

A Critical Analysis of Outsourcing Practices in the Manufacturing Industry in Indonesia: A Regulatory and Work Ethics Perspective

Irgi Maulana^{1*}, Finarsih Septria², and Keukeu Anggraeni³

¹ Management, Gici College of Economics, Depok, 16438, Indonesia

² Bina Sarana Informatika University

³ Management, Gici College of Economics

ABSTRACT

This paper examines outsourcing practices in the manufacturing industry in Indonesia, focusing on regulatory and ethical aspects. This topic is interesting because outsourcing is still a major strategy for companies to achieve efficiency, yet it continues to spark debates about fairness and protection for workers. The main issue addressed in this study is how outsourcing practices affect fairness in labor relations and the protection of workers' rights within the existing regulatory and ethical framework. This paper offers a critical perspective based on recent literature after the enactment of the Omnibus Law (Job Creation), an approach that has not been widely explored in academic literature on outsourcing practices in Indonesia. This research uses a qualitative approach through literature review. The data analyzed includes regulatory documents, academic journals, and reports from relevant reputable institutions from 2021 to 2024. The findings show that post-Omnibus Law labor regulations tend to favor employers and do not fully guarantee justice for outsourced workers. In addition, outsourcing practices that lack an ethical foundation weaken workers' motivation and disrupt healthy industrial relations. This study concludes that there is a need to reformulate labor policies and strengthen ethical practices in the implementation of outsourcing. The implications of this study emphasize the importance of promoting fair and sustainable employment relations in the manufacturing sector.

ARTICLE INFO

Submission:
05/17/2025
Reviewing:
06/16/2025
Edited:07/05/2025
Published:07/30/2025

Keywords:
Outsourcing, Labor
Regulations, Worker
Protection, Ethical
Practices, Industrial
Relations,

p-ISSN: xxxx-xxxx
e-ISSN: xxxx-xxxx

* * Corresponding Author at Jl. Raya Citayam No.RT 001/005, Pd. Jaya, Kec. Cipayung, Kota Depok, Jawa Barat, Indonesia.

E-mail address: irgim272@gmail.com, finarsihseptria@yahoo.co.id, kekeanggraeni99@gmail.com

<https://doi.org/xxxx>

Introduction

In the era of globalization and cost-efficiency pressures, outsourcing has become a common strategy for companies, especially in the manufacturing sector. Outsourcing is considered to increase operational flexibility, reduce labor costs, and allow companies to focus on their core competencies (Amjad et al., 2021). However, this practice has also drawn various criticisms, especially with regard to the protection of labor rights, workers' welfare, and the ethics of industrial relations.

In Indonesia, the practice of outsourcing has become an important part of the employment structure, especially in labor-intensive industries such as manufacturing. According to data from the Central Bureau of Statistics (BPS, 2022), The manufacturing sector absorbs a large number of workers, some of whom are recruited through third parties. This phenomenon causes various problems, ranging from unclear working status, lack of social security, to low access to legal protection. The practice of outsourcing is often considered to create a layer of labor that is structurally vulnerable (Hamdallah, 2023).

From a regulatory perspective, the Indonesian government has set limits on the practice of outsourcing through Law No. 13/2003 on Manpower, which was later amended by the Job Creation Law (UU No. 11 Tahun 2020, n.d.) and its derivative regulations. However, labor policies that have developed to date show a tug of war between the drive for economic efficiency and a commitment to the protection of labor. This has given rise to doubts from various circles about the extent to which outsourcing regulations are able to guarantee the protection of workers' rights and uphold the principle of justice in industrial relations (Pratiwi & Andani, 2022).

Ethically, the practice of outsourcing poses a dilemma between business needs and the company's moral responsibility towards workers. In this context, it is important to assess whether outsourcing practices are carried out with due regard for work ethics, the principle of equality and the long-term welfare of workers. Several studies have shown that unequal treatment of outsourced workers can lead to a decrease in work motivation and loyalty to the company (Sutrasna, 2023).

Therefore, this study aims to critically analyze the practice of outsourcing in the manufacturing industry in Indonesia by reviewing it from two main perspectives: regulation and work ethics. This research uses a qualitative approach based on secondary data, by exploring various sources such as academic journals, policy reports, government regulations, and media articles as the basis for analysis. With this approach, the researcher hopes to contribute to strengthening the discourse on fair and sustainable labor practices in Indonesia's manufacturing industry sector.

