



**FACULTY OF ECONOMICS
ANDALAS UNIVERSITY**

Thesis

**THE IMPACT OF OUTSOURCING ON INDIVIDUAL WAGES IN
INDONESIA**


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The Impact of Outsourcing on Individual Wages in Indonesia
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ABSTRACT

This paper studies the impact of outsourcing on individual wages. In contrast to the standard approach in the literature, we focus on domestic outsourcing as well as foreign outsourcing. By using a simple theoretical model, we argue that, domestic outsourcings as well as foreign outsourcing do affect wages. As predicted by theory, foreign outsourcings have positive outcome to wages. We use a panel data set of workers in Indonesia to show that domestic and foreign outsourcing affect wages as predicted by the theory.

Keywords: outsourcing of labor, comparative advantage, wages

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CHAPTER 1

INTRODUCTION

1.1 Background

The idea of outsourcing is certainly not new. Hiring outside groups to do work that an organization either cannot do or chooses not to do for it dates back as far as one cares to look. Explorers, traders, and mercenaries are all early examples of the concept of outsourcing. Even the term outsourcing is not particularly new. It was first used in the 1970s by manufacturing executives and has been gradually adopted since then by executives in just about every other business function.

Few people realize just how extensively outsourcing is used today. Organizations of all kinds use outsourcing every day to improve the products and services they provide customers. They use outsourcing to free capital and brainpower for investment in research and development, leading to new products and new services. In fact, more than 90 percent of companies say that outsourcing is an important part of their overall business strategy.

This is a fundamental restructuring of organizations that carries enormous implications for all of us: executives, managers, employees, customers, and investors alike. For executives and managers, it means that the skill sets they need to do their jobs will change dramatically. No longer is it sufficient to know how to manage internal resources; managing outside relationships with outsourcing service providers is just as, if not more, important. For employees, greater outsourcing means specialist jobs are likely to continue to migrate from current

employers toward the companies that provide outsourcing services. For customers, it means the companies they are buying from are increasingly leveraging skills and resources from around the world to design, produce, and deliver their products and services. This will continue to expand customer choice while driving down costs. For investors, outsourcing is spurring the formation of thousands of new businesses seeking capital to build and grow. It also becomes increasingly important for investors in established firms to look at a company's entire external network of relationships when evaluating its current operations and future prospects. Outsourcing makes companies more productive and competitive; it also makes them more interdependent. For all these reasons and more, outsourcing's impact on organizations and on the overall economy is just at its beginning.

In Indonesia, regulation about outsourcing has been established since 2003. Government believed that the outsourcing should be able to overcome the unemployment problem in Indonesia; at least outsourcing can reduce the number of unemployment until 25 %. For information, number of the unemployment in Indonesia has reached 10 million people, this condition is getting worse because increasingly scarce in job opportunities and number of unemployment. Moreover, it will cause supply of labor is greater than demand for labor, and then price of labor tends to decrease. In a condition concerning this, outsourcing very assists to decrease the unemployment. Through outsourcing workers can find work more easily with a decent salary. Besides that workers were also given training before working. So this could be an option which is to become unemployed or have chosen to become a contract employee with a decent salary.

CHAPTER VI

CONCLUSION AND RECOMMENDATION

6.1 Conclusion

This paper investigates the relationship between outsourcing and individual wages in Indonesia. The standard approach in the literature on wages and outsourcing is to focus entirely on the consequences of foreign outsourcing. Based on analysis of data that has been done can be drawn the following conclusions:

1. Most of the variables that we use in the model have the expected sign, except for married and experience, and it is not seemed to be consistent with another research. For experience might be acceptable because most of the contract employees are a person who has not experienced, so the experience is not too having a significant impact on wages. While for married is probably related to the data used. Because most of the data collected only those who are still single, so it might cannot represent for the people who married.
2. By using data on the Indonesian labor market, we show that domestic outsourcing as well as foreign outsourcing does affect wages. As predicted by theory, foreign outsourcing has a positive outcome to wages. However, it should be noted that this study has been unable to find evidence that foreign outsourcing benefit unskilled labor. Foreign outsourcing is likely to be biased towards activities intensive in unskilled labor, and in that situation our model predicts that foreign

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