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WORLD MARITIME UNIVERSITY

Malmö, Sweden

**OUTSOURCING WORKERS IN
INDONESIA PORT CORPORATION II**

**A Cost Effective Measure In The Procurement Bureau and
Recommended Actions for IPC**

By

NI MADE DEVITA

Republic of Indonesia

A dissertation submitted to the World Maritime University in partial

Fulfilment of the requirements for the award of the degree of

MASTER OF SCIENCE

In

MARITIME AFFAIRS

PORT MANAGEMENT

2014

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DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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ABSTRACT

Title of Dissertation : **Outsourcing Workers in Indonesia Port Corporation II
A Cost Effective Measure in The Procurement Bureau and
Recommended Actions for IPC**

Degree : **MSc**

Indonesia Port Corporation II (IPC) is one of the State-Owned Enterprises (SOE) in the maritime industry engaged in port and logistic services that implements outsourcing to support performance and productivity. Before the Regulation of the Minister of Manpower and Transmigration Number 19 of 2012, concerning the Requirement of Assignment of Part of the Implementation of the Work, came into force, IPC was often considered to be violating the provisions of employment law because it outsourced its core business, which was prohibited.

Consequently, asBUPI (Indonesian Port Enterprises Association) was established in order to form clear definitions of “core” and “supporting” activities in ports by establishing a business flow that contains both activities. Moreover, the clear definitions of core and supporting activities then became the legal basis for IPC to outsource their work. This research attempts to analyse and evaluate the application of outsourcing at the Procurement Bureau of IPC through workload and cost effectiveness analysis.

In practice, there are many obstacles when outsourcing occurs in IPC. For instance, outsourced workers often conduct strikes and demonstrations, and demand to permanent IPC status. These circumstances definitely disturb port operations and IPC can not grant all of their demands due to financial reasons.

Therefore, this study addresses three recommendations to address this issue as follows. First, a solution that should be carried out by IPC; Second, a solution to managing outsourced workers; and third, a solution related to outsourcing service provider companies.

KEYWORDS: Outsourcing, Core Business, Cost Effective

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LIST OF ABBREVIATIONS

AsBUPI	Asosiasi Badan Usaha Pelabuhan Indonesia or Indonesian Port Enterprises Association
BPP	Beban Tugas or a number of workload in a year
HR	Human Resource
ILO	International Labour Organization
IPC	Indonesia Port Corporation II
Jamsostek	Jaminan Sosial Tenaga Kerja or Workers' Social Security
JICT	Jakarta International Container Terminal
Kopegmar	Koperasi Pegawai Maritim or Maritime Workers Cooperative
KPI	Key Performance Indicator
NI	Net Income
PDS	Pelindo Daya Sejahtera Corporation
PT	Perusahaan Terbatas or Limited Liability Company
SKR	Standard Kemampuan Rata-rata or Average Ability Standard of Task Completion Time
SOE	State-Owned Enterprises
TE	Total Employee
THP	Take Home Pay
TR	Total Revenue
WPT	Waktu Penyelesaian Tugas or Task Completion Time

1 INTRODUCTION

1.1 Overview

Increasingly tight competition requires companies to be more flexible in responding to market demand. The strategy of outsourcing is a form of flexibility that is often practiced by companies (Wahyuni, Idrus, Zain, & Rahayu, 2010). The term outsourcing is derived from the words "out" and "source" which means a source from outside, and is a management approach that gives authority to a third party to take responsibility for a process or service previously done by the company.

Indonesia Port Corporation II (IPC) is one of the State-Owned Enterprises (SOE) responsible for the governance, regulation, maintenance and operation of 12 ports in Indonesia. IPC has established policies to use outsourced workers to meet the demand of workforce in the port.

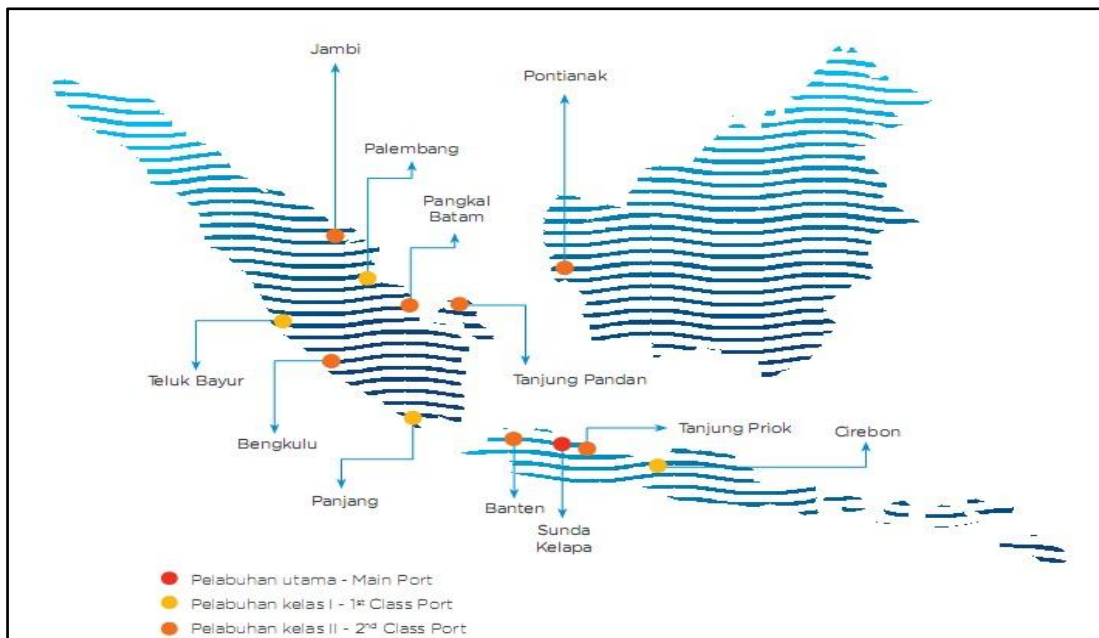


Figure 1-1 Ports Under IPC

Source: (Indonesia Port Corporation II, 2014)

For outsourcing of workers to be really effective, an organization must figure out what can be outsourced as well as what cannot be outsourced (Caruth, Haden, & Caruth, 2013). There are several types of activities that, based on regulation, should never be outsourced. Activities related to the core business or confidential information should not be outsourced. Severe problems may arise if a company outsources these activities, such as sanctions from the Ministry of Manpower, loss of confidential information or work not being finished correctly.

Moreover, a company must understand the positive and negative impact of outsourcing workers. A company has to consider the whole aspect because even when the outsourcing strategy promises potential value, there are adverse side effects in practice.

Another strategy to achieve effective outsourcing of workers is creating preventive measures to reduce the negative impacts of outsourcing. A positive mutual relationship must be established between the user company, the outsourcing service provider company and the outsourced workers.

1.2 Identification of problems

The Manpower Act (2003) states that there are five types of job that are allowed to be outsourced, namely hygiene services (cleaning services) business, catering service businesses for workers, business of security personnel (security), ancillary businesses in mining and petroleum and businesses providing transport for workers. In the process, many companies outsource work without referring to that provision. Both permanent workers and outsourced workers are still working in the same field and with the same responsibility. Nevertheless, they are paid differently and accept different facilities, whereby permanent workers continue to receive greater salaries and more complete benefits.

This situation often gives rise to dissatisfaction among outsourced workers. Thus, they perform demonstrations and strikes, demanding permanent status and access to the

same facilities as permanent employees. The strikes and demonstrations inevitably affect the business of the company negatively.

The same circumstances occur in the IPC. Conceding to the demands of outsourced workers to promote them to permanent workers is not possible and would increase operational costs. On the other hand, considering all of the risks mentioned, companies start to question whether outsourcing is the right decision to make or not. Therefore, IPC needs to understand all aspects related to outsourcing in order to implement it successfully.

1.3 Objectives

The purpose of this study is to identify jobs that can be outsourced in the IPC, to analyze the application of outsourcing in the Procurement Bureau as well as benefits that can be obtained, and actions that should be taken to perform outsourcing successfully.

1.4 Research questions

How is outsourcing implemented at IPC? This dissertation intends to conduct an analysis to answer this question. The analysis will also answer the following questions:

1. What kind of work can be outsourced?
2. How should the application of outsourcing in the Procurement Bureau be analysed and what benefits can be obtained?
3. What actions should be taken to perform outsourcing successfully?

1.5 Methodology

In collecting the necessary data and information, the following methods have been applied:

1. Interviewing parties that are involved in the processes this research focuses on, such as management of IPC, outsourced workers and outsourcing service provider companies. The interviews were conducted over the phone and the internet.
2. The data for workload analysis was obtained through open interviews and observation. The calculations were made based on the Decree of State Minister for the Empowerment of State Apparatus (2004) Number KEP/75/M.PAN/7/2004 on Guidelines for Calculation of Employee's Need based Workload.
3. Collecting secondary data and information available in IPC databases
4. Conducting literature research on other institutions related to the main service of the port operator, the WMU library, the Malmö city library, internet (outsourcing institutes) and other sources
5. Consulting with experts at WMU and other companies to gain the necessary information and to confirm the process of analysis

1.6 Limitations of the study

The author failed to obtain data and information about the application of outsourcing in other similar companies, so data comparison was not possible. The limitations of work time and the broad scope of the IPC's departments/divisions are two problems arising in analyzing outsourcing in the IPC as a whole.

It is expected that this paper can contribute to IPC's achievement of higher advantages of outsourcing in terms of cost and productivity. In addition, this will also help the company in resolving its outsourcing employment problems.

2 A PROFILE OF INDONESIA PORT CORPORATION II

Indonesia Port Corporation II (IPC) is one of the State-Owned Enterprises (SOE) in the transportation sector responsible for port and logistic services. IPC is situated in Jakarta, the capital city of Indonesia known as its main economic node and strategic gateway for export-import operations in Indonesia.

2.1 Historical Background

The IPC's history started in 1960 when the government of the Republic of Indonesia issued the decision to establish State Enterprise of Pelabuhan I to Pelabuhan VIII as the managing parties for all sea ports in Indonesia according to Government Regulation Number 19/1960 on public port management conducted by the port management agency (BPP) (Indonesia Port Corporation II, 2014).

