

DETERMINANT OF LABOUR MARKET FLEXIBILITY IN INDONESIA

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Abstract

The purpose of the study was to determine the effect of Labour Market Flexibility in Indonesia, in a study of a concept of flexibility the company read environmental changes socioeconomic through a on labor markets. The background of the study identifies some highlights i.e. the determination of wage rates, conditions of employment, level of competition, job location, management planning. Using a sample of banking area and the population sample involved about 80 employees. Using the method proposed quantitative descriptive by applying multiple regression in order to analyze the influence of the labour market outcomes and outsourcing toward the labour market flexibility. The study encompassed labour market flexibility as the dependent variable, the independent variables comprise of the labour market outcomes and outsourcing. The results depicted that the labour market outcomes and outsourcing weighed positive and significant effect on labour market flexibility in banking in Jakarta. Based on hypothesis testing using a technical regression and significance, it depicted that the two independent variables either jointly or partially impacted positively towards labour market flexibility. It concluded that outsourcing contributed a greater influence on labour market flexibility.

Key words: labour market, outsourcing, flexibility

JEL Code: J23, O15, M54

Introduction

Macro-economic growth is strong enough for more than a decade slowly able to reduce unemployment in Indonesia. Every year, about two million population of Indonesia available to work. It is becoming a very big challenge for the Government of Indonesia in stimulating the creation of new jobs in the various sectors (see table 1) so that the job market can absorb job seekers. Most of the jobs added to the Indonesia between 2001 and 2013, approximately 82 percent are considered formal ¹. Despite solid progress, many jobs in Indonesia are still informal, and thus provide little protection to workers.

Tab. 1: The various sectors of jobs in Indonesia

Sector	2011	2012	2013	2014
Agriculture	42.5	39.9	39.2	40.8
Trade	23.2	23.6	24.1	25.8
Social and government services	17.0	17.4	18.5	18.5
Manufacturing	13.7	15.6	15.0	15.4

Source : Centre of Statistic Data Indonesia (BPSI)

High unemployment faced by young work force aged 15-24 years, is higher than average national unemployment. The number of productive age (20-55 years) in Indonesia in 2010, amounting to 114 million, and would increase in the coming year 2020 be 114 million. The productive age shows that the number of labor in Indonesia are still abundant, with wage level tends to be low.

This condition attract the investment in Indonesia that in five to ten years will be an era that is very important for Indonesia because of the demographic dividend is not immortal and population aging will begin around the period 2015 – 2030 so that Indonesia does not get stuck in traps of middle income. Indonesia makes various strategies to face the global economic vulnerability by applying flexibility of production and the labour market which includes state demographics and geographic conditions i.e. source of Labor (human resources) and the natural resources. According to the data statistics of Central Bureau of Statistics (BPS) in 2014, the projection Indonesians in 2010 – 2015 shows that the demographic bonus predicted would take up to two decades in the future. Starting in 2012, the dependency ratio 30.8 (∞ 50), meaning that for every 100 age population productive have to bear 50 productive age population unproductive, and will continue to decrease up to the top of a demographic bonus in the year 2025 - 2035 – by the responsibility of about 47. In the period is a window of opportunity that should be put to good use to facilitate economic growth through improving the quality of human resources should be improved by Indonesia since the results of its achievements relatively low with other countries (see table 2).

Tab. 2. Competitiveness Index of Indonesia, 2014 - 2015

No.	Index components (Pilar)	Level	Score
1.	Institutions	53	4,11
2.	Infrastructure	56	4,37
3.	Macroeconomics environment	34	5,48
4.	Health and primary education	74	5,67

5.	Higher education and training	61	4,53
6.	Goods market efficiency	48	4,54
7.	Labor market flexibility	110	3,81
8.	Financial market development	42	4,45
9.	Technological readiness	77	3,58
10.	Market size	15	5,34
11.	Business sophistication	34	4,47
12.	Innovation	31	3,93

Source : Central Bureau of statistics (BPS)

Since 2003, employment trends in Indonesia is experiencing positive developments, but almost a quarter of the labor force actively working informally in the service sector and industry, while a third of working informally in agriculture³ because the emergence of the problem of mismatch of labor absorption based on education and skills, so that Indonesia adopted a policy of flexible labour market in an effort to reduce unemployment and poverty in the form of the real existence of the contract workers and outsourcing that it practices have been conducted in more than 10 years. In banking uses the concept of flexibility in dealing with social economic environmental change through changes in the labor market involve efforts to reduce the cost of labor, reduce permanent workers, shifting the risk of labor union. The amount of outsourced workers in banking increased in every year. Research work practices of outsourcing on the banking sector in Jakarta, Surabaya and Medan, shows that in the period 1999-2000, the proportion of workers who started working at the bank for workers remain 70%, 10.3%, contracts and outsourcing was 26.4%. The rise in the period after 2004, the proportions being workers remain 31,2%, 18.8%, contract and 50% of outsourcing. In early 2012, the amount of labor force in banking from outsourcing companies ranged from 150,000 to 200,000 workers².