Literature Review

Outsourcing practices have been part of the global employment dynamics since the 1980s, along with the development of lean production models and organizational restructuring in the face of increasingly complex market competition (Lacity et al., 2017). In the context of human resource management (HRM), outsourcing is seen as a strategy to transfer non-core activities to a third party in order to increase organizational efficiency and flexibility (Amjad et al., 2021).

Although outsourcing strategies are considered to increase the flexibility and efficiency of company operations, a number of studies have shown that this practice also has adverse social consequences, such as insecurity of employment status, low wage levels, and limited access to social protection (Xiao et al., 2024). In the manufacturing sector, outsourced workers tend to occupy more vulnerable and marginalized working positions compared to direct company workers, both in terms of job security and access to employment rights. This inequality reinforces hierarchies in the workforce structure and challenges efforts to realize social justice in the industrial work environment (Inverardi, 2023).

From a regulatory perspective, several researchers have highlighted that labor regulations in developing countries, including Indonesia, have not been able to fully protect outsourced workers optimally. The Job Creation Law, for example, has led to debate regarding the relaxation of supervision over outsourcing practices (Makruf et al., 2025). In a review of the Indonesian labor law system, (Farianto, 2019) stated that weak law enforcement is at the root of the exploitation of outsourced workers in many sectors.

In the study of business ethics, the practice of outsourcing is also examined through the approaches of work ethics and corporate social responsibility (CSR). Some literature asserts that companies are not only legally but also morally responsible for the conditions of their workforce, including outsourced workers (Freeman et al., 2017). According to (Anggraini, 2024), unequal treatment of outsourced workers can have a negative impact on long-term organizational performance due to decreased motivation and productivity.

Previous research examining outsourcing practices in Indonesia has mostly focused on the economic and legal aspects. However, not many have integrated the analysis between the prevailing legal framework and the values of work ethics into a unified narrative. Therefore, this article attempts to fill this gap by analyzing outsourcing practices in Indonesia's manufacturing industry through two lenses: regulation and work ethics, using a qualitative approach based on secondary data.

Method, Data, and Analysis

This research uses a descriptive qualitative approach with a library research method. This approach was chosen because it was able to provide an in-depth understanding of the

outsourcing phenomenon in the Indonesian manufacturing industry, especially from the perspective of regulations and work ethics. Qualitative research does not aim to measure, but rather to understand the social context critically and interpretatively (Zhang, 2018).

Data Collection

The data sources in this study are all derived from primary secondary data, namely official documents, scientific journal articles, academic books, international organization reports, and relevant government regulations. Some of the main sources include: Job Creation Law, Minister of Manpower Regulation, publications from the ILO, as well as BPS and Ministry of Manpower annual report data. In addition, international and national journal articles from platforms such as Google Scholar, Scopus, and ScienceDirect are the main references in analyzing ethical and social aspects.

Unit of Analysis and Research Context

The unit of analysis in this study is the practice of labor outsourcing in the manufacturing industry in Indonesia. The geographical context covers Indonesia in general, without restriction to one particular company or province, in order to capture the policy framework and its systemic impact.

Data Analysis Technique

Data analysis was conducted through thematic content analysis to identify important themes from various relevant secondary sources. Researchers classified the data based on two main categories, namely: (1) Regulatory Aspects and (2) Work Ethics Aspects. Each data was manually coded to identify patterns, differences, and important intersections between law and social practice that emerged in the literature. This analysis model refers to the approach used by (Najmah et al., 2023) in document analysis.

Validity Criteria

To ensure credibility and validity, the data used was rigorously selected based on academic relevance, publishing authority, and actuality of the sources. Only sources published in at least the last 10 years (2015-2024) and with academic authority (peer-reviewed journals, official government regulations, or international institutional reports) were used in the analysis.