BPP had an obligation to the commercial sector management, while the Port Administrator (Adpel) had responsibility for the operational sector coordination. The separated tasks occurred because the government decided to restructure public port management in 1964 by dividing the operational and commercial sectors in the management of the ports.

From 1969 until 1983, the BPP operated each seaport according to Government Regulation Number 18/1969. In 1983, the status of BPP was transformed into Perusahaan Umum (Perum) by the government. As a result, BPP only operated the public ports for commercial purposes. Further, the management of public ports, which are not designed for commercial purposes, was taken over by the Technical Implementation Unit of the Directorate General of Sea Transportation, Ministry of Transportation.

According to Government Regulation Number 15/1983 juncto PP Number 5 dated 5 February 1983, PerumPelabuhan was merged and divided into four operational regions under the names of PerumPelabuhan I to IV (Indonesia Port Corporation II, 2014). The four companies became State-Owned Enterprises (SOE) under the supervision of the Ministry Transportation of the Republic of Indonesia.

According to Government Regulation Number 57/1991, the Perum was changed into a Limited Liability Company (PT) in which the government owned all shares leading to the change in name to PT Pelabuhan Indonesia II, as stated in Notarial Deed Number 3, dated 1 December 1992, and changed by Notarial Deed Number 4, dated 5 May 1998, both notarized under Notary Imas Fatimah, S.H., a notary in Jakarta and approved by the Ministry of Justice of the Republic Indonesia under Decision Letter Number C2-17612-HT.01.01.TH.98, dated 6 October 1998.

The latest amendment to the Company's Articles of Association was made based on the resolutions of Shareholders General Meeting Number 2 of Notary AgusSudionoKuntjoro, SH, dated 15 August 2008 jo. Act Number3, dated July 30, 2009. This amendment to the Articles of Association had obtained approval from the Ministry of Justice and Human Rights of Republic of Indonesia Number AHU-80894.AH.01.02.2008, dated 3 November 2008. The legal standing for the establishment of the Company as a state owned company managing port business was the Law Number 19/2003 concerning State Owned Companies, the law Number 40 Year 2007 on Limited Liability Companies, and the Shipping Law Number 17 of 2008, and the Government Regulation Number 61 Year 2009.

2.2 Head Office, Branches, Subsidiaries and Affiliates

The IPC head office is located in Jakarta and it has operational areas across 10 provinces. The operating areas include 12 ports:

1. TelukBayur Port in West Sumatra Province;
2. Jambi Port in Jambi Province;
3. Palembang Boom Baru Port in South Sumatra;
4. Bengkulu Port in Bengkulu Province;
5. Panjang Port in Lampung Province;
6. TanjungPandan Port and PangkalBalam Port in Bangka Belitung Province;
7. Banten Port in Banten Province;
8. TanjungPriok Port and SundaKelapa Port in DKI Jakarta Province;

9. Cirebon Port in West Java Province; and
10. Pontianak Port in West Kalimantan Province.

Furthermore, IPC has planned the construction of three new ports which are:

1. Kalibaru Utara Port (Jakarta);
2. Sorong (West Papua); and
3. Batam (Riau Island).

IPC also has 15 subsidiaries namely:

1. KSO Terminal PetikemasKoja (TPK Koja);
2. PT Jakarta International Container Terminal (JICT
3. PT RumahSakitPelabuhan (RSP);
4. PT EDI Indonesia (EDII);
5. PT Multi Terminal Indonesia (MTI);
6. PT IntegrasiLogistikCiptaSolusi (ILCS);
7. PT Indonesia Kendaraan Terminal (IKT);
8. PT JasaPeralatanPelabuhan Indonesia (JPPI);
9. PT PengembangPelabuhan Indonesia (PPI);
10. PT EnergiPelabuhan Indonesia (EPI);
11. PT Jasa Armada Indonesia (JAI);
12. PT PendidikanMaritimdanLogistik Indonesia (PMLI);
13. PT IPC Terminal Petikemas;
14. PT Pengerukan Indonesia;
15. PT Terminal Petikemas Indonesia.

IPC not only conducts port management activities, but also engages in other relevant business sectors such as equipment maintenance, port energy supply, and port development. The organization set up Business Partner Cooperations (KSMU) together with business partners from private companies such as Terminal Operator cooperation, tug boats, and management of other port facilities in order to perform port operation and management activities (Indonesia Port Corporation II, 2014).

2.3 Vision and Mission

IPC was established as a modern, efficient, and excellent port service provider for customers. IPC has also set up its vision, mission and company commitment in order to reach the goal of becoming a world class port operator,

The company's vision is to become the preferred partner for reliable, best class in port and logistics services by creating an exciting enterprise for the people of Indonesia and contributing to national growth (Indonesia Port Corporation II, 2014). The company's mission is to ensure the quality of port services with an excellent logistics network to fulfill the expectations of key stakeholders (customers, shareholders, employees, partners and regulators), determining the security and safety of vessel and cargo traffic to create the efficiency of logistics costs in order to support national economic growth.

The company's commitments are (Indonesia Port Corporation II, 2014):

1. To the partners and the port service customers:
To provide and operate reliable and world-class quality port services;
2. To the national interests:
To escalate the organization's welfare and boost national economic development professionally;
3. To the port community:
To promote the establishment of cooperative and communal port society;
4. To the company's members:
To develop human resources that are loyal, qualified, optimistic, friendly and service oriented, proud of the company and its culture, and to implement welfare and work.

2.4 Business Segments

IPC provides three types of business activities (Indonesia Port Corporation II, 2014). The features of these services are maintaining the safety of the vessel, passengers and cargo.

1. Ship Services

The company offers ship services starting from the time vessels enter the port until they depart from the port. The services are:

- Anchorage Service
- Mooring Service
- Pilotage Service
- Towage Service
- Fresh Water Service

2. Cargo Services

The company offers cargo loading and unloading of the ships and cargo delivery to the owners. The provided services are:

- Public Berth
- Storage Warehouse
- Storage Yard
- Private Berth

3. Other Services

For operational supporting processes, IPC provides other services. The other services are:

- Port Equipment Maintenance Services
- Land Rental, Buildings, Water and Electricity
- Miscellaneous Business Services

2.5 Overview of Branches

As was mentioned before, IPC has 10 branches. Each branch has its special characteristics as follows:

1. Port of TanjungPriok

Port of TanjungPriok is the largest and the busiest port in Indonesia because its location is near a hinterland, an area with trading and industrial activities. The Port of TanjungPriok lies at 06 06/00" S in latitude and 106 53/00" W in longitude. The port has a channel with a length of 19,850 m, a width of 30-150 m and a maximum depth of 14 LWS. The port also has breakwaters of 9,247 km in length. In addition, the container yard area is 879,304 m², the conventional yard area is 166,128 m² and the warehouse area is 101,977 m² (Indonesia Port Corporation II, 2014).

Facilities:

Stevedoring Equipment

Excavator	:	11 Units
Reach Stacker	:	58 Units
Shore Crane	:	7 Units
Forklift	:	124 Units
Mobile Crane	:	1 Unit
Top Loader	:	7 Units
HMC	:	14 Units
Quay Container Crane	:	7 Units
Rubber Tyred Gantry Crane	:	14 Units
Rail Mounted Gantry Crane	:	5 Units
Side Loader	:	1 Unit

Floating Equipment

Tugboat	:	20 Units
Pilot Boat	:	11 Units

Mooring Boat	:	7 Units
Survey Boat	:	1 Unit

2. Port of Panjang

The Port of Panjang is situated in Lampung Province. The Port of Panjang is the biggest port in Sumatera Island and has a significant role as the major point for economic growth. The Port of Panjang lies at 50 28' 23" S in latitude and 1050 19' 03" E in longitude. This port has 10,000 m in berth length with 7m to 16m LWS in channel and basin depth. The container area is about 75,000 m², the conventional area is 23,253 m² and warehouse area is 5,160 m² with 3 units in total (Indonesia Port Corporation II, 2014).

Facilities:

Stevedoring Equipment

Container Crane	:	3 Units
Forklift	:	9 Units
Transtainer	:	5 Units
Gantry Jib Crane	:	4 Units
Top Loader	:	1 Unit
Side Loader	:	1 Unit
Head Truck	:	13 Units
Chassis	:	15 Units
Mobile Crane	:	2 Units

Floating Equipment

Tugs : 5 Units

Pilot Boat : 6 Units

3. Port of Palembang

The Port of Palembang, known as Boom Baru, is the widestriver port in Sumatra Island. The port has high prospects for future development because it is supported by a wide area for industrial processing activities. The Port of Palembang is located at 20 59' 08" S latitude and 1040 46' 00" E longitude. On the operational side, the port is 109,268 m in channel length with -6 m LWS in channel depth and -7 to -9 m LWS in basin depth. The container area is around 45,328 m², the conventional area is 15,687 m²and warehouse area is 6,785 m².

Facilities:

Stevedoring Equipment

Container Crane	:	2 Units
Forklift	:	16 Units
Side Loader	:	2 Units
Head Truck	:	14 Units
Chassis	:	12 Unit
Reach Stacker	:	1 Unit
Rail Mounted Gantry Crane	:	4 Units
Jib Crane	:	4 Units

Floating Equipment

Tugboat : 3 Units

Pilot Boat	:	6 Units
Mooring Boat	:	1 Units
Water Boat	:	2 Units

4. Port of TelukBayur

TelukBayur Port is situated on the west coast of Sumatera Island. The Port of TelukBayur is an ocean port and is open to international trade. This port is supported by the economic activities area in West Sumatera, including Muara Padang and Air Bangis. This port is situated at 10 00' 04" S latitude and 100 19' 03" E longitude. The channel length is 1,856 m with -2.5 to -12 m LWS in channel depth and -2.5 to -10 m LWS in basin depth. The container yard area is 62,520 m², the conventional yard area is 24,094 m² and storage area is 13,250 m².

