential role in determining just which sectors of the economy are exposed and the terms under which they are exposed.

The industrial relations policies of the state have taken as their rationale the need for foreign investment to promote industrialisation. The approach taken to this need has led to patterns of regulation which have been aimed at minimising overt conflict but have had the effect of stifling the development of workplace unionism, notwithstanding the enterprise focus of the regulation of unions. Workplace unionism has been hampered because the infrastructure beyond the workplace that is necessary to support workplace activism has been impeded by the restraints on organising across ‘industries’, infrastructure at the workplace itself has been hampered by the
wide prerogative afforded to management through legislation, the availability of arbitration to settle workplace issues and the difficulty of organising legal strike action, and unionism generally has been hindered by the colonial legacy of state indifference, at best, regarding employer opposition to unions.

Within this broad context, the state has adopted specific policies to specific sectors. Hence the four industries studied in this report show four quite different patterns of globalisation. At one extreme is the electronics industry, the frontline battalion of Malaysia’s export-oriented industrialisation strategy. Here the state has done everything that a prospective multinational investor could want to provide an appropriately skilled, pliable and disciplined workforce, including by strongly impeding the development of unionism. The industry operates in a globally competitive environment and the involvement of Malaysian-owned companies is confined to certain parts suppliers.

At the other end is the banking industry, also seen as a strategic industry but one where it was thought important not to let the industry be controlled by foreign interests. Hence limitations on the penetration of foreign-owned banks mean that the industry has strong Malaysian-owned players who have been relatively protected from competitive forces. In the face of the financial crisis the Government’s response was to increase its own direct involvement in the finance sector - most notably by the imposition of currency controls, but also by active promotion of structural change through a series of shot-gun weddings amongst Malaysian-owned banks. Soon the foreign presence will be enhanced by a relaxation of controls on foreign ownership in the industry, but the consolidation of domestic banks implies that the overall impact on competition in the industry is ambiguous.

In between is the automobile industry, another strategic sector where the government has sought foreign capital but has wanted to give pre-eminence to a Malaysian-controlled company and use that to develop local industry. Consequently there is a substantial foreign presence but the industry has been protected from imports through various concessions afforded local content and assemblers. Again, the industry will be subject to increasing competition over the next few years as a consequence of the
further opening of intra-ASEAN trade.

The hotel industry has not been afforded the same strategic status but is nonetheless one where government has been seen to be involved in shaping the industry’s direction. Limitations on foreign ownership, or management, of the industry have not played a significant role, but what has mattered has been government encouragement of increased supply and the industry’s ability to build new capacity above and beyond even the government’s ambitious plans. Consequently this industry has probably seen the largest increase in competition of the four we have studied, while the increase in supply has also enhanced foreign presence.

Very different patterns of unionism across industries partly reflect these differences in state strategy regarding industry development. They also reflect differences in union and employer strategies across sectors. The non-union status of electronics is obviously a function of state policy and MNC strategy. By contrast, the highly unionised banking sector (at least in the clerical ranges) partly reflects the more protected status afforded this strategic industry. But perhaps more than this, it reflects the effectiveness of the key union’s strategy in simultaneously developing strong workplace linkages, cooperative but non-acquiescent relationships with employers and good political connections. Hence while employees have seen the union as strong and protective, employer and state policies have been supportive because the union is seen as both influential and realistic. In automobiles it is difficult not to conclude state policy had some influence in ensuring the major company in which it has an interest was covered by an in-house union rather than an industry union presence. Elsewhere in that industry, though, and in hotels, union status appears to be a function of the particular circumstances in each firm, in the context of the legislative environment provided by the state.

The state has played an important role in several other aspects of employment relations aside from the regulation of unions and bargaining. First, it has promoted training and skill development through the HRDF and its more demanding equivalent in the banking industry. This is the most commonly remarked intervention by the state as far as employers are concerned, and it met with surprisingly little criticism.
from the managers with whom we spoke. Some other industry or regional specific initiatives have reinforced this impetus for training. Second, the regulation of dismissals has encouraged firms to adopt more equitable internal disciplinary procedures than they otherwise would. Third, the regulation of redundancies, discussed below, has made firms think twice before retrenching employees and encouraged the development of alternatives. Fourth, the role of the state in facilitating and regulating investment has encouraged MNCs to adopt recruitment policies consistent with the racial equity goals of the government. Fifth, the state has sought to promote flexible wage systems, though here the results have been mixed as the problem of overcoming employee aversion to risk has not been solved, especially in those companies where employees are organised enough to prevent contingent pay replacing contractual bonuses or tenure-based increments. Sixth, and very importantly, the state has emphasised the internationalisation of the labour market by permitting employers access to a large pool of foreign workers. This pool has produced cyclical benefits but structural costs. On the one hand, it has helped smooth the economic cycle, better enabling the brunt of adjustment in the face of recession to be deflected from local workers to foreigners thereby minimising political backlash. On the other hand, it has slowed the restructuring of the Malaysian economy into a higher-wage, higher-productivity form. There are increasing, credibly sourced, calls for a reversal of the employment of foreign workers, to redress this latter problem (eg Ariff et al, 1999:29).