In this regards, the study analyzed analyze the influence of the labour market outcomes and outsourcing toward the labour market flexibilitly in banking.

1 Theoretical Background

At present, there can be indetified labor market which is a market that distributes workers to jobs and coordinates employment decision, in general, can be a market that brings together all the buyers (employers) and sellers (workers), find willing workers and wage rates are determined for defferent qualifications, skills and geographical locations. Labor market

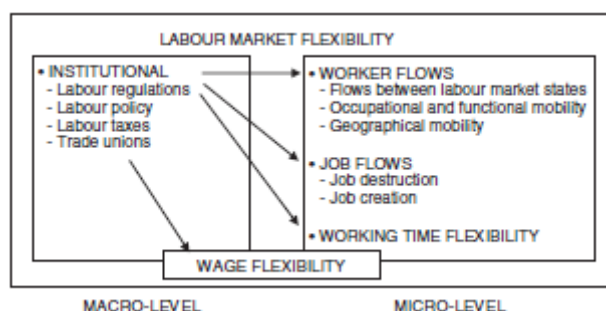
depend on exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location. The labor market problems that Indonesia have to face right now are noted as follows: limited employment opportunity, low quality of labor force, relatively high unemployment rate, globalization effect on employment, and lack of awareness regarding the application of industrial relations. Based on the existing labor market problems, Indonesia make an effort to reduce unemployment and poverty in the form of the real existence of the contract workers and outsourcing. As globalization accelerates and competition intensifies, outsourcing has become a strategic solution for many corporations and governments around the world (Hall, 2000)⁴. Outsourcing additionally permits to obtain labor flexibility. The customer of these services does not hire a worker but the services of a firm for a limited period of time, and it will be that firm's responsibility to deal with labor relations and the costs linked to them (Young, 2007)¹². The decision to outsource is not based on the logic of outsourcing non-core activities to focus on core activities to achieve a competitive advantage. Instead, the primary driver to outsourcing is to obtain access to resources that cannot be easily reproduced or substituted by competitors (Lewis, 2010)⁶. The achievement of outsourcing and control over the services delivered will only be possible if governments and public administrations manage and supervise the outsourced services much more closely than when these services are delivered internally (Marvel, 2007)⁷. As mention Karthikeyan (2011)⁵, Outsourcing has become one the strategies for managers worldwide to increase effectiveness and efficiency of employees in company management planning, as recruitment, training program, human resources administration, or level of pension. In general, employers consider using outsourcing for a number of (overlapping) perceived benefits (Cooke, 2005)¹. Proponents argue that such outsourcing will increase profits, expand exports, raise dividends, and resulting greater economic efficiency (for example, Greene 2005)³. In the outsourcing industry has come to be viewed as the primary engine of the country's development over the next few decades, contributing broadly to GDP growth, employment growth and poverty alleviation (Srinivasan, 2006:204)¹⁰.

From the point of view of labor market flexibility is weakening the power of the collective workers through the fragmentation of workers based on the status of the working relationship and make more individualistic working relationship with the principles of labour markets flexibility i.e. that is much buying and selling labor needs a rational, lightness of being hired and release labor in accordance with of needs and more flexibility apply relations and the requirements work without the interruption of union.

Labor market flexibility resulted in three points of changes happening. First, changes in the sense of deterioration in working conditions and job opportunities in various sectors. Second, changes in employment relationships and conditions of employment in the formal sector, which has been used for the most potential work force absorption as well as one of the signs of economical progress which tend to be informal and lose its protection settings and aspect. Thirdly, the rise of the labor movement's strength as the power balance in an anomalous situation.