Facilities:

Stevedoring Equipment

Forklift	:	4 Units
Mobile Crane	:	1 Unit
Top Loader	:	1 Unit
Side Loader	:	1 Unit
Head Truck	:	10 Units
Chassis	:	11 Units
Reach Stacker	:	3 Units
Spreader	:	1 Unit
Wheel Loader	:	3 Units

Floating Equipment

Tugboat	:	2 Units
Pilot Boat	:	3 Units
Mooring Boat	:	2 Units

5. Port of Pontianak

The Port of Pontianak lies at the Kapuas riverside. The Port of Pontianak consists of the Port of Sintete and the Port of Ketapang, both of which are under IPC's management. The Port of Pontianak is the main port in West Kalimantan and has been strengthened due to the existence of sub-ports near the surrounding area. The port is 31,000 m in channel length with -4 to -9 m LWS in channel depth and -2 to -8 m LWS in basin depth. The container yard area is 47,794 m², the conventional yard area 9,825 m² and total warehouse area is 4,390 m².

Facilities:

Stevedoring Equipment

Container Crane	:	3 Units
Rail Mounted Gantry Crane	:	4 Units
Gantry Jib Crane	:	2 Units
Reach Stacker	:	5 Units
Top Loader	:	2 Units
Side Loader	:	6 Units
Mobile Crane	:	1 Unit
Forklift	:	10 Units
Head Truck	:	13 Units
Tronton	:	4 Units

Chassis : 13 Units

Floating Equipment

Tugboat : 2 Units

Pilot Boat : 3 Units

6. Port of Cirebon

The Port of Cirebon is centrally located on the northern coast of West Java. This port functions as a highway-and-railway-crossing-area to all cities in Java Island. This port lies at 60 42' 55.6" S latitude and 1030 34' 13.9" E longitude. It has 2,500 m in channel length with -5,3 m LWS in channel depth and -2 to -6 m LWS in basin depth. The container yard area is 5,400 m², the conventional area is 27,908 m² and the storage area is 9,863 m².

Facilities:

Stevedoring Equipment

Excavator : 2 Units

Mobile Crane : 1 Unit

Wheel Loader : 1 Unit

Rampdoor : 2 Units

Dump Truck : 4 Units

Floating Equipment

Tugboat : 2 Units

Pilot Boat : 2 Units

7. Port of Jambi

The Port of Jambi is located in TalangDuku, at the Batanghari River in Jambi Province. The hinterland area produces rubber, plywood, and molding industries. Further, the commodities are exported to the Europe, Japan, the Middle East, South Korea andUnited States. The port has 200,942 m in berth length with -3 to -8 m LWS in channel depth and -2.5 to -9 m LWS in berth depth. The container yard area is about 33,869 m², the conventional yard area is 32,295 m² and the storage area is 2,640 m².

Facilities:

Stevedoring Equipment

Mobile Crane	:	2 Units
Forklift	:	10 Units
Head Truck	:	6 Units
Reach Stacker	:	1 Unit
Chassis	:	8 Units
Wheel Loader	:	1 Unit

Floating Equipment

Speed Boat	:	1 Unit
Pilot Boat	:	1 Unit

8. Port of Bengkulu

Bengkulu port is placed around 21 km from city center of Bengkulu. The hinterland area has various commodities such as mining, plantation and forestry. Those potential commodities could stimulate benefits for the development of agribusiness,

mining, and industry. The port lies at 30 54' 26" S latitude and 1020 18' 09" E longitude. The port is 2,000 m in channel length with -12 m LWS in channel depth and -9 to -12 m LWS in basin depth. The conventional yard area is 7,872 m², and the warehouse area is 1,750 m².

Facilities:

Stevedoring Equipment

Forklift	:	4 Units
Conveyor	:	3 Units
Wheel Loader	:	2 Units
Bulldozer	:	1 Unit
Reach Stacker	:	1 Unit
Luffing Crane	:	1 Unit

Floating Equipment

Tugboat	:	2 Units
Pilot Boat	:	2 Units

9. Port of Banten

The Port of Banten is located around 10 km from the center of Serang city, Banten province. The hinterland area is growing fast and becoming an industrial area for steel processing, machinery, chemicals, and palm oil industries. The port of Banten is located at 60 01' 03" S latitude and 1050 57' 04" E longitude. The port has 500 m in channel length, 971 m in berth length with -5 to -13 m LWS in channel depth and -2 to -14 m LWS in basin depth. The conventional yard area is 4,282 m² and warehouse area is 1,595 m².

Facilities:**Stevedoring Equipment**

Container Crane	:	2 Units
Transtainer	:	2 Units
Diesel Forklift	:	1 Unit
Mobile Crane	:	1 Unit
Gantry Crane	:	2 Units
Fire Trucks	:	1 Unit
Spreader	:	2 Units

Floating Equipment

Tugboat	:	2 Units
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10. Port of SundaKelapa

The port of SundaKelapa is located in Jakarta bay. The hinterland area is growing rapidly with offices, hotels, trading and industrial centers. The Port of SundaKelapa is considered the oldest port which has unique characteristics and serves as a maritime tourism site in Jakarta. This port is situated at 06 06/30 'S latitude, 106 07/50 "W longitude. The port is 2,212 m in channel length and 2,411 in berth length with -6 m LWS in channel depth and -3 to -4 m LWS in basin depth. The conventional yard area is 31,169 m² and warehouse area is 8,606 m².

Facilities:**Stevedoring Equipment**

Forklift	:	1 Unit
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11. Port of PangkalBalam

PangkalBalam port is situated in Bangka island, part of Bangka-Belitung province. The main commodities of Bangka Island are, kaolin, palm oil, quartz sand, granite, tin, pepper and rubber. This port is located at 2° 15` 32" S latitude, 106° 71` 54" E longitude. The port is 26,475 m in channel length and 707 m berth length with -1 to -9 m LWS in channel depth and -1 to -7 m LWS in basin depth. The conventional yard area is 6,720 m², the container yard area is 2,391 m² and warehouse area is 1,760 m².

Facilities:

Stevedoring Equipment

Crane	:	2 Units
Forklift	:	4 Units
Jib Crane	:	1 Unit
Head Road Truck	:	4 Units

Floating Equipment

Mooring Boat	:	1 Unit
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12. Port of TanjungPandan

The Port of TanjungPandan is situated in Belitung Island, part of Bangka-Belitung province. Belitung Island has an inland area covering 80.000 Ha of oil palm, kaolin, granite, and quartz sand. Those commodities are produced in Belitung Island and transported through the Port of TanjungPandan to Sumatera and Java Island. Moreover, the Port of TanjungPandan has renovated its passenger terminal into a modern terminal with a capacity of 200 passengers. This terminal is also complete with a VIP room and shop to support tourism development. This port is situated at

2° 04` 00" S latitude and 107° 00` 00" E longitude. The port is 6,300 m in channel length and 395 m berth length with -2,5 m LWS in channel depth and -2,2 to -3 m LWS in basin depth. The conventional yard area is 19,348 m² and warehouse area is 750 m².

Facilities:

Stevedoring Equipment

Mobile Crane : 1 Unit

Floating Equipment

Pilot Boat : 1 Unit

3 LITERATURE REVIEW

3.1 An Overview of Human Resource Outsourcing

With the increasing globalization and competition, companies are becoming more intensive in finding any strategy that can allow them to achieve success. One strategy that can lead to greater competitiveness among those companies is outsourcing (Embleton & Wright, 1998). Outsourcing seems to play a significant role in organizations through a managed outsourcing strategy.

3.1.1 Defining Outsourcing

Elmuti defined outsourcing as the use of outside resources to perform activities traditionally handled by internal staff and resources (Elmuti, 2003). Furthermore, Brown and Wilson described outsourcing as the act of achieving service from external sources (Brown & Wilson, 2005). There are many definitions of this term as found in academic literature, but the key point is that the processes are not done internally.

In the knowledge-based work sense, outsourcing is differentiated from consulting whereby consultants give advice about 'how to do' something, while outsourcing providers tend to 'do it' (Norman, 2009). The popularity of outsourcing is growing worldwide. In recent decades, the number of organizations that outsource their activities has been increasing.

3.1.2 Trend of Human Resource Outsourcing

A company can gain benefit of cost reduction through outsourcing. That is the reason why the market for outsourcing providers has increased dramatically in recent years (Elmuti, 2003). In 2004, McKinsey & Company carried out a survey of 7,300 companies in regards to whether outsourcing to developing countries with low salaries is beneficial to the global economy (Burkholder, 2006). They found that

in Europe, North America and Asia, approximately 80% of companies agreed with the statement. Another question concerned whether or not outsourcing was good for their companies and 97% of companies in India agreed with it, followed by China with 86%, Europe with 70% and lastly, America with 58% in agreement.

There are many activities that can be outsourced. Table 3-1 shows a list of outsourced activities. It can be seen that the human resource function is the most popular outsourced function by 80% of respondents. In India, for example, IT outsourcing is not the only available outsourcing service, but is the most popular service among them. The human resource outsourcing market in India has been growing rapidly in the past decade. The growing market has reached \$32 billion (Sriwongwana, 2009).

Types of Activities or Functions Outsourced	
<i>Number of Respondents</i>	<i>Activities Type</i>
160	Information Technology
	• Application development and support (64%)
	• Contract Programming (54%)
	• Data entry and simple processing (42%)
152	Management Services
	• Payroll (40%)
	• Inventory and data base functions (32%)
	• Human resources functions (80%)
	–Administration of 401(k) retirement plans (42%)
	–Benefit administration (56%)
	–Executive-level searchers (54%)
74	Distribution and or sales of products or services
70	Manufacturing of components for the final product or purchasing
42	Manufacturing of the final product (as a whole)
30	Product design
20	Engineering
18	Research process

Figure 3-1 Types of Activities or Functions Outsourced

Source: (Elmuti, 2003)

According to Orion Partners, the full-service human resource outsourcing market in the world covers more than 128 deals with a value of more than US\$ 23 billion. It shows the fact that human resource outsourcing deals with produced cost savings of at least 20% (Hunter & Saunders, 2007). Nevertheless, besides cost effectiveness, there are many reasons why human resource outsourcing is increasing rapidly in the global market.

3.2 Reasons for and Risks of Outsourcing

3.2.1 Reasons for Outsourcing

There are a variety of reasons that are cited by companies in regard to decision making in human resource outsourcing. In general, some companies tend to outsource because this decision meets the desire to search for innovative ways to improve the efficiency and quality of its business processes through services that can provide added value and consumer satisfaction while having a direct impact on increasing profit.