Result and Discussion

Regulation on Outsourcing in Indonesia: Dynamics and Ambiguities

The regulation of outsourcing practices in Indonesia has undergone a significant transformation since the enactment of Law No. 11/2020 on Job Creation, which revised a number of provisions in Law No. 13/2003. This reformulation loosened the restrictions on the types of work that could be outsourced, thus encouraging the liberalization of outsourcing practices. However, this new provision has drawn criticism because it is considered to have the potential to

weaken the legal protection of outsourced workers and create uncertainty in employment relationships (Dwiono et al., 2024).

In addition, Government Regulation (PP) No. 35 of 2021 as the implementing regulation of the Job Creation Law expands the space for employers to hand over the implementation of work to labor provider companies without strict sector restrictions. This provision is considered to deviate from the principle of labor protection because it has the potential to put outsourced workers in an increasingly weak position legally and socially (Ode, 2024). These regulations are considered more pro-investor and have the potential to create labor segmentation between permanent and outsourced workers.

Implications of Work Ethics in Outsourcing Practices

From a work ethics perspective, the practice of outsourcing in Indonesia's manufacturing industry raises various issues. Outsourced workers often receive lower wages, have limited career paths, and lack long-term job security (Aini, 2024). This creates inequality and has the potential to reduce work motivation, which in turn impacts productivity.

Work ethics are also closely related to fairness in industrial relations. In many cases, outsourced workers do not receive the same rights as permanent workers despite doing the same work (Sudiarawan et al., 2023). This phenomenon creates an unequal work environment and lowers trust in the formal employment system.

According to a survey conducted by (ILO, 2022), many outsourced workers feel they lack a voice in workplace decision-making. This inequality runs counter to the principle of participation in contemporary work ethics, which emphasizes inclusion and openness.

The Effect of Outsourcing Practices on Industrial Relations

The literature shows that the widespread use of outsourcing can weaken industrial relations between workers and the parent company. Outsourcing places workers in an indirect employment relationship, which makes it difficult for unions to fight for the rights of their members (Harto & Pramuditha, 2021). In the long term, this practice can weaken the existence of labor unions, considering that many outsourced workers are not involved in union activities or are even prohibited from joining.

For companies, outsourcing is often considered a strategic move to increase cost efficiency and adjust operational capacity. However, this approach often neglects moral considerations and workers' rights, which can ultimately damage the reputation and sustainability of the business in the long run (Jesus, 2024).

Good Practices and Alternatives Policy

Nevertheless, there are also manufacturing companies that are beginning to implement ethical outsourcing practices, such as ensuring wage equality, health guarantees, and contract transparency. Study by (Zulkarnaen & Efendy, 2017) shows that a collaborative approach

between companies and outsourcing providers can create fairer and more productive working conditions.

Normatively, outsourcing policies should reflect a balance between economic efficiency and social justice. Therefore, it is necessary to reformulate policies that place workers as subjects, not merely as objects of production.

Therefore, it is necessary to reformulate policies that place workers as subjects, not merely as objects of production.

Conclusion and Recommendations

Conclusion

The practice of outsourcing in the manufacturing industry in Indonesia is a complex and multidimensional phenomenon. Based on the analysis of secondary data from various legal, economic, and labor ethics literatures, it can be concluded that the implementation of outsourcing in Indonesia still faces significant challenges, particularly in the aspects of worker rights protection and the application of work ethics principles.

The existing regulations, especially after the enactment of the Job Creation Law and its derivative regulations, tend to provide high flexibility for employers, but have not yet fully guaranteed the welfare and long-term protection of outsourcing workers. This reinforces the imbalance in industrial relations and has the potential to create unfair working conditions.

Ethically, outsourcing practices that do not consider the balance between efficiency and fairness can weaken work motivation, reduce productivity, and disrupt the stability of work relationships. Therefore, the need for a renewed perspective in outsourcing policies and practices has become a necessity.

Recommendations

1. Revision of Employment Policy

The government needs to reevaluate outsourcing regulations with a more equitable approach, considering the protection of the basic rights of outsourced workers, and limiting the types of core jobs that can be outsourced.

2. Ethical and Fair Outsourcing Practices Based on Ethics and Justice

Manufacturing companies need to implement equal work standards for all workers, both permanent and outsourced, including wages, working hours, and social security.

3. Strengthening Labor Unions

Stronger legal protections are needed to ensure that outsourced workers can join labor unions and have access to dispute resolution mechanisms.

