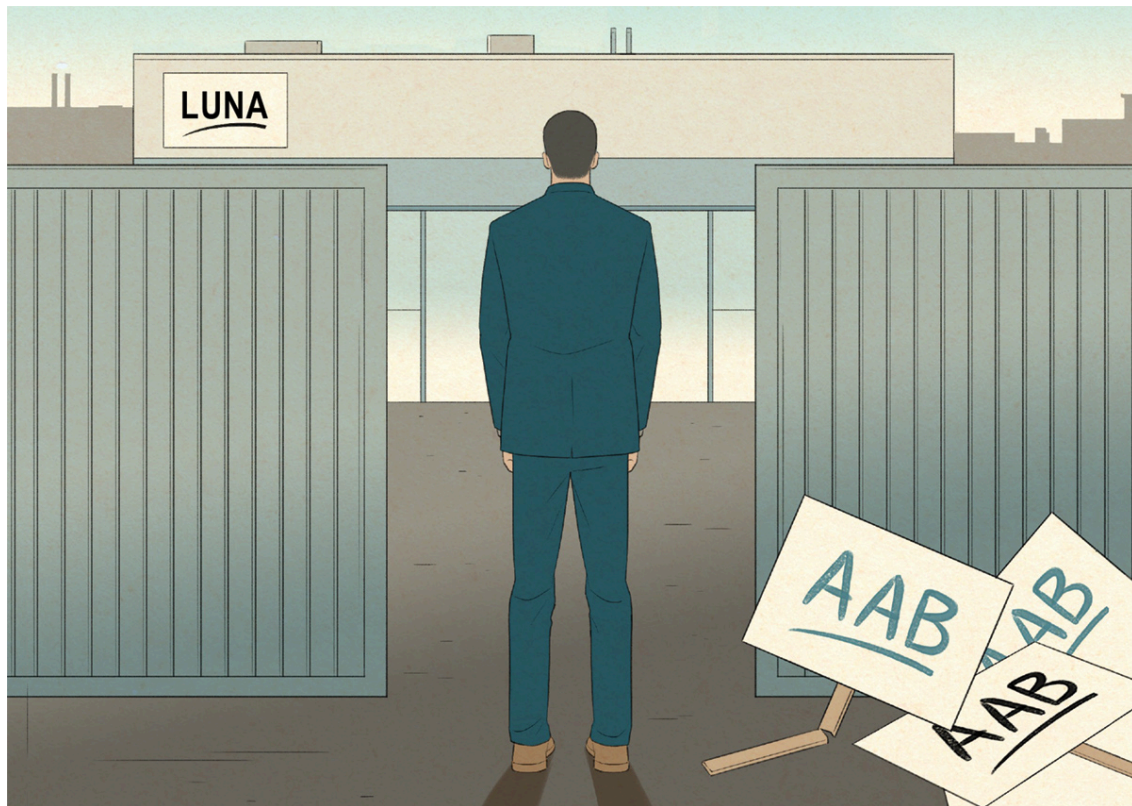


Case Study: Navigating Labor Unrest

by Jorge Tamayo

From the Magazine (March–April 2024)



Anuj Shrestha

Summary. Paulo Ferreira, the president of Luna Brazil, has an ambitious plan to turn around the dismal performance of the plant he oversees in Campinas. The wrinkle is, he needs the buy-in of the powerful local union, which is still smarting from a 10-year-old labor conflict... [more](#)

In the corner office at the Campinas plant of Luna Motors, the dim light of a desk lamp illuminated a series of charts. Paulo Ferreira, the president of Luna Brazil, had been so deep in thought he hadn't even noticed that it was now dark outside. Each line, curve, and number on the papers in front of him painted a disheartening picture of the plant's performance: rising defects, increasing absenteeism, and a record high in vehicles lost to labor issues. The plant was no longer competitive within the larger Luna network.



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Paulo prided himself on being a problem solver. In business school he'd always come up with the best solutions to case studies. But this was not an academic exercise. Workers' livelihoods—not to mention his own career—hung in the balance.

He was now puzzling over how best to implement his strategy for reversing the trends: investing \$1 billion in modernizing the factory and pushing production from 85,000 vehicles to a staggering 170,000 vehicles a year.¹ Though it was ambitious, doubling production would not only help the company meet rising demand for cars but also reduce unit costs, increasing profitability.

Paulo knew that his strategy would fail without the buy-in of one crucial stakeholder: the labor union. In South America unions were more than just collective bargaining entities; they were potent political forces. With 70% of the plant's workers in Aliança Automotiva Brasileira (AAB), getting the union's endorsement was pivotal to any revamp.

While there hadn't been any strikes recently, AAB seemed to be throwing its weight around. The use of the andon cord²—which brings production to a standstill—had increased dramatically. Several weeks earlier a gaggle of union representatives with placards had begun gathering at the gates each day to meet the factory's managers on their way to and from work. Memories of a strike a decade ago still haunted Paulo. He had been a young manager then, full of ideas and optimism, and the strike had been his first taste of the power the unions wielded. Production had ground to a halt, and relationships had frayed. Years later they were still not fully healed.