In a survey conducted by the Outsourcing Institute in New York, covering 1,200 companies, the organization found that outsourcing is done by a company for two reasons, namely for tactical and strategic reasons (Johnson, 1997). The objective of outsourcing for tactical reasons is to enhance service companies with less capital and time. The advantages of tactical reasons are as follows:

Cost effectiveness and time saving

By shifting human resource activities to external parties who have lower cost structures, most companies will save 9% of budgeted costs and experience an increase in capacity and quality of 15% (Embleton and,1998 Wright). Further, more than one third, or as much as 37% of companies surveyed, stated that the main consideration in outsourcing is time saving.

Allowing capital available for core business

In addition, the company expenditure for the purpose of running corporate business functions which are not a core business can be reduced, so that the funds can be shifted to core business. Particular financial measurements will complete through outsourcing by eliminating the need for Return On Equity (ROE) of the funds invested outside the core business (Kotabe & Mol, 2009).

Cash Infusion

Outsourcing can involve transferring assets of an organization to its provider (Embleton & Wright, 1998). The transfer of these assets will provide more cash for the company.

In strategic outsourcing, the purpose changes due to the efforts of management to seek added value from cooperation and outsourcing becomes a strategic tool that is marked with higher economic value in relation to outsourcing, an increasingly integrated scope, and longer relationship duration (Johnson, 1997).

The advantages of strategic reasons are:

Focus on the core business

Many companies take a decision to outsource some of their activities because they want to focus on core competencies (Embleton & Wright, 1998). Outsourcing can reduce the workload of the staff, thus allowing the company to focus on strategic decision making and develop core competencies.

Divide the risk

An investment made by a company basically contains great risks, especially on specific economic conditions. By outsourcing to outside parties, the company becomes more flexible, more dynamic and better in running its business. According

to Suwondo (2003) any risk of job, employment, crime and other risks will be transferred to the provider.

Distributing the limited resources for other strategic purposes

Every company has limited resources. With outsourcing, a company can focus its resources on areas that allow a greater return for the company.

3.2.2 Risks of Outsourcing

Many problems can arise when a company starts to outsource. International research by KPMG (KPMG, 2006) found that 52 % of responding companies said outsourcing providers are insufficient in terms of knowledge, 47% said that the providers are non-responsive to the client, and the remainder said the providers have low performance standards. In other words, not every company is able to carry out outsourcing activities well.

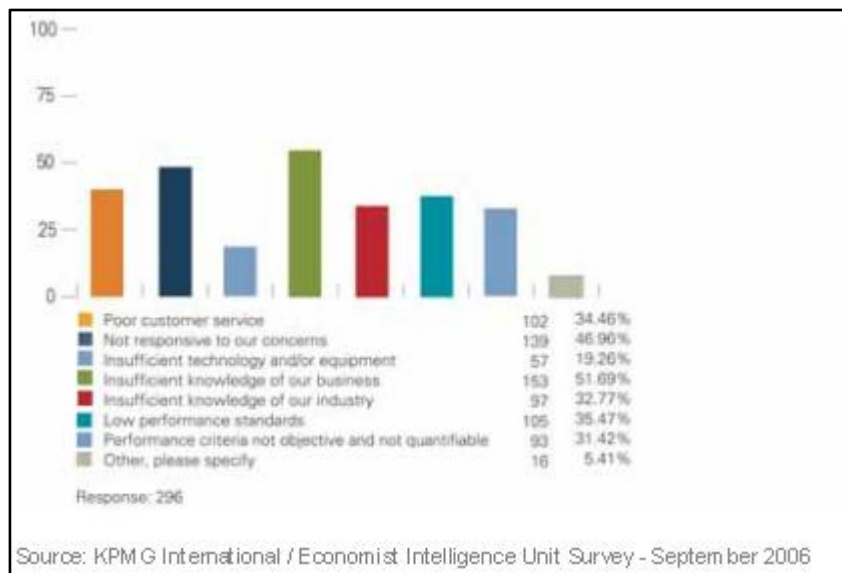


Figure 3-2 Disadvantages of Outsourcing

Other risks that are identified include:

Hidden Costs

There are many hidden costs related to outsourcing that companies should consider and which they might not be able to control. Sriwongwana (2009) explained that the hidden costs include training costs due to lack of knowledge of employees, the expense involved in renewing the system to improve computer functions and losses from incomplete projects as a result of incapability of the provider to transfer their knowledge.

Poor relationship maintenance with outsourcing company

The relationship between the organization and outsourcing provider must be good in order to achieve successful outsourcing (Caruth, Haden, & Caruth, 2013). This is a concern because disharmony between the two parties will cause difficulties in the future.

Confused Responsibilities

Clear and firm role instructions are essential to avoid conflicts that may occur concerning which entity is to perform which functions (Caruth, Haden, & Caruth, 2013). Fracturing of responsibilities may occur because of overlapping functions between the organization and outsourcing provider.

Losing Confidential Information

For some companies, the most strategic assets are confidential data such as customer information, business plans and financial data (Accenture, 2010). By outsourcing, according to Sriwongwana (2009), the risk of losing confidential information, including business transcripts, audit reports and customer and workers data will increase.

Employee Attitude

Research by Sriwongwana reveals that outsourcing could possibly increase negative feelings of permanent workers, which in the future can impact on the organizational culture (Sriwongwana, 2009). An organization imbues permanent workers with feelings of identification, security and belonging. The workers may feel resentful and retaliatory when these are interrupted. They will also be afraid that the company considers employees from outsourcing providers to be more skillful and competent (Çiçek & Özer, 2011). As a consequence, downsizing in employees' morale may drive the most talented and marketable staff to look for opportunities to a different place (Embleton & Wright, 1998).

3.3 Outsourcing in Indonesia

The implementation of outsourcing involves three parties, namely an outsourcing service provider company, a user company and the outsourced workers themselves. Hence, there is a need for regulation that protects the related parties against loss caused during the implementation of outsourcing.

3.3.1 Legal Basis of Outsourcing Implementation

Considering outsourcing business is closely related to employment practices, the Manpower Act Number 13 of 2003 is one of the regulations governing outsourcing in Indonesia and outsourcing is found in Article 64, Article 65 and Article 66.

The government further stipulates in Regulation of the Minister of Manpower and Transmigration Number 19, Year 2012, about Terms of Resignation of Part of Work Implementation to Other Companies on November 19, 2012 in order to improve the decisions of the Minister of Manpower and Transmigration Number KEP 101/MEN/VI/2004 concerning Procedures for Licensing Providers of Services Workers/labourers and Minister of Manpower and Transmigration Number KEP. 220/MEN/X/2004 on Terms of Resignation of a Part of Work Execution to Other Companies (Pangaribuan, 2012).

Approaching the end of 2013, The Minister of Manpower and Transmigration issued Circular Letter Number SE.04/MEN/VIII/2013 on the Guidelines of the Implementation of Regulations of Minister of Manpower and Transmigration Number 19 of 2012 on Conditions for the Assignment of Part of Work to other Companies on 26th August 2013 (Ashurst, 2013). The circular letter regarding implementation of outsourcing guidelines covers factors that should be observed in the implementation of partial work execution to other companies, or the practice of outsourcing.

The basic principle of outsourcing implementation is the occurrence of a cooperation agreement between the user company and outsourcing service provider company and is elaborated in a contract. This is in accordance with the conditions set forth in Article 64 (Manpower Act, 2003), which explains that the organization could hand over a part of its work to be done by another company through a wholesale job contracting agreement or worker provider service agreement.

Thus, the outsourcing can be implemented, on condition that the wholesale job contracting agreement or worker provider service agreement has been signed by the user company and outsourcing services provider company.

3.3.2 Terms of jobs that can be submitted to another party

To be able to implement outsourcing according to law, the first step to undertake to understand what should and should not be outsourced. Under Article 66 of Law Number 13 Year 2003, it is only permissible to outsource the supporting activities and activities not directly related to the production process. In the explanation of Article 66 of Law Number 13 of 2003 (Manpower Act, 2003), it is stated that:

“Ancillary activities are activities which are not directly connected to the production process or related to the principal business (core business) of a company. Such activities include: business services related to hygiene (cleaning service), business providing catering for the workers/labourers, security

personnel (security/guards) business, ancillary businesses in mining and petroleum, as well as businesses providing transport for workers/labourers”.

The given interpretation of the Law is still very limited compared to the needs of today's business world, whereby the use of outsourcing increasingly extends to various lines of activity in a company (Faiz, 2007)

The concept and definition of basic business or core business and supporting activities or non-core business is changing and evolving dynamically. There are as Caruth (2010) stated, seven hierarchical categories related to core activity or core business (Caruth, Haden, & Caruth, 2013). The seven categories are:

- Ancillary activities
- Routine activities
- Activities containing the potential for achieving economies of scale
- Activities requiring specialized knowledge
- Activities requiring broad organizational knowledge
- Activities requiring high confidentiality
- Activities requiring specific management decisions

Outsourcing in the modern world is done for strategic reasons, i.e., (1) to achieve a competitive advantage, (2) to guarantee the competition in maintaining a market segment, and (3) to guarantee life sustainability and company development (Faiz, 2007).

Outsourcing to achieve this competitive advantage can be seen in the big car industries around the world such as Nissan, Toyota and Honda (Heikkila & Cordon, 2002). At first, during the car production process, its core business consisted of the production design, manufacture of parts and assembly. In the end, the core business is only the production of car design, while partsproduction and assembly are passed to another company that is more competent, so the car companies can achieve a competitive advantage.

The Manpower Act (2003) states that there are five types of jobs that could be outsourced, namely hygiene services (cleaning service) business, catering service businesses for workers, businesses of security personnel (security), ancillary businesses in mining and petroleum, business providing transport for workers/laborers. If a certain job is not contained in the five categories of business, the job still can be outsourced if it fulfills one condition, that is, the flow of work must be clear and work activities clearly defined (Poltal HR, 2013). The definition of the work activities and the flow chart is carried out by the associated business sectors.

A company, when planning to outsource a workforce, first classifies the major work and ancillary work of the institution into a written document and then reports it to the local manpower agencies (Decree of Minister of Manpower and Transmigration Number Kep.220/Men/X/2004 on Terms of Resignation of Part of Work Execution to Other Companies)

The creation of a written document is important for the implementation of the outsourcing company, for the following reasons (Faiz, 2007):

1. As evidence of a company compliance with provisions concerning manpower by reporting to the Local Department of Manpower
2. As a guideline for management in implementing outsourcing in specific parts of the company
3. As a means of communication to the workers about what parts are outsourced by the company
4. To minimize the risk of conflict with the workers, trade unions, government, and shareholders regarding the outsourcing's validity and regulation in the company

3.4 Outsourcing Practices in Indonesia

In Law Number 13 of 2003, Articles regarding outsourcing are Article 64, Article 65, (consisting of 9 paragraphs), and Article 66 (consisting of 4 paragraphs).