In most industries MNCs occupied a leading edge role in introducing production innovations. Outside of electronics, this did not mean they were always the dominant players in the industries. In banking, MNC Malaysian operations were smaller than some of the domestic banks and they let the latter take the lead role in many industry activities. While, for example, some elements of the industry agreement may not have suited them, they would not stick their necks out to directly undermine the collective position of the industry, given their reliance on favourable government decisions regarding future access to the domestic market. Where necessary, they might reach bilateral deals with the industry union. However, the large MNCs were the means by which new techniques such as multiskilling and ‘empowerment’ were being introduced into the industry. They also had the most sophisticated HR
functions. In automobiles the national car project is, in terms of ownership, Malaysian-dominated - but in terms of technology and training the Japanese-owned MNC partner is the key. This major manufacturing operation may dominate the local market but it still operates on very Tayloristic lines, moreso than some of the other firms we studied with greater foreign ownership. The MNC partner in the national car project was influential in ensuring production quality standards were met - as indeed foreign interests were in all the automobile firms studied - but had little involvement in HR and work organisation.

How pervasive was the influence of MNC parent HR policies on local practices? We found substantial variation within and between industries in the degrees to which MNC parent companies imposed corporate HR practices on local affiliates. The general pattern, however, was that local affiliates had much more autonomy in HR matters than they had in technical and production matters. In MNCs in electronics (eg Drive), hotels (eg Fivestar) and automobiles (eg Glass Co) the MNC head office had a strong impact in setting product/service standards, but had little involvement on HR policies and practices at the local level. In some cases (eg Western Bank, Nippon Electronics, to a lesser extent Resort Hotel) there were corporate HR policies in place across the MNCs but they were then adapted in Malaysia to suit local conditions or focused on particular aspects of HR (in the case of Nippon, the ‘no retrenchments’ policy). Only Micro, the leading edge vignette in the electronics sector, appeared to have a mirror image of global HR practices in place in the Malaysian operations. Overall, the MNCs tended to have more sophisticated HR functions than their domestic counterparts, with Micro and Western Bank seeming the most sophisticated of those we encountered.

What of the transmission of HR ideas and practices from the MNCs to other companies, especially vendors, in Malaysia? Again, MNCs were much more efficient and determined in transmitting standards in product quality to their domestic vendors than they were in imposing clusters of HR practices. In automobiles and electronics the lead companies would, to varying degrees, share information with their vendors but took no active role in requiring or policing particular HR methods. This was even the case with Micro, in electronics. In the automobile sector the HR
and work organisation practices of the major company were not exactly so leading
edge that it would be appropriate for them to seek to require emulation by their
vendors. However, the reach of MNCs’ ideas on HR was not confined to local
vendors anyway. At least as important was the transmission of ideas through
geographic networks involving both formal and informal structures. These networks
may cover not only firms in different stages of the production process within an
industry but may also cross industry boundaries and encompass firms engaged in
quite unrelated activities. In the banking sector, HR managers required more formal
coordination networks than those in other industries because of the role of industry
bargaining, and here the industry union itself played a significant role in the
transmission of ideas about new techniques through the rest of the industry, if it
considered these changes to be beneficial to workers. (Indeed, if the banking union
could not be persuaded they were beneficial, it is questionable whether an MNC
would be able to successfully introduce major changes in the Malaysian operations in
the first place.)