His recent encounters with Lucia Mendez, the sector leader at AAB, hadn't been promising. Paulo had made significant overtures—better overtime pay, more days of leave for junior hires, even subsidized transportation to help workers get to the plant—but each time Lucia had responded with a firm “Not enough.” Paulo respected her toughness, but he wished the union would stop seeing the negotiation as a zero-sum game and adopt the more collaborative, progressive approach that he'd seen work wonders in Germany and Japan and even other industries in Brazil.

However, he also felt some responsibility for the poor relationship. When the plant first opened, Luna Motors had ramped up operations too quickly, focused too much on technical prowess over leadership and communication skills in hiring and promotions, and failed to address several legitimate issues about ergonomics and worker safety. Paulo deeply wished for the chance to do a reset and foster a spirit of partnership.

He was also worried about the members of his management team. The strain of the labor agitation and the protracted negotiations was starting to wear on them. Comparisons of the union to “the

enemy” had reached his ears. Paulo feared that the lingering resentment might make collaborative problem-solving with the union impossible in the future.

He took a deep breath, collecting his thoughts. He was not one to back down. He had a battle plan to save the plant. He just needed the soldiers to put it into action.

An Ultimatum from Headquarters

Early the next morning, as Paulo was surveying the factory floor and pondering his next moves, his phone buzzed to life. On the other end of the line was Takeshi Nakamura, vice president of global operations in the Japanese headquarters of Luna Motors.

“Hello, Paulo-san,” said Takeshi in his smooth baritone.

“Good evening, Takeshi-san,” Paulo responded, trying to keep his voice steady. “Did you have a chance to look through my proposal for the plant?”

“Your plan is innovative,” Takeshi said, genuine admiration in his voice. “We’re willing to authorize the loans for the expansion. But we can’t wait forever. Our patience with this labor dispute has limits.”

Paulo tightened his grip on the phone.

“In Japan,” Takeshi continued, “our *kaizen* philosophy centers around harmonious collaboration between management and labor. It’s not just about continuous improvement but also about trust, respect, and mutual growth. The stories I hear from Campinas trouble me. Disruptions, the threat of strikes—these are not the Luna way.”³

Takeshi went on, “Our commitment to our employees is deep but not without boundaries. One idea we’ve been considering is repurposing the Campinas plant as a sales and distribution hub, which you would run. If that happens, our operational presence in Brazil would shrink dramatically, but the margins could be attractive. We’d like to discuss that possibility with you as an alternative to expanding the plant.”

Paulo felt a knot in his stomach. He was being offered a parachute—albeit one that would put him in a lower-profile position—but the move would lead to hundreds of layoffs and decimate the local community. Paulo had grown up in the area; after business school he had turned down jobs in São Paulo and New York in order to move home. He felt deeply connected to the community and wondered if he could live with the repercussions of shutting down the production lines.

“Thank you, Takeshi-san,” Paulo said, his voice thickening with emotion. “I will consider every avenue, with the best interests of Luna and our people at heart.”

The Union Leader’s Demands

In his living room at home, Paulo sat deep in thought. Unsolicited, Lucia, the head of the union sector, had fired the next salvo. It was obvious that she had somehow caught wind of Paulo’s expansion plan. That was not unexpected. Lucia was one of the most networked leaders in Brazil—chummy with government ministers and celebrities and a fixture on the nightly news. When the Pope had visited Brazil, he met with Lucia before he met with any politicians.⁴

That evening, as Paulo had been driving out of the building, one of the union members holding a placard had knocked on his window and handed him an envelope with a letter from Lucia inside. Classic Lucia: She always did have a flair for the dramatic.

He perused the list of demands. Some of them he had already offered to meet: an increase in hourly wages and overtime pay to counteract soaring inflation, paid leave for family illnesses, better ergonomics to prevent injuries, and transportation subsidies for workers commuting from far-off areas.⁵

But now the union wanted more influence in hiring, training, and promotions, citing German unions' rights as a precedent. Paulo worried that giving it more power would entrench mediocrity at his plant. Lucia also wanted assurances that the expansion of the plant would not lead to future layoffs, something that seemed impossible to provide, considering his conversation with headquarters. Most troubling of all was the demand that no artificial intelligence or algorithmic decision-making be introduced into production without the approval of the union, to ensure that AI would not be used as a substitute for workers.

Paulo shook his head. That was a totally unreasonable request. Though AI was still a frontier technology in car production, who knew what advances might emerge as cars increasingly became "computers on wheels"? His ability to make quick decisions to stay competitive could be undermined by a participatory process.

He wasn't even sure whether the union was negotiating in good faith. Just last week, in an interview with a local news channel, Lucia had referred to Luna as a "corporate villain" and painted the union's struggle as a fight against greed. He knew that Lucia had political ambitions. Was she actually hoping for a deal, or would she throw her own workers under the bus to be seen as tough and further her political career?⁶

Case Study Classroom Notes

What are the potential risks and rewards of doubling production capacity in a manufacturing plant? Explore



His phone buzzed. It was a text from Lucia. “Thoughts?” it read.