Article 64 is the foundation of outsourcing. In Article 64, it is stated that the company can transfer partial execution of the work to other companies through a wholesale job contracting agreement or worker provider service agreement which are made in writing.

Article 65 contains some provisions, which are:

- submission of partial execution of the work to other companies is carried out through an wholesale agreement and is made in writing (paragraph 1);
- the work that is submitted as mentioned in paragraph (1) must fulfil the following conditions:
 - done separately from the main activity;
 - performed by the command directly or indirectly from the company giving the job;
 - ancillary activities of the company as a whole;
 - do not directly hinder the production process. (paragraph 2)
- the outsourcing service provider companies (that handle the submitted work) must be in the form of legal entities (paragraph 3);
- protection of the work and terms of employment in the outsourcing service provider companies must be the same as the protection of the work and terms of employment at the company which gives the work or in accordance with government legislation (paragraph 4);
- any change or addition to the terms of the above is further regulated in the ministerial decree (paragraph 5);
- the working relationship in the execution of the work is set forth in a written agreement between the company and the workers being employed (paragraph 6)
- the working relationship between company and workers/laborers can be based on a work agreement for specific time, or work agreement for non-specific time (paragraph 7);
- When some of the requirements are not met, such as the conditions concerning the work submitted to the other party, and the terms determining that another company is to be incorporated in law, then the working relationship between the

worker/workers with outsourcing service provider companies is shifted to a working relationship between the worker/workers with the user company (paragraph 8).

Article 66 of Law Number 13 Year 2003 regulates that workers/laborers from an outsourcing service provider company should not be employed by the employer to carry out basic activities or activities that are directly connected to the production process, except for activities of ancillary services that are not directly related to the production process. The company providing services for the workforce, which are not directly related to the production process also must fulfill several requirements, which are (Kusmargono, 2012):

- the existence of an employment working relationship between the workers and the outsourcing service provider company;
- the work which can be outsourced is in a non-core business or supporting business;
- the applicable agreement between workers and the company is a work agreement for a specific time or agreement not for a specific time which is made in writing and signed by both parties;
- protection of wages, welfare, terms of employment and disputes arising are the responsibility of the outsourcing service provider company;
- the agreement between the user company and the outsourcing service provider company is made in writing.

An outsourcing service provider company is a legal form of business and has obtained permission from the responsible agencies in the field of employment (Kusmargono, 2012). The terms of the conditions above are not met (with the exception of the provision of welfare protection), then for the sake of the legal status of the working relationship between the worker and the outsourcing service provider company

changes to a working relationship between the workers and user company (Suwondo, 2003).

4 ANALYSIS OF CORE BUSINESS AND WORKLOAD OF OUTSOURCED WORKERS

4.1 Workers in IPC

Human resource (HR), for IPC, is the most important factor in achieving competitive advantage. The port service industry nowadays is not only a transportation support industry, but also becomes a comprehensive service center with demands for excellent quality from port service users as well as high-level competition among port management in the regional area. The composition and the number of IPC workers dynamically transforms year by year. The development of the company will affect the number and composition of workers. The transformation is a consequence of requirements and the placement of workers in each line of the organization.

4.1.1 Workers Based on Service Center

According to the type of the service center, the workers are classified into two different groups: the terminal group and the non-terminal group. The terminal worker groups are those working in port service, while non-terminal worker groups are those working outside of port services or as a supporting unit of a port.

The terminal group is divided into three types of workers based on the main duty of each type. The types of non-technical groups are (1) direct operational workers, (2) indirect operational workers, and (3) support staff.

Direct operational workers are those working in terminal operations. In the terminal, services for ships, cargo, container terminal, special ports and other services are provided. The services are open for 24 hours a day and 7 days a week, so the management divides operational workers into three shifts. Each shift is 8 hours, in order to run the services maximally.

Indirect operational workers are those working in administrative areas in the operational division. They work for 8.5 - 9 hours a day, from Monday to Thursday from 08.00 to 17.00 and on Friday from 08.00 to 16.30. Their jobs relate to paperwork administration.

In operational support, the workers work to assist the main division in the terminal. Their working time is usually the same as that of indirect operational staff. However, they also work shift time for several divisions to make sure that the service functions for 24 hours and to prevent emergency cases. The technical division is one example of this.

The non-technical groups or supporting units include port hospital, port training agency, management personnel in the central office and non-active personnel. The non-terminal workers work from 08:00 to 17:00 Monday to Thursday and 08:00 to 16:30 on Friday.

No	Service Center	2012		2013		Trend (%)	
		Permanent	Outsourced	Permanent	Outsourced	Permanent Workers	Outsourced Workers
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1	Operational Personnel						
	a. Ship services	266	-	256	-	96	-
	b. Cargo Services	95	-	51	-	54	-
	c. Terminal Services	219	-	135	-	62	-
	d. Terminal Container Services	81	-	84	-	104	-
	e. Land, Building, Water & List	23	-	22	-	96	-
	f. Special Port	-	-	-	-	-	-
	g. Other services	62	-	35	-	56	-
	Total (1)	746	1,766	583	1,993	78	113
2	Indirect Operational Personnel	417	192	594	222	142	116
3	Operational Support Personnel	843	1,006	760	1,147	90	114
4	Port Hospital Personnel	-	-	-	-	-	-
5	BPL Personnel	-	-	-	-	-	-
6	Management Personnel	538	45	651	83	121	184
7	Non Active Personnel	-	-	2	-	-	-
Total (1 up to 7)		2,544	3,009	2,590	3,445		

Table 4-1 Total Workers Based on Service Centre

Source: (Indonesia Port Corporation II, 2014)

Table 4-1 above shows the trend of reduction in operational personnel. The reduction is around 79%. Similarly, the reduction in operational support personnel is 10%. On the other hand, both indirect operational personnel and management personnel have increase in number. The positive trend has occurred in outsourcing workers. All service centers for outsourced workers have increased with the following description:

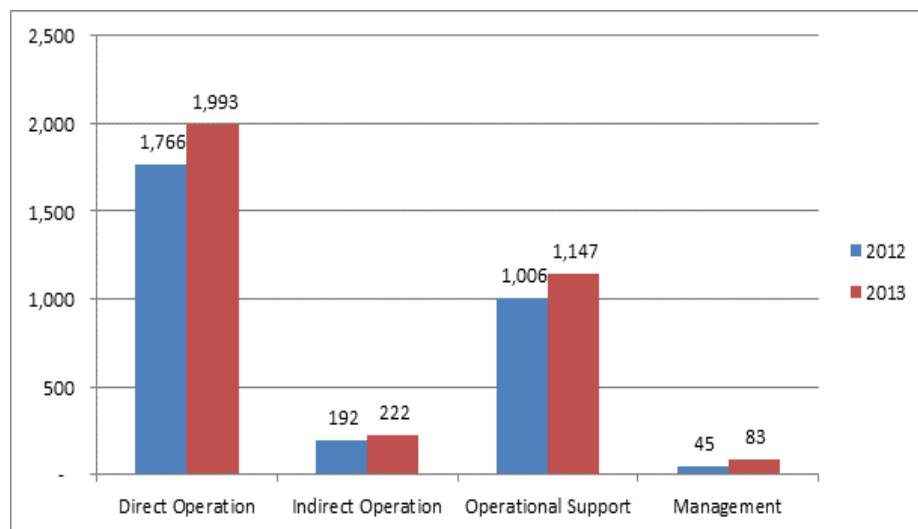


Figure 4-1 Total of Outsourced Workers

Source: Author

It can be concluded that an increase has occurred in the number of outsourced workers and also a decrease has occurred in the number of permanent workers with the following results:

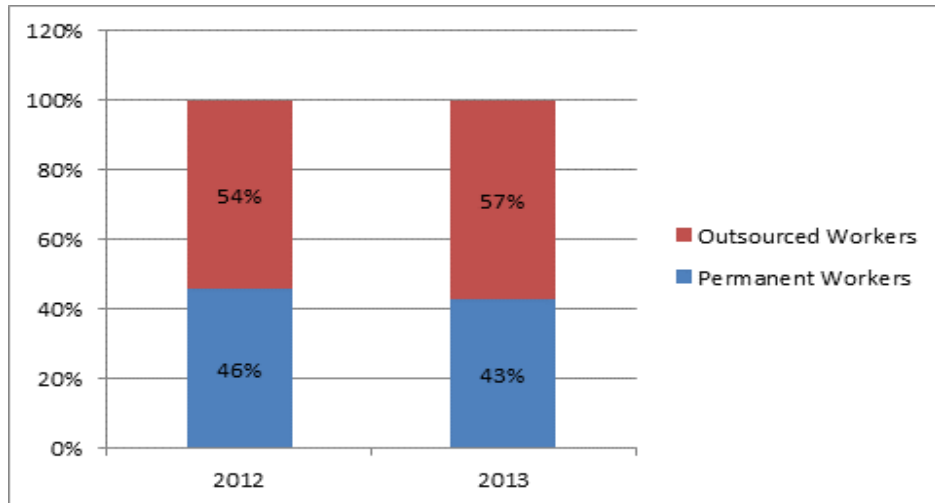


Figure 4-2 Percentage Worker Composition Based on Service Centre

Source: Author

4.1.2 Workers Based in Subsidiaries

In its transformation into a port operator, IPCh has subsidiaries which are involved in various business fields. The transformation of business organization, with the establishment of its subsidiaries, creates an advantage in terms of agility, specialization/focus on the core business, and independent financing of subsidiaries. In 2013, IPCh highlighted business strategies to its subsidiaries with IDR 873,979 million in investments. Moreover, the number of personnel in the subsidiaries was 3,489 people; it was 23.64% higher than the target of 2,822 people for 2013.