Flexibility reflects how quickly the labour markets adjust to shocks (Pissarides, 1997)⁹. Four elements are typically discussed: (i) numerical flexibility; (ii) working time; (iii) functional flexibility; and (iv) the rate at which nominal and real wages respond to changes in supply and demand (Eamets and Paas, 2007)². Labour flexibility have two levels namely the macro level and micro level (see Figure 1). The macro-level (institutional flexibility) shows to which extent state institutions and trade unions are involved in the regulation of the labour market that covers labour market regulations, labour policy, trade union activities and labour taxes (derived partly from Nickell, 1997)⁸. As mentions Eamets and Pass (2007)², micro-level flexibility relates to three types of labour market mobility. First, worker flows indicate those between different spatial units (job-related commuting, domestic migration and international migration) and occupational categories. Second, job mobility could be characterised as a firm-level job creation and job destruction process, e.g. how many jobs are closed or opened during certain time period (usually a year). Third, working time flexibility reflects the possibilities for overtime, part-time and shift work.

Fig. 1: Measurement model of labour market flexibility



Source : Adjusted from Eamets *et al.* (2003)

2 Problem Statement

The main objective of the study is to analyze the influence of the labour market outcomes and outsourcing toward the labour market flexibility. The background of the study identifies some

highlights i.e. the determination of wage rates, conditions of employment, level of competition, job location, management planning.

Authors address and formulate three key issues in the study as follows:

- a) Does the labour market outcomes have a significant effect on labour market flexibility?
- b) Does outsourcing have a significant effect on labour market flexibility?
- c) Does the labour market outcomes and outsourcing affect on labour market flexibility?

3 Research Approach and Proposition

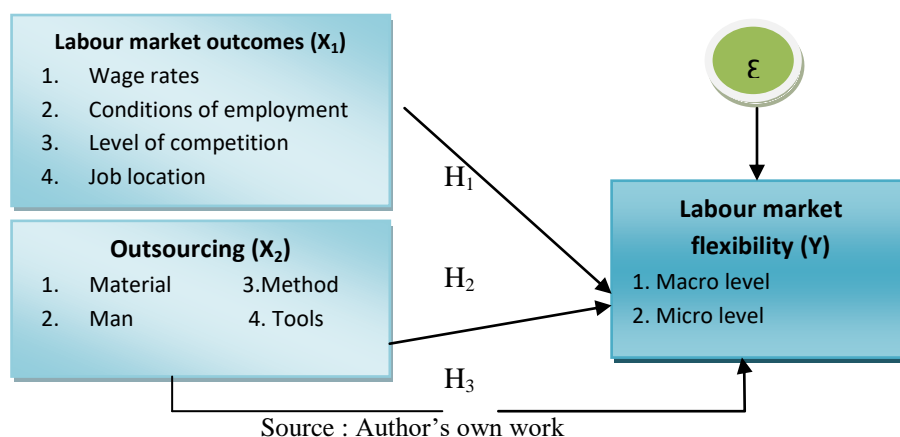
The active labour market policies constitute an important part of integration efforts. The national integration programme involves the so-called “offers of active employment” that are based on three types of active labour market measures: guidance, job training and internship, and employment with wage subsidy. We follow Wickens (2008)¹¹, abstracting from labor market adjustment costs and a nonlinear wage function, the demand and supply for labor are determined, respectively, from $F_{n,t} = w_t$,

$$U_{n,t} = -w_t U_{c,t}$$

Real wages adjust to clear the market so that $w_t = \frac{F_{n,t}}{U_{c,t}} = U_{n,t}$

This is a partial –equilibrium solution for labor as the marginal product of labor and the two marginal utilities will, in general, depend upon other endogenous variables, i.e., variables that are also determined within the economy. The structure of labour market outcomes and outsourcing, which are highlighted in the theoretical analysis and observed in the labour market flexibility (see Figure 2).

Fig. 2 : Theoretical framework of research



The study involved 80 respondents who work in banking. The primary data are gathered and assembled through a structured questionnaire. The secondary data for this study are populated

from scientific journal, and books which contributed to the literature review. The study proposed:

Hypothesis 1: The labour market outcomes has a significant effect on labour market flexibility

Hypothesis 2: Outsourcing has a significant affect on labour market flexibility

Hypothesis 3: The labour market outcomes and outsourcing affect on labour market flexibility

4 Data Analysis and Findings

The study encompassed labour market flexibility as the dependent variable. The independent variables comprise of the labour market outcomes and outsourcing.