Compensation practices also varied between firms and industries. Everywhere
employees were eligible for an annual bonus and an increment, but the degree of
security of these bonuses and increments varied. They key variables that explained
how secure these components of pay were industry norms and whether the firm (or
industry) was predominantly union or non-union. In almost all unionised firms (the
exception being where there were the weakest IHUs) there were contractual bonuses;
in all non-union firms contingent bonuses were payable. The basis of the contingency
varied - it might be profits, or productivity of the workplace, workgroup or even the
individual - and it was notable that many non-union firms in electronics (Micro,
Drive, Nippon) also paid contractual bonuses, reflecting high labour turnover and the
value attached to bonuses by Malaysian employees and, in the case of Nippon
Electronics, the fact that contractual bonuses were paid in the (small) unionised part
of the group. Conversely, throughout the unionised banking industry contingent
bonuses were paid in addition to the contractual bonuses. Increments in unionised
industries were tenure-based, though in non-union Brake Bhd they were skills-based
and in the non-union electronics sector they were based on individual performance
and/or market movements in wages (there being no CAs negotiated).
One of the most interesting aspects of this study was what it told us about adjustment to the financial crisis that hit Malaysia in late 1997. One of the notable aspects of the Malaysian experience has been the strengthening of formal and informal tripartite relationships since the financial crisis. Manifestations of this have included the appointment of an MTUC representative to the NEAC that developed the National Economic Recovery Plan; establishment of a tripartite committee to deal with the retrenchment issue; Prime Ministerial recognition of unions’ support for the recovery process; appointment of the MTUC secretary to the Senate; and seemingly greater government sympathy towards the unions’ position on some issues.

At the industry level, there has been considerable cooperation between unions and employers in minimising the dislocation arising from retrenchment, especially through the MTUC-FMM task force dealing with retrenchments and vacancies. At the enterprise level, there has been substantial variation in experience, but generally speaking in unionised companies management has pursued a consultative approach with unions, notwithstanding confrontationist methods adopted by what appears to be a minority. Aside from this, though, we found no real evidence of any increase in employee participation in decision making.

The levels of unemployment and retrenchments that arose through the financial crisis were considerably less than what we might expect. Why was this so? Certainly, as mentioned above, the buffer provided by foreign workers helped push the burden away from Malaysian employees. In addition, the labour market had been tight across most occupations prior to the recession, and the prospect of having to recruit replacement employees once the economy started to improve was not one that employers need look forward to. Many of the Malaysian firms could be viewed as labour hoarding given their expectation that the downturn was temporary and it would subsequently be difficult to recruit suitably experienced labour in an upturn. Retrenchments are financially and administratively costly, due to government regulations that reflect and reinforce the social value given to employees’ job security.
Moreover, there is substantial moral, industrial and political pressure on firms not to respond to a downturn by retrenching staff. This pressure is strongest in government-owned organisations and in unionised companies. But it also appears that there is a view amongst a number of managers that it is inappropriate to retrench staff. In particular, the way that labour adjustment measures have been structured suggests that it is considered by many managers and employees that the burden of adjustment should fall most heavily on the highest paid, rather than on the financially weakest. This partly reflects notions of mutual responsibility that on the surface appear to have grown in Malaysia as it shifts from a British heritage to paying more attention to Asian practices, consistent with the Government’s ‘Look East’ theme. These notions have to be seen in the context of the broader engagement of employers and unions in bipartite and tripartite cooperation in the face of the financial crisis.

Retrenchments could not be avoided altogether. But retrenchments were much less likely to occur where the downturn in demand was not severe, where the firm was unionised, where the firm was linked in some way with the state (including as a supplier to government), or where the firm was from an Asian-based MNC.

How then did companies adjust to labour surpluses and avoid retrenchments? Some in-sourced activities that they previously outsourced. Some occupied their employees’ time with training. Some arranged temporary transfers to other employers. Some staged ‘temporary layoffs’ in which employees were paid a proportion of their normal wage and even allowed to obtain work elsewhere. Some made adjustments to pay increases. Virtually all absorbed a reduction in their profits or even a temporary loss.

The pay adjustments took many forms. Overtime cuts or freezes were very common. Often contingent bonuses were deferred or not paid. Cuts in contractual bonuses were infrequent, especially in the unionised sector. Sometimes scheduled increments were not paid on time (though in unionised firms they might eventually be ‘paid back’). Sometimes the negotiation of new collective agreements was deferred. Sometimes - more rarely - there were reductions in base pay. But where there were reductions in base pay, it was where these reductions fell that mattered most. In particular, it was
not uncommon for there to be significant cuts in managerial salaries (in some cases by up to 50 per cent) in the hardest hit firms. Where these cuts were made, they often involved the largest proportionate cuts being felt by the highest paid executives (eg in Fivestar). And even though pay cuts may have been concentrated amongst non-union (especially managerial) employees, if the same firms ended up cutting staff numbers, the job losses were not disproportionately concentrated in the unionised workforce.