No	Subsidiary	Type of Employees	2012	2013	Trend (%)
1	2	3	4	5	6 (5/4)
1	KSO TPK Koja	Permanent	483	479	99.17
		Outsourced	-	-	-
		Total	483	479	99.17
2	PT RS Pelabuhan	Permanent	839	868	103.46
		Outsourced	254	630	248.03
		Total	1,093	1,498	137.05
3	PT Multi Terminal Indonesia	Permanent	86	121	140.70
		Outsourced	639	924	144.60
		Total	725	1,045	144.14
4	PT EDI Indonesia	Permanent	113	115	101.77
		Outsourced	88	88	100.00
		Total	201	203	101.00
5	PT ILCS	Permanent	-	8	-
		Outsourced	-	5	-
		Total	-	13	-
6	PT Pengembang Pelabuhan Indonesia	Permanent	-	21	-
		Outsourced	-	-	-
		Total	-	21	-
7	PT Energi Pelabuhan Indonesia	Permanent	-	11	-
		Outsourced	-	7	-
		Total	-	18	-
8	PT Jasa Peralatan Pelabuhan Indonesia	Permanent	-	11	-
		Outsourced	-	-	-
		Total	-	11	-
9	PT Indonesia Kendaraan Terminal	Permanent	-	42	-
		Outsourced	-	159	-
		Total	-	201	-
Total (1 up to 9)			2,502	3,489	

Table 4-2 Total Workers Based on Subsidiaries

Source: (Indonesia Port Corporation, 2014)

Table 4-2 above shows that the number of outsourced workers increased significantly. The number doubled from 981 in 2012 to 1,813 in 2013. On the other hand, there was a slight increase in the number of permanent workers by 10%, from the total number of 1,521 in 2012 to 1,676 in 2013.

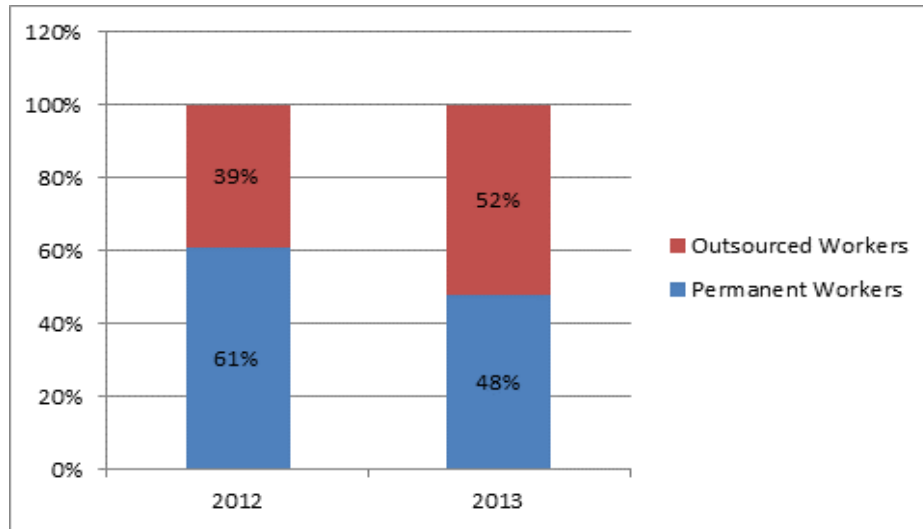


Figure 4-3 Percentage Worker Composition Based on Subsidiaries

Source: Author

Figure 4-3 shows that more than 50% of the total workers in IPC's subsidiaries were outsourced workers in 2013. The increase was expected to continue annually, along with the development of IPC. The need for more outsourced workers is because the company needs to be more focused on its core business and on its effective cost control of the service.

4.1.3 Worker Productivity

Worker productivity is measured by using Total Revenue (TR) divided by Total Employees (TE) and Net Income (NI) divided by Total Employees (TE). The obtained data in 2013 is IDR 2.77 billion/person by using this parameter. This number shows an upsurge of 23% compared to IDR 2.26 billion in 2012. The total net profit in 2013 was IDR 0.77 million/person and the total net profit in 2012 was IDR 0.75 million/person. In other words, the total net profit increased by 3% from 2012 to 2013.

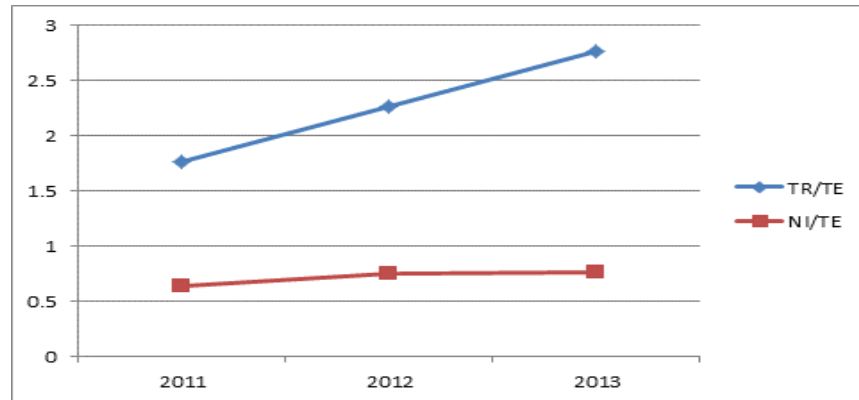


Figure 4-4 Workers' Productivity

Source: (Indonesia Port Corporation II, 2013), (Indonesia Port Corporation II, 2014)

However, the increase in worker productivity from 2012 to 2013 was not as high as worker productivity from 2011 to 2012. From 2011 to 2012, the increase of workers' productivity was 28% or it increased from IDR 1.76 million/person to 2.26 million/person; while, the upsurge of net profit was 17% or it increased from IDR 0.64 million/person to IDR 0.75 million/person.

4.2 The Core Business and the Support Business

The Regulation of the Minister of Manpower and Transmigration Number 19 of 2012 concerning the Requirement of Assignment of Part of the Implementation of Work with other Companies was authorized on November 19, 2013. The regulation asserts that supporting work is allowed to be outsourced. The core work and the supporting work are categorized by the association as the procurement basis towards outsourced workers (Manpower Regulations, 2012). This matter is run in order that the outsourced workers are not hired in the core work of a company.

The core business should be filled by permanent workers. However, the supporting work – the direct supporting work and the indirect supporting work – is performed under certain conditions. It means, the direct supporting work can be filled by either permanent workers or outsourced workers, all of which depends on the company's need. However, the indirect supporting work can always be done by outsourced workers.

Indonesian Port Enterprises Association (AsBUPI) was established by notary act Number 30 on July 26, 2013 and was jointly founded by PTP Pelabuhan Indonesia I, II, III and IV (Persero) Number SEKTAP/02/07/PI.II.III.IV/13. The association membership is open to other entities, both state-owned companies and the private sector.

According to the Regulation of the Minister of Manpower and Transmigration No. 19 of 2012 Article 4, AsBUPI should define activity flow related to the work implementation process which describes the work implementation process from the beginning to end and contains the core activities and supporting activities (Manpower Regulations, 2012). It is a basis for the user company to report the types of supporting work, which can be submitted to the outsourcing service provider company, to the responsible agency in the manpower field.

The mechanism performed by the company user is based on the description below:

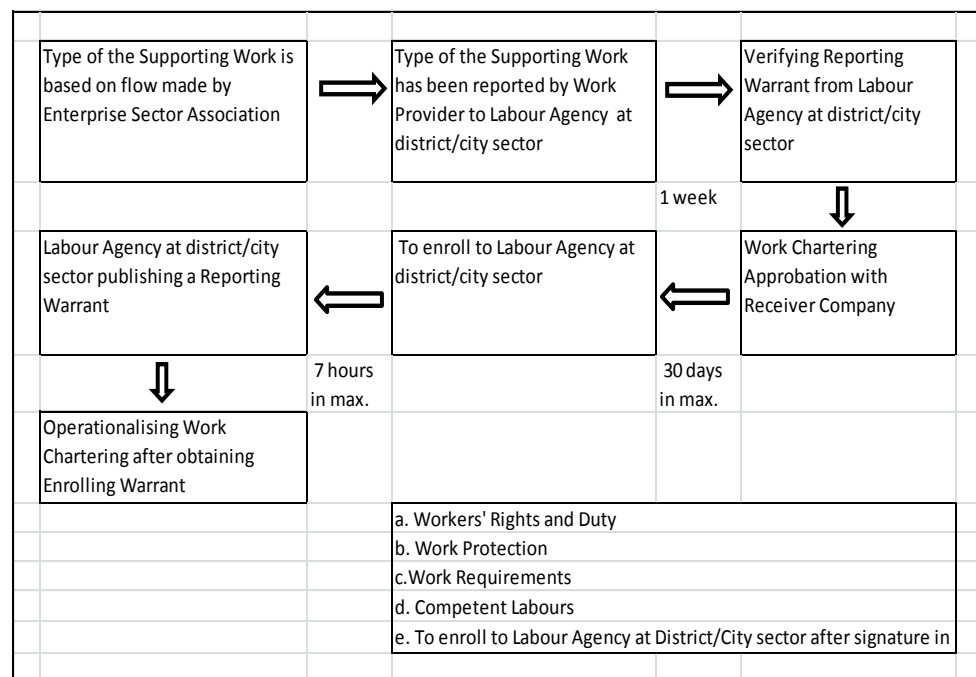


Figure 4-5 Outsourced Work Assignment Mechanism

Source: (AsBUPI, 2013)

AsBUPI formulates the following matters, as follows:

- a. Activity flows of non-container terminal

1. Unloading non-container
2. Loading non-container
3. Receiving goods of non-container
4. Delivering the goods of non-container
- b. Activity flows of container terminal
 1. Unloading container
 2. Loading container
 3. Receiving container
- c. Activity flows of pilotage boat
- d. Activity flows of ship service
- Operational ship planning
- e. Types of core work and port service supporting work
 1. Ship services
 2. Container terminal
 3. Non container terminal services
 4. Miscellaneous business
 5. Engineering (facilities)
 6. Human resources and public
 7. Finance
 8. Internal control system
 9. Information systems
 10. Corporate secretary
 11. Marketing and development
 12. Law
 13. Risk management and quality systems
 14. Procurement

This study takes the Procurement Bureau at the head office as an example of outsourcing implementation to determine the optimal use of outsourced workers as it is asserted in