Data analysis was performed using Statistical Packages of the Social Science (SPSS). Multiple regression analysis was utilized to determine the relationship between the independent variables and the dependent variable. The results of data processing using SPSS are based on the following calculation:

Tab. 3 : Analysis of Multiple Linear Regressions

Independent Variable	Regression Coefficient	Beta	t-value	Sig
(Constant)	1.749		2.589	0.012
Labor market outcomes	0.295	0.267	2.504	0.014
Outsourcing	0.251	0.230	2.663	0.034
R	0.410			
R Square	0.530			
F	5.740			
Sig F	0.005			

Table 3 depicted that the numbers R obtained 0.410 and it explained the correlation between variables of the labour market outcomes and outsourcing affect on labour market flexibility is 0.410, that denoted a strong relationship. The R square is also known as the coefficient of determination; to determine the contribution of independent variable (X) simultaneously in explaining the dependent variable (Y) may also indicate a wide. R square indicated the increase or decrease of the dependent variable explained by the linear influence of independent variable. The value of R square of 0.530 means contribution percentage of the labour market outcomes and outsourcing affect on labour market flexibility amounted to 53%, whilst the remaining 47 % is influenced by other variables not included in this research model. Test results of F count is 5.740 with 95% confidence level, $\alpha = 5\%$, and obtained value of F-table

is 3.13. $F_{\text{calculate}} > F_{\text{table}}$ ($5.740 > 3.04$). H_0 is rejected, which implied of the labour market outcomes and outsourcing collectively on labour market flexibility.

Dimensions Correlation

The Influence of labor market outcomes and outsourcing on labor market flexibility

To determine the strength of influence between variable dimensions of of labor market outcomes and outsourcing on labor market flexibility variable which is described by the following matrix :

Tab. 4 : The Correlation Matrix of of labor market outcomes and outsourcing on labor market flexibility

Variable	Dimension	Labor market flexibility (Y)	
		Y ₁	Y ₂
Labor market outcomes (X ₁)	X ₁₁	0.114	0.168
	X ₁₂	0.128	0.374
	X ₁₃	0.038	0.188
	X ₁₄	0.172	0.193
Outsourcing (X ₂)	X ₂₁	0.031	0.207
	X ₂₂	0.195	0.143
	X ₂₃	0.171	0.390
	X ₂₄	0.253	0.291

Description:

X₁₁ = Wages rates

X₂₁ = Material

Y₁ = Macro level

X₁₂ = Conditions of employment

X₂₂ = Method

Y₂ = Micro level

X₁₃ = Level of competition

X₂₃ = Tools

X₁₄ = Job location

X₂₄ = Man

Table 4 indicated revealed a weak relation between level of competition on macro level is 0.038 so it was concluded that the level of competition is not significantly influential on labor market flexibility, while the biggest value is presented by the dimension of conditions of employment on micro level of labor market flexibility is 0.411. It also indicated a weak relation between level of material on macro level is 0.031 so it was concluded that the level of material is not significantly influential on labor market flexibility in macro level dimension, while the biggest value is presented by the dimension of tools in outsourcing on micro level of labor market flexibility is 0.390.

Conclusion

The aim of the paper was to research the first insights into the labour market outcomes and outsourcing affect on labour market flexibility in banking in Jakarta, Indonesia. Based on analysis, the labour market outcomes and outsourcing weighed positive and significant effect

on labour market flexibility in banking in Jakarta. Based on hypothesis testing using a technical regression and significance, it depicted that the two independent variables either jointly or partially impacted positively towards labour market flexibility. It concluded that outsourcing contributed a greater influence on labour market flexibility.

The strength of the competitiveness of the economy of Indonesia is derived from macroeconomic condition is relatively stable and market size of Indonesia with two important factors that support the growth of its economy, namely a good demographic conditions and debt levels are low. Specifically, more research is needed to determine whether the flexibility market in Indonesia applied in the right form accordance with the condition of labor market in Indonesia. It should be kept in mind also that our findings are the emergence of inefficiency in the skilled labour market, due to the mismatch of labour supply and labour demand, so that research is needed to identify the cause of the discrepancy and identify ways so that workers can be suited with the potential employer more efficiently by finding a strategy to encourage job seekers and provide information about the work in accordance with the educational background and skills. Indonesia's experience of labor market flexibility clearly prove that it is for the quality of the job market of low and unskilled labour is filled with, this system detrimental to workers. In addition to the excess amount, a low skill workers have put in a weak position to do bargaining. Labor market flexibility as the Government's policy is a policy that is not intact and not based on objective conditions the job market Indonesia. The impact that arises therefore raises the complexity of the situation industrial relations. To increase absorption of labor in the field of formal by strengthening focus on the quality of education in order to improve the competitiveness of Indonesia in region, especially in the service sector and manufacturing.

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