This development has important policy implications for developing and developed countries. There is a growing body of evidence that downsizing is frequently counterproductive for the firms involved as well as damaging for the employees who have been retrenched; that there is a ‘survivor syndrome’ amongst employees left behind that comprises adverse patterns of morale, trust, stress, insecurity, commitment, risk aversion, and the quality of production; and that problems of poor productivity may be exacerbated rather than overcome (eg Filipowski 1993; Cascio 1993; Littler et al 1997; Sebbens 1998). Across many countries it is clear that there is considerable scope for improvement in the way that retrenchments are handled at the enterprise and workplace level. The Malaysian experience indicates that corporate adjustment practices are matters for choice: retrenchments may not be inevitable. Adjustment practices are influenced by a variety of factors, including the pattern of state regulation, the bargaining power of workers (through unionisation and the state of the labour market), the dominant cultures of the countries in which companies are operating, and the dominant cultures of the countries from which companies originate, all of which influence management style. The Malaysian experience may be useful in contributing towards codes of good practice elsewhere.

We have noted the tendencies towards cooperation evident at the national, industry and enterprise levels. We must also acknowledge the divisive tendencies that still exist: the slowness of earnings growth in the context of rising inflation, the cutbacks in employment, and the cuts in pay and conditions suffered by some employees. The equity with which these issues have been handled at the enterprise level will have a strong influence on the impact they have on employee motivation.

For Malaysia, the critical policy question is for how long the enhanced cooperation
that has been evident during the financial crisis and its aftermath will be sustained. We wonder whether the government will continue to involve the unions in central policy issues, whether employers will consider there are gains from continuing cooperation with unions into the future, not just as a passing phase during economic crisis. While Government regulation has been important, managerial culture and union presence have proved the most important variables in explaining how well protected the interests of particular employees have been during the crisis: in many of the workplaces we visited workers would have suffered much more from the recession if management had adopted an approach which gave immediate priority to short-term bottom-line results over wider and longer term considerations, and/or if workers had not been organised into unions. In that sense, it is in the interests of a government that seeks to protect the interests of ordinary workers to facilitate unionism.