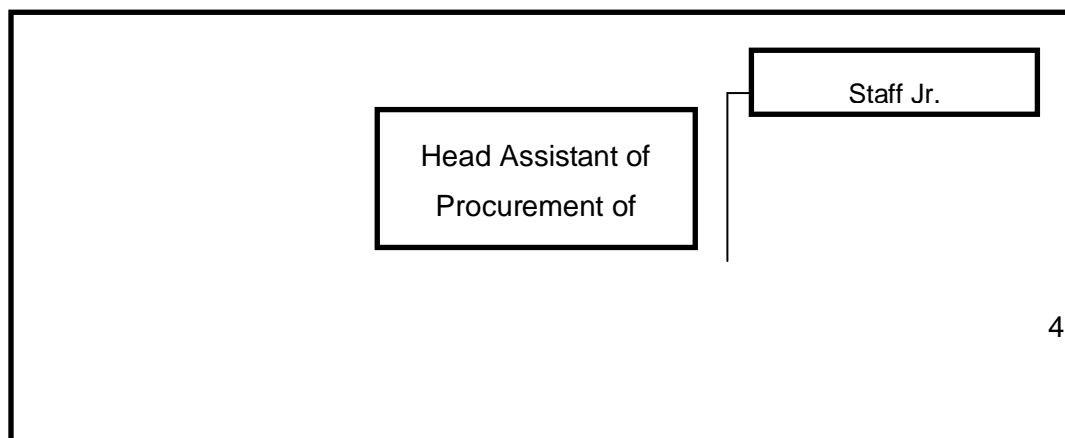
the regulation. The data is obtained through open interviews and observations. The method of calculating the worker needs is based on workloads with assignment approach per position assignment. The method is according to the Decree of State Minister for the Empowerment of State Apparatus (2004) Number KEP/75/M.PAN/7/2004 on Guidelines for Calculation of Employee's Need based Workload.

In running the functions of the company, the procurement of logistics, equipment and services which support the optimal work in a particular organization is definitely necessary. Therefore, the Bureau of Procurement should be fully supported in order to obtain investment and perform the organization's work maximally through the use of outsourced workers.

4.3 Analysis of the Procurement Bureau

4.3.1 Organizational Structure, Function, and Duties

The Procurement Bureau is one of the divisions located in IPC headquarters and is responsible to the Managing Director. The Procurement Bureau is headed by the Head of the Procurement Bureau and assisted by three assistants, which are the sector of goods and services I, the sector goods and services II, and the sector of administration and documentation. The Head of the Procurement Bureau position is structured under the technical directorate.



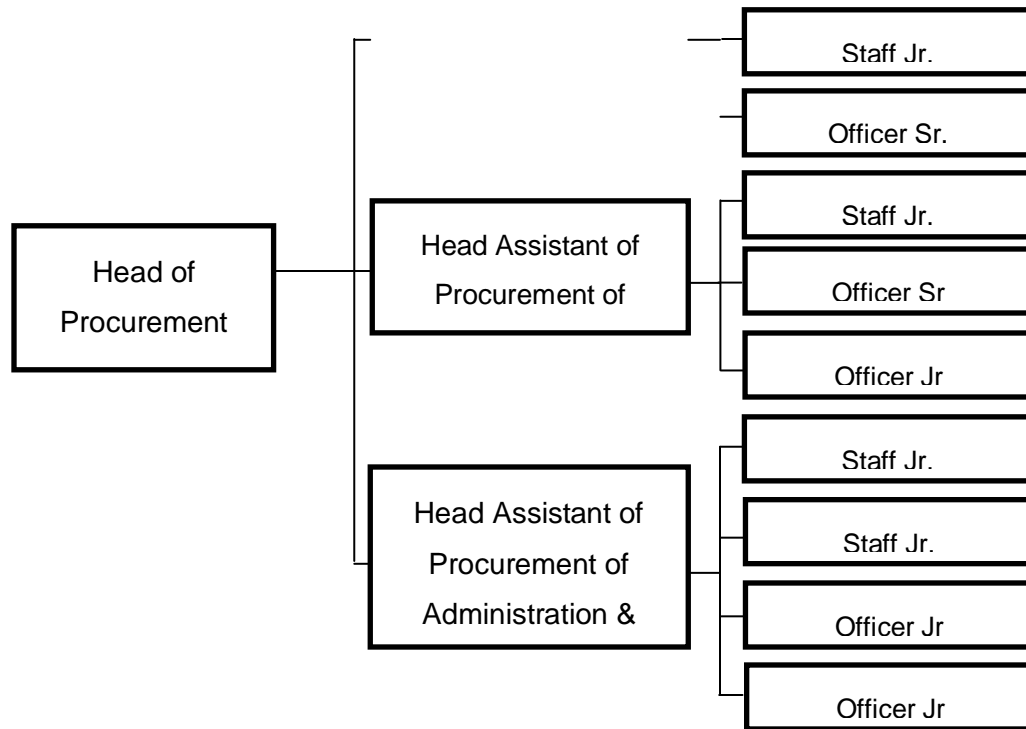


Figure 4-6 Structure Organization of Procurement Bureau

Source: Author

The function of the Procurement Bureau is to assist directors in administering the work program of procurement of goods and services in technical, non- technical and procurement administration, which are elaborated in the strategy and policy of the company.

The assignmentsofthe Bureau ofProcurementare outlined below:

1. Procurement of goods and services in technical sectors
Planning,coordinatingandcontrolling the execution ofthe work program of procurement of goods and services in the technical sector
2. Procurement of goods and services in administration and procurementdocumentation

Planning, coordinating, and controlling the execution of the work program of procurement in non technical goods and services and procurement administration including the verification of auction documents and supporting documents

3. Reporting results

Providing a report to the Directors related to the result of the procurement process

4. Other related assignments

- a. Planning, coordinating and controlling the arrangements of work plan, the report of its work sector, the implementation of work procedures, and the management of information systems related to its sector
- b. Maintaining and overseeing the assets and/or inventory
- c. Providing data related to its sector
- d. Identifying and managing risks, according to its sector
- e. Implementing good corporate governance consistently, according to its sector, and improving and continuously enhancing systems and work mechanism
- f. Following up and/or directing auditor findings (relating) to its sector
- g. Planning, coordinating, and controlling the development of port branches/units relating to its sector
- h. Developing, directing, and assessing the workers' performance
- i. Carrying out other assignments given by the superior

To perform the assignments and functions of the executive bureau, appropriate worker(s) in number and competency are needed. To determine the appropriateness of workers, it is necessary to conduct a workload analysis. The workload analysis is conducted for staff, officer and helper level. It is because they have the highest number of workers. Furthermore, they work on non-core business that does not entail significant responsibility as in the managerial level.

4.3.2 Workload analysis in the Procurement Bureau

4.3.2.1 To establish workday

The effective workdays to work consist of the effective workdays and the effective working hours. The effective workdays and the working hours in 2012 and 2013 can be calculated by the following steps:

Code	Factors	2012	2013	Explanation
A	Workdays	366	365	Day/Year
B	Annual Leave	12	12	Day/Year
C	Education & Training	5	5	Day/Year
D	National Holiday	14	14	Day/Year
E	Weekend	105	104	Day/Year
F	Work Absence Average	3	3	Day/Year
Total of effective days: A-(B+C+D+E+F)		227	227	Day/Year

Table 4-3 Effective Days in 2012-2013

Source: Author

Code	Factors	2012-2013	Explanation
A	Workday		Hour/Day

	Monday-Thursday: 9 hours Friday: 8.5 hours	8.9	
B	Allowance: 30%	2.67	Hour/Day
Total of effective hours: A-B		6.23	Hour/Day
		1414.21	Hour/Year
		84,852.6	Minute/Year

Table 4-4 Effective Work Hour in 2012-2013

Source: Author

The allowance is the time necessary for workers to perform activities that can fill individual needs, can eliminate fatigue, and can avoid other obstacles, such as toilet time, prayer time and others. The amount of allowance is 30% from effective hours according to the Decree of State Minister for the Empowerment of State Apparatus (2004) Number KEP/75/M.PAN/7/2004 on Guidelines for Calculation of Employee's Need based Workload.

4.3.2.2 To arrange the assignment completion time and to calculate required workers

The equation for calculating workload is: Task x Time x Frequency. Time means the time is needed to perform a task, while frequency is the number of times a task must be performed throughout the year. The workload is obtained and becomes the basis for calculating the number of workers needed for the task.

All studied workloads are workloads calculated in 2012 and 2013 by using a task approach per task position. In this study, the tasks of procurement are divided into 6 types:

- Auction/General Selection
- Direct Election/Direct Selection
- Direct Appointment
- Direct Procurement
- Addendum
- Administration/secretary

2012								
No	Types of Procurement	BT (per assistant)			SKR	WPT (BT x SKR)		
		I	II	III		I	II	III
1	Auction/General Selection	25	23	2	13,145	328,625	302,335	26,290
2	Direct Selection	3	1	36	9,220	27,660	9,220	331,920
3	Direct Appointment	2	1	31	4,235	8,470	4,235	131,285
4	Direct Procurement	-	-	10	2,095	-	-	20,950
5	Addendum	10	10	16	790	7,900	7,900	12,640
6	Administration/Secretary			56,275				56,275
Σ WPT						372,655	323,690	579,360
Workers' needed: ΣWPT/Σ effective working time						4.39	3.81	6.83

2013								
No	Types of Procurement	BT (per assistant)			SKR	WPT (BT x SKR)		
		I	II	III		I	II	III
1	Auction/General Selection	14	10	2	13,145	184,030	131,450	26,290
2	Direct Selection	2	10	28	9,220	18,440	92,200	258,160
3	Direct Appointment	1	7	27	4,235	4,235	29,645	114,345
4	Direct Procurement	1	1	5	2,095	2,095	2,095	10,475
5	Addendum	8	4	10	790	6,320	3,160	7,900
6	Administration/Secretary	-	-	49,290				49,290
Σ WPT						215,120	258,550	466,460
Workers' needed: ΣWPT/Σ effective working time						2.53	3.04	5.49

Figure 4-7 Workload Analysis in 2012-2013

Source: Author

Explanation:

BT : A number of procurement task in 1 year

SKR : Average ability standard of task completion time

WPT : Assignment completion time

Σ effective working time : 84,852.6 minutes/year

4.3.2.3 To calculate the required number of workers

The number of workers needed can be calculated after the assignment completion time is determined by the following formula:

$$\text{Required workers} = \frac{\sum \text{assignment completion time} \times 1 \text{ person}}{\sum \text{effective work time}}$$

The result:

No	Type of Assistant	The number of workers required		Average	Rounding (Person)
		2012	2013		
1	I	4.39	2.53	3.46	3
2	II	3.81	3.04	3.43	3
3	III	6.83	5.49	6.16	6

Figure 4-8 The Average Number of Workers Required

Source: Author

The number of required workers in the Procurement Bureau is between 3.04 and 6.83. Although a rounding is eventually done, there is a different number of required workers based on the workload description in each sector in the Procurement Bureau.