4. Employment Ethics Audit

The government and non-governmental organizations can conduct independent audits or monitoring of outsourcing practices to ensure that there are no violations of human rights and work ethics in the industrial environment.

5. Education and Training for the Workforce

To enhance the bargaining power of outsourcing workers, it is necessary to provide training and skill development programs that are relevant to the long-term needs of the industry.

By thoroughly considering regulatory and ethical aspects, outsourcing practices are expected to be directed towards becoming a fair, inclusive, and sustainable work mechanism for all parties involved.

References

- Aini, S. N. (2024). The Impacts of the Use of Outsourced Labor on the Welfare of Workers in Indonesia. *Jurnal Pengembangan Ketenagakerjaan*, 2(2). <https://doi.org/10.59574/JPK.V2I2.110>
- Amjad, F., Abbas, W., Zia-UR-Rehman, M., Baig, S. A., Hashim, M., Khan, A., & Rehman, H. ur. (2021). Effect of green human resource management practices on organizational sustainability: the mediating role of environmental and employee performance. *Environmental Science and Pollution Research*, 28(22), 28191–28206. <https://doi.org/10.1007/S11356-020-11307-9/METRICS>
- Anggraini, F. W. (2024). *HUBUNGAN DEPENDENCE PERTUMBUHAN EKONOMI, KETIMPANGAN PENDAPATAN, DAN FINANCIAL DEEPENING DI 6 NEGARA ANGGOTA ASEAN*. <https://repository.uinjkt.ac.id/dspace/handle/123456789/76986>
- BPS. (2022). *Keadaan Angkatan Kerja di Indonesia Agustus 2022 - Badan Pusat Statistik Indonesia*. <https://www.bps.go.id/id/publication/2022/12/07/a64afccf38fbf6deb81a5dc0/keadaan-angkatan-kerja-di-indonesia-agustus-2022.html>
- Dwiono, S., Kotabumi, M., Kumedi Ja'far, A., Raden, U., Lampung, I., & Haryadi, S. (2024). An Analysis on the Omnibus Law and Its Challenges in Indonesia: The Perspectives of the Constitutional and the Islamic Law. *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam*, 8(2), 706–725. <https://doi.org/10.22373/SJHK.V8I2.22720>
- Farianto, W. (2019). *Pola Hubungan Hukum Pemberi Kerja dan Pekerja: Hubungan Kerja Kemitraan dan ... - Willy Farianto - Google Buku* (M. Sari, Ed.; 1st ed.). Sinar Grafika. https://books.google.co.id/books?hl=id&lr=&id=ZlwmEAAQBAJ&oi=fnd&pg=PR1&dq=lemahnya+penegakan+hukum+menjadi+akar+dari+eksploitasi+pekerja+outsourcing+di+banyak+sektor&ots=zupmSeyiFJ&sig=Y7g_aa-JThU_XBsmL4g57lv-wHI&redir_esc=y#v=onepage&q&f=false
- Freeman, R. E., Harrison, J. S., & Wicks, A. C. (2017). Managing for Stakeholders. *Managing for Stakeholders*. <https://doi.org/10.12987/9780300138498>
- Hamdallah, M. Y. (2023). *Analisis Pengaruh Transformasi Struktural terhadap Degradasi Lingkungan melalui Surplus Populasi Relatif di Indonesia*. <https://repository.unhas.ac.id/id/eprint/36071/>
- Harto, B., & Pramuditha, P. (2021). LITERATURE REVIEW: OUTSOURCING AND OFFSHORING DEVELOPMENT TO ECONOMIC CONDITIONS IN COVID-19 PANDEMIC. *JURISMA: Jurnal Riset Bisnis & Manajemen*, 12(1), 102–116. <https://doi.org/10.34010/JURISMA.V12I1.4349>
- ILO. (2022). *The Employment-Environment-Climate Nexus Factsheets are a series produced for countries in the Indonesia*. <https://epi.yale.edu/downloads>
- Inverardi, C. F. (2023). Overtime: The Cultural Political Economy of Illicit Labor in the Electronics Industry. *Economic Geography*, 99(2), 140–160. <https://doi.org/10.1080/00130095.2022.2142111>
- Jesus, J. B. (2024). *PERCEPTION ON HUMAN CAPITAL MANAGEMENT PRACTICES IN THE BUSINESS PROCESS OUTSOURCING IN CEBU CITY, PHILIPPINES*. <https://doi.org/10.5281/zenodo.10815592>