It would be easy to be sceptical (as some union officials are) about the prospects for ongoing cooperative relationships, or about the possibility that such relationships can continue over a long period without one side or the other ‘selling out’ their interests. The experience of the NUBE and the banking industry suggests that it is possible for a strong union and employers, be they domestic or MNCs, to manage such a relationship. True, there are many special characteristics to that industry, and the NUBE has not always been universally liked by other unions because of its perceived special relationship with a government that has been seen as anti-union for a long time. But the financial crisis has led to some major reconsiderations of strategies by many parties. We will eventually see whether it just represented a cyclical stage in tripartite relations, to be followed by a reversion to more traditional patterns of mistrust, antagonism and occasional suppression, or whether it represents part of a ‘paradigm shift’ in Malaysian industrial relations, an institutional break that emerges from particularly forceful conjunctions of social or economic events and powerful alliances of some of the participants in industrial relations, and alters the institutional dynamics surrounding the employment relationship (Price and Bain 1989). Such institutional breaks or paradigm shifts are infrequent, but external crises associated with globalisation are the sort of mechanism that provides the impetus for them.
Finally, what does this study imply for future research? This study has been quite broad ranging, and in almost all of the case study vignettes we would have liked the opportunity to investigate matters more deeply. In particular, areas for more detailed research would include: the transmission of ER practices and ideas concerning work organisation within and between companies, including by looking at the same company across more than one country; the reasons why MNCs differ in their degree of central control and devolution of ER and other practices; and the path of consultation or confrontation at the workplace, industry and national levels over coming years.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>4WD</td>
<td>four wheel drive</td>
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<tr>
<td>ABOM</td>
<td>Association of Bank Officers Malaysia</td>
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<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Agreement</td>
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<tr>
<td>BHAG</td>
<td>big hairy audacious goal (at Drive)</td>
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<tr>
<td>BMA</td>
<td>Western Bank Managers' Association</td>
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<tr>
<td>CA</td>
<td>Collective Agreements</td>
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<tr>
<td>CB</td>
<td>Conglomerate Bank</td>
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<tr>
<td>CEO</td>
<td>chief executive officer</td>
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<tr>
<td>CKD</td>
<td>completely knocked down</td>
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<tr>
<td>CUEPACS</td>
<td>Congress of Union of Employees in the Public Administration and the Civil Service</td>
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<tr>
<td>EA</td>
<td>Bank East Asia (Mal)</td>
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<td>EeR</td>
<td>Employee Relations Section (Elecomp)</td>
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<td>EIWU</td>
<td>Electrical Industry Workers Union</td>
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<tr>
<td>EOI</td>
<td>Export-oriented Industrialisation</td>
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<tr>
<td>ER</td>
<td>employment relations</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIZ</td>
<td>Free Industrial Zone</td>
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<td>FMM</td>
<td>Federation of Malaysian Manufacturers</td>
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<td>GC</td>
<td>Glass Company</td>
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<td>GDFC</td>
<td>Gross Domestic Fixed Capital</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HR</td>
<td>human resources</td>
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<td>HRD</td>
<td>Human Resource Development</td>
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<td>HRDF</td>
<td>Human Resource Development Fund</td>
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<td>IHU</td>
<td>In-house union</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IR</td>
<td>industrial relations</td>
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<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>JCC</td>
<td>joint consultative committee</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>JIT</td>
<td>Just in Time</td>
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<tr>
<td>LB</td>
<td>Local Bank</td>
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<td>MA</td>
<td>Midrange Assembly Sdn Bhd</td>
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<td>MCBA</td>
<td>Malayan Commercial Banks Association</td>
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<td>MEF</td>
<td>Malaysian Employers Federation</td>
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<tr>
<td>MIT</td>
<td>Manufacturing Improvement Teams</td>
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<td>MITI</td>
<td>Ministry of International Trade &amp; Industry</td>
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<td>MLO</td>
<td>Malaysian Labour Organisation</td>
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<td>MMC</td>
<td>Multi-Media Corridor</td>
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<td>MNC</td>
<td>Multinational Corporations</td>
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<td>MR</td>
<td>magnetic resistance</td>
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<td>MTUC</td>
<td>Malaysian Trade Union Congress</td>
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<td>NE</td>
<td>Nippon Electronics (Mal)</td>
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<td>NEAC</td>
<td>National Economic Action Council</td>
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<td>NERP</td>
<td>National Economic Recovery Plan</td>
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<td>NLAC</td>
<td>National Labour Advisory Council</td>
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<td>NUBE</td>
<td>National Union of Bank Employees</td>
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<td>OA</td>
<td>Western Bank Officer's Association</td>
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<td>PR</td>
<td>Public Relations</td>
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<td>PRP</td>
<td>Performance-related Pay</td>
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<td>PSDC</td>
<td>Penang Skills Development Centre</td>
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<td>QC</td>
<td>quality circle</td>
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<td>RAM</td>
<td>random access memory</td>
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<td>RM</td>
<td>ringgit</td>
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<td>UMNO</td>
<td>United Malay National Organisation</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade &amp; Development</td>
</tr>
<tr>
<td>VCC</td>
<td>Volume Car Company</td>
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<tr>
<td>VSS</td>
<td>Voluntary Separation Scheme</td>
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BIBLIOGRAPHY