The smallest requirement of workers is in Assistant II. The number of assignments carried out by Assistant II was 67 works of 300 works in total. Meanwhile Assistant I carried out 22.33% of assignments in two years. The largest number of required workers was in Assistant III with the direct election as the highest type of work. The proportion of work handled by Assistant III was 55.66%.

4.3.2.4 Comparison between the number of required workers and actual conditions

Based on the analysis of required workers, it can be concluded that the needs analysis of human resources, by using the assignment approach per assignment position, provides a description of the number of workers required

in the Procurement Bureau. The comparison of those numbers can be seen in Table 4-5 below:

No	Type of Assistant	The number of Requisite	Actual Number
1	I	3	3
2	II	3	3
3	III	6	4

Table 4-5 Comparison Required Worker and Actual Number

Source: Author

Based on the comparison result, it can be seen that the number of workers in Assistant I and II are suitable with the requirement. However, the number of workers required in 2012 reached 4.39 and 3.81. It means that the number of required workers was less than the actual number of workers in the positions Assistant I and II.

The situation is different regarding Assistant III. There is a shortage of workers by two people in the Assistant III category. The deficiency inflicts work ineffectiveness so that the implemented work will not run well. There will be errors of data input or typing and long working hours due to overloaded workers. If this is the case, the Procurement Bureau will have difficulty reaching IPC's target.

IPC management should reconsider the need for workers in the future due to the increasing amount of IPC's investment year by year. IPC will start some investment plans in the following years. The investment process in the development of New Priok Terminal Stage I is being executed by raising the capacity of container storage to 4.5 million TEUs/year (Indonesia Port Corporation II, 2014). Moreover, IPC has developed a project plan to enter

Stage II of the construction of New Priok Terminal. This terminal consists of four container terminals. In the view of management improvement, IPC plans to transform TanjungPriok Port as a Branch into PelabuhanTanjungPriok Corporation and develop a Terminal Operating System (TOS). Those investments need system, facilities and professional assistance allof which are processed through the Procurement Bureau.

4.3.3 Outsourcing in the Bureau of Procurement

The AsBUPI decree explains, there are two types of work in the Procurement Bureau that are categorized into direct supporting work. This kind of work can be filled by permanent workers or outsourcing workers based on company's needs. The work types are:

- a. The company's planning and control
- b. Procurement administration

The highest workload in the Procurement Bureau lies in the paperwork or administrative process, such as handout typing, report making, invitations, evaluation and others. This type of work can be performed by outsourced workers. IPC needs to reconsider the composition of employment in the Procurement Bureau. The following is a mapping recommendation for future needs.

No	Type of Assistant	Actual condition		Proposed	
		Position	Grade	Position	Grade
1	I	Staff Jr	11	Staff Jr.	11

		Staff Jr.	11	Officer Jr	13
		Officer Sr.	12	Outsourcing	A
				Outsourcing	A
2	II	Staff Jr.	11	Staff Jr.	11
		Officer Sr.	12	Officer Jr	13
		Officer Jr.	13	Outsourcing	A
				Outsourcing	A
3	III	Staff Jr	11	Staff Jr.	11
		Staff Jr.	11	Officer Jr.	13
		Officer Jr.	13	Outsourcing	A
		Officer Jr.	13	Outsourcing	A
				Outsourcing	A
				Outsourcing	A

Table 4-6 Placement Workers in The Procurement Bureau (Proposed)

Source: Author

The number of staff required in Assistant I and II is 1 staff, 1 officer, and 2 outsourced workers. It is because 75% of their work is in the auction/general selection. In this type of procurement, greater precision in processing and evaluating is required. The value of work in the procurement of goods/services is more than IDR 10 million. The types of documents are

more complex than other procurements in administrative documents, technical matters and price.

The number of staff in Assistant III is 1 staff, 1 officer, and 4 outsourced workers. It is related to the requisites based on workload analysis. The work in the Assistant III category is dominated by direct selection. The procurement value is between IDR 500 million and IDR 10 million in which the documents are simpler than in the auction/general selection.

Assistant III handles 55.6% of the total number of works. Therefore, the number of recommended workers is higher than for Assistant I and II, being 1 staff, 1 officer, 3 outsourced workers, plus 1 outsourced worker placed in the secretary position. The job description of the secretary is managing all administrative affairs related to assignments outside of the Procurement Bureau, such as archiving, document storage, and meetings.

5 ANALYSIS OF COST EFFECTIVENESS OF OUTSOURCING AND

RECOMMENDED ACTIONS FOR IPC

5.1 Transaction Cost Economics

The main reasons of outsourcing the employee is to be more flexible in order to reduce and control operating costs. Companies that recruit their own employee will spend more budget than companies that give the job of managing the human resource to service provider companies that expert in the outsourcing employee. This is because the service provider companies run a business with "economies of scale" (large scale economy) in human resources management. This is similar to manufacturing companies, whereby they will get the cheaper price of product if they produce more.. For an outsourcing service provider company, the price per-person will be lower if the more human resources that are managed.

In addition, because employment is included as a core-business, efficiency in managing HR becomes the main concern. By diverting employment to an outsourcing service provider company, companies will make a cost savings. It is because the companies remove the expense in a lot of employee investments field, include of reducing HR administrative activities in terms of recruitment. This certainly will reduce the company's overhead costs; the funds for employment can be allocated to another projects that are related to improve the products/service quality.

In major companies, the human resources cost are generally fixed cost. There will be no problem of financing if the the companies get a positive growth. On the contrary, when it comes to negative, the cost of HR will burden the corporate financing balance. By doing the diversification of the HR provision and management to an outsourcing vendor for those who work in noncore-business, the companies will be able to control the costs of human resources. This is because the companies can change the fixed

cost of HR to a variable cost, where the human resources are flexible according to the needs of the companies.

The importance of the costs controlling in human resources will be seen at the moment. Several crises caused by the global economic fragility and uncertainty conditions, as well as by international politics, cause most companies' revenues to continue to decline. The circumstance is augmented with the increasing of the new competitors number who make the unhealthy market competition. This situation leads the large and small companies to survive by conducting massive layoffs to reduce fixed costs, which are generally in the range of 60-70% of the total costs.

The following is a comparison between the employment cost for permanent workers and outsourced workers. The cost consists of three variables which are recruitment, wages and welfare programs.

5.1.1 Recruitment

Recruitment is the process of attracting, evaluating and hiring employees for an organization (Global Human Resources). Recruitment costs for new workers, in particular for specialized professions, are a main consideration for companies; this shows why decreasing turnover is usually a foremost concern of the human resource division.

Permanent workers:

There are two types of recruitment in the IPC, namely fresh graduates and experienced candidates. Fresh graduate recruitment consists of 3 programs, i.e. Goes to Campus Program to recruit students who have recently graduated, General Recruitment Program to recruit anyone who is interested in working in the IPC, and Corporate Social Responsibility Program to recruit prospective workers with high school or vocational education level or equivalent who are excellent in their academic life, but come from under privileged families and live in the surroundings of the port. Meanwhile, the recruitment of experienced

candidates is intended to search for experienced and professional workers with high skills. The recruitment process includes four steps(Global Human Resources):

a. Job analysis

Job analysis involves determining the different aspects of a job, such as through job description and job specification. Job description describes the tasks that are required for the job. Job specification describes the requirements that a person needs to do that job. Job analysis also takes into account how many employees will be retired, early retired, resigned, or are fired, so that the number of workers still meets the needs of the company. In regards to mapping and planning, these are managed by the human resource department in the head office.

b. Sourcing

In this stage, organization used several schemes toto attract or identify candidates. For regular line, both internal and external advertisements are utilized, such as newspaper advertisements, company website, specialist recruitment companies, job fairs, job centers or the internet. As for recruitment through university or campus, the announcement will be notified via the related university or campus.

c. Screening and selection

This is the process of evaluatingthe workers who apply for the job to ascertain their ability, knowledge, experience,talent, qualifications, as well as their educational background. This process consists of administrative selection, psycho-test/basic skills test, English language test, health check, special tests required for specific positions, and finally, the user interview; those are done with a knockout system. Both general candidates and recruitments via campus/university must go through the processes.

d. Onboarding

Onboarding is the process of assisting new workers to adapt to the company and its environment. Internal IPC training, for example, helps new employees to better understand their work areas in the port. In addition, external training such as workshops, training from the police force, and leadership are also arranged by the company.

From the explanation above, there are some variable costs incurred in permanent employee recruitment, ranging from the announcement stage to the time when the employees start to work in the IPC. These costs include:

- announcement cost
- outsourcing recruitment process with third party
- internal training under the management of IPC
- external training

Outsourced workers:

The recruitment process for outsourced workers is conducted by KopegmarTanjungPriok. The Head Office will record the need for outsourced workers in each division of the head office or branches, then send the data to KopegmarTanjungPriok. The selection process for outsourced workers is basically the same as the selection process for permanent workers. The selection process is completely undertaken by KopegmarTanjungPriok. Nevertheless, during the recruitment and selection process of outsourced workers, some interventions are still found from IPC in deciding which candidates pass the selection (Kusmargono, 2012). In the selection of outsourced workers, all costs are incurred by KopegmarTanjungPriok. IPC does not allocate any training for outsourced workers.

A study conducted by Bersin& Associates, a human resource advisory firm, shows that companies are seeing a significant advantage when it comes to recruitment costs for new employees. For a company that has more than 10,000 employees across the globe, it will pay roughly \$1,900 per new hire. This is compared to midsized companies that would pay \$3,600 and small companies that would have to pay \$3,660 for every recruitment(Human Resources Journal, 