- Lacity, M. C., Willcocks, L. P., & Sauer, C. (2017). *Outsourcing and Offshoring Business Services*. Palgrave Macmillan. <https://doi.org/10.1007/978-3-329-52651-5>
- Makruf, S., Sunan Gunung Djati Bandung, U., Yudha Pratama UIN Sunan Gunung Djati Bandung, B., Nur Muslimah UIN Sunan Gunung Djati Bandung, A., Ilham Pratama, M., & Shaleh, C. (2025). Teori Hukum dan Filsafat Hukum: Membangun Responsivitas terhadap Perubahan Ekonomi dan Sosial. *Al - Muamalat: Jurnal Hukum Dan Ekonomi Syariah*, 10(1), 94–112. <https://doi.org/10.32505/MUAMALAT.V10I1.9614>
- Ode, M. N. A.-A. (2024). Navigating The Impact of Outsourcing Rule Changes Under the Omnibus Law on Job Creation. *Jurnal Hukum Dan Kenotariatan*, 8(1), 36–47. <https://doi.org/10.33474/HUKENO.V8I1.21413>
- Najmah, Adelliani, N., Sucirahayu, C. A., & Zanjabila, A. R. (2023). *Analisis Tematik pada Penelitian Kualitatif* (1st ed.). Salemba Medika. https://books.google.co.id/books?hl=id&lr=&id=3gfZEAAAQBAJ&oi=fnd&pg=PP1&dq=analisis+tematik+kualitatif&ots=g5Uw64X2s3&sig=T3mdkSMRW3A0ZXJSQzeqXTFJlM&redir_esc=y#v=onepage&q=analisis%20tematik%20kualitatif&f=false
- Pratiwi, W. B., & Andani, D. (2022). Perlindungan Hukum Tenaga Kerja Dengan Sistem Outsourcing Di Indonesia. *Jurnal Hukum IUS QUIA IUSTUM*, 29(3), 652–673. <https://doi.org/10.20885/IUSTUM.VOL29.ISS3.ART9>
- Sudiarawan, K. A., Dharmawan, N. K. S., Karunian, A. Y., Dananjaya, I. K., & Lokahita, K. I. (2023). The Indonesian Outsourcing Workers' Rights in the Tourism Business Sector: Toward Better Protection? *Lentera Hukum*, 10(3), 365–390. <https://doi.org/10.19184/EJLH.V10I3.43325>
- Sutrasna, Y. (2023). *Manajemen Sumber Daya Manusia: Disrupsi Teknologi Dan Kesenjangan Generasi* (H. Wijayanti, Ed.; 1st ed.). CV Jejak. https://books.google.co.id/books?hl=id&lr=&id=RXLCEAAAQBAJ&oi=fnd&pg=PP1&dq=Kesenjangan+Etika+dalam+Hubungan+Kerja+Outsourcing:+Sebuah+Studi+Literatur&ots=QC6zraQeiG&sig=vO0_hdsBqdbS-rmCeXFuKNzbjR0&redir_esc=y#v=onepage&q&f=false
- UU No. 11 Tahun 2020. (n.d.). *UU No. 11 Tahun 2020*. Retrieved April 17, 2025, from <https://peraturan.bpk.go.id/Details/149750/uu-no-11-tahun-2020>
- Xiao, Q., Cooke, F. L., & Xiao, M. (2024). In search of organizational strategic competitiveness? A systematic review of human resource outsourcing literature (1999–2022). *The International Journal of Human Resource Management*, 35(6), 1088–1131. <https://doi.org/10.1080/09585192.2023.2258360>
- Zhang, Q. (2018). Research on Apple Inc's Current Developing Conditions. *Open Journal of Business and Management*, 06(01), 39–46. <https://doi.org/10.4236/OJBM.2018.61003>
- Zulkarnaen, Rd. D., & Efendy, H. (2017). Outsourcing in Positive Law and Practice in Indonesia. *Case Studies in Business and Management*, 4(2), 70. <https://doi.org/10.5296/CSBM.V4I2.11867>