*Australian Financial Review*  22 April 1999


ENDNOTES

1 compared to 18 per cent for China.
2 compared to 16 per cent in China.
3 wholesale and retail trade, hotels and restaurants
4 In 1998 the total participation rate as estimated by the Economic Planning Unit fell by 2.3 percentage points, but the male rate fell by just 0.2 per cent and the female rate by 0.5 per cent (Ministry of Finance 1998:lxi), so without a major compositional change (the female share of the population would have to rise by 5 per cent for these figures to be consistent) it is difficult to know what store to place on these figures.
5 interview with Ministry of HR, March 1999.
6 interview with MTUC, August 1998.
7 interview with FMM, August 1998.
8 There was a discrepancy in the figures given by the union and management hence the range
9 Interview, HR Manager VCC, March 1999.
10 The other sub-sector, the non-electrical machinery industry, declined by 30 per cent.
11 Penang operators are seen by management as differing from Kulim workers in their needs. Penang workers are said to give priority to money in the pocket, while Kulim workers, coming from a more rural background, apparently give priority to having friends in the workplace.
12 Having been established in Penang for 27 years, it has a relatively old age profile, with many operators in the 35-40 year age range. At Kulim the typical age is more like 25-30 years. Managers are typically 40-45 years old.
13 The first induction deals with the Micro business, products, rules and regulations. They then commence a specific job training plan for the next 3 to 6 months. Following the two-week induction, new recruits are interviewed by their direct supervisor and asked about the content of the classes. Six months later, while still on probation, employees’ skill levels are assessed by their supervisor with auditing of appraisals undertaken by the HR function. At nine months HR asks a set of 25 questions of employees, encompassing such matters as the role of supervisors in integrating teams, tools, training, and what the employee has learnt. The aim is for respondents to score 88 per cent or more ‘correct’ answers. Their supervisors’ performance appraisal is dependent in part on results from this survey. These procedures apply at all levels of the company.
14 Its two existing main products are disk drives of differing capacities.
15 Each of the three main product lines has an area of the factory set aside for it. Within
those areas there are long benches, along each of which passes the production process for a particular model of the product line with particular specifications. The specifications may be changed from one shift to the next. Each assembly process involves 12 to 16 steps, preceded by several cleaning steps and followed by several steps associated with quality control. Each step in the assembly process is referred to as a ‘station’. Each worker has responsibility for one station and so 12 to 16 workers will sit along these production benches (while others may sit or stand in the quality control or cleaning areas). A worker in a station completes their step in the production process (which may involve, for example, inserting a part into the partly assembled product and welding it into place) and passes it on to the person in the next station, who will be sitting immediately next to them. On most production lines, the partly-assembled products are passed along by a conveyor belt, often in batches of three or four. On some lines, they are passed by hand.

In the end, the target time for each station in the production line is determined by the slowest station, as otherwise backlogs build up along the way. Accordingly it is in the interests of efficiency for the industrial engineers to break down the steps in the production process in such a way that each step should take the same time as all the others. In practice, this cannot be achieved, but there appears to be a reasonable degree of standardisation in the time required at each station. The target time varies between lines according to the complexity of the product and in particular according to its newness. A long established product line had a target time of 17 seconds per step, while a new one yet to be publicly released had a target time of 34 seconds.

Though sometimes they can be moved to a new line when a new product is being developed. Each worker has a green card that is displayed above their station which shows their name and the stations for which they are trained.

The MD of Drive in Malaysia is an American on a three year contract, but he was recruited from elsewhere in Asia. His career path has not involved moving up Drive but rather moving around MNCs in Asia, and history would suggest he will continue to move along this career path.

Drive makes extensive use of the Penang Skills Development Centre, sits on its executive council and spent RM 20,000 obtaining lifetime membership of it.

These are a certificate in quality engineering, another for quality technicians, and others in materials, disk drive technology and supervisory management.

Employees can also, of course, appeal to the Ministry of Human Resources and the Industrial Court. Drive has not appeared in the Industrial Court.

These are seen as complementing each other rather than being in competition with the
Malaysian operation. Malaysia supplies some parts for Korea. If the company were to close down a plant in Asia, it may close down Korea first, as it has higher labour costs. However, China may be a little more secure than Malaysia.

Elecomp wants supervisors to operate as if they were running their own company.

Departing employees are not presently being replaced. Before the no-replacement policy came into effect, new employees were recruited through advertising and word of mouth - existing operators were encouraged to recommend the firm to their friends and family members.

They were made up of operators and support staff (technicians) and were reportedly highly committed. Operators would take partly-assembled products off the production line when they detected faults, rather than letting them go through to the quality checking after assembly was completed, leading to cost savings.

In addition, some efforts are now made to encourage team work through sending people to an outdoor education program, which participants reportedly enjoy - though management is unsure whether it makes any difference to their teamwork.

Complaints are perceived as being based on problems with supervisors rather than production methods. Within the same production line, for example, complaints may be concentrated in a particular shift with a certain supervisor.

This aside, perhaps the biggest perceived problem there is variety in the meals.

As mentioned, goals for operators’ supervisors are set by reference to numerical targets rather than people management.

A grievance procedure is available for employees, but it is not used very much. HR sees itself as attempting to help employees get their problems resolved.

The Australian experience suggests that the opening of the banking sector to foreign competition when combined with mergers of domestic banks into a small number of key players need not lead to a substantial increase in overall competition, though there may be increased competition in certain areas.