He hesitated for a moment before typing, “I’m thinking some of these requests are unreasonable.”

Her response was instant. “That’s a shame. I guess you want a strike?”

Memories from the last strike, of a cacophony of shouting voices, angered faces, and idle machinery, flashed through Paulo’s mind. “You’re bluffing,” he responded. “Would you really send your workers to the picket lines now, when the future of the plant is at stake?”

“I’m not bluffing, but let’s not negotiate over text,” was her reply. “The union is like your in-laws. Even when they frustrate you, they’re still family.”

Paulo smiled. Lucia certainly could be charming. “We want to be your partner,” he wrote back. “How about we get together for a meal next week and complain about our in-laws?”

Lucia sent back a thumbs-up emoji.

Paulo leaned back on the couch and sighed. Before him now lay two paths, each of which presented its own set of risks and rewards. He could adopt a hard stance, pressuring Lucia with the very real possibility of closing the plant and using Takeshi's offer to turn it into a distribution center as leverage.

But because he was a consensus builder by nature, Paulo believed that true strength lay in unity, not division. He also realized that Luna's management had been at least partly at fault for the present rift—and wondered if capitulating to some of the union's demands might foster the partnership he yearned for. It would be a gamble, since compromising on near-term technological advancements could make Luna Brazil uncompetitive, hamstringing the plant and his own career. But might it also pave the way for a more resilient operation? *Kaizen* was about continuous improvement not just in processes and technology but also in people. Paulo's heart leaned toward reconciliation and growth, but his mind warred with the potential risks of capitulation. His next move was shaping up to be the most consequential one of his working life.

The Experts Respond: Should Paulo offer further concessions or threaten to close the plant?



Larry Cohen is the former president of the labor union Communications Workers of America.

Paulo can pull off his plan to save the plant, but only with Lucia's partnership. The cornerstone of any labor negotiation is job security. While pay and benefits are significant, they are secondary. Paulo's expansion plan promises not only employment stability but also employment growth. He must communicate that clearly, stressing that while he can't make guarantees because of his dependence on investment from headquarters, he has management's preliminary support.

Positive offers will be more effective than threats, but Paulo can subtly introduce the possibility that the plant could become a distribution center. Lucia, with her experience, will undoubtedly grasp the implications. When plants turn into parts centers, as many have in the United States, there are significant job losses.

However, he faces another challenge: his own bosses. In my experience agreements on paper mean little without deeper buy-in from management. Paulo should be more direct in making the case for expansion over conversion.

Effective communication with all stakeholders is vital. To get everyone on board, he and Lucia should jointly present the plan to both management and the union's rank and file. But Paulo's message should be personal. He should emphasize his local roots, his decision to return to his hometown after business school despite opportunities to work in larger markets, and his commitment to the community and the plant's future.

Lucia also can play a crucial role by using her political connections. With the Workers' Party—known for its interventionist policies—in power in Brazil, she can help ensure government support for Paulo's plan.

All the elements for a successful resolution are present, but overcoming mutual distrust will be the big challenge. If Paulo and Lucia can bridge that gap, leveraging their positions and influence judiciously, the future of the Campinas plant and its workers can be secured.

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Paulo still has room to make concessions that will help win union support for his expansion plan and address the low employee morale plaguing the Luna plant. Having walked the floors of many factories, I know that such facilities perform best when workers feel heard, recognized, and treated with fairness and



equity. A good starting point for Paulo could be Luna's wage structure. He shouldn't rely on base wages alone or focus on overtime pay, because that incentivizes people to work longer hours rather than more efficiently. Instead he should consider variable pay measures such as profit sharing and bonuses, which reward performance and encourage innovation. He could also introduce an idea-management system that would allow employees to suggest improvements, awarding bonuses for those that are implemented.

That approach might deviate from the traditional "Luna way," which expects workers to have intrinsic motivation, and Paulo should expect resistance from Takeshi. But he must advocate for the autonomy necessary to address the unique dynamics of his workforce.

He can alleviate HQ's concerns by proposing a structured investment plan for the plant's expansion. The funding could be released in tranches, contingent upon the achievement of predefined productivity and quality targets. Those goals should be transparent and visibly communicated in the factory. I might even suggest a massive dashboard above the floor, letting workers know that if they meet the targets, they will create x number of jobs for the community.

Additionally, Paulo should prioritize reskilling initiatives. They will help lessen any underlying anxiety the workers have about being replaced or rendered obsolete by new technologies such as AI or electric cars. A robust training infrastructure will help get new hires up to speed quickly as well.

Paulo does not need to threaten Lucia with the potential closure of the plant. He can simply explain that it is currently uncompetitive in the larger Luna network and that he needs her help to fix the problem. After sharing his plans, including strategies for improving employee morale, he should encourage her to partner with him on their execution.

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Toyota and Its Labor Union in Argentina (A)" by Jorge Tamayo, Erik Snowberg, and Jenyfeer Martínez Buitrago.

A version of this article appeared in the March–April 2024 issue of *Harvard Business Review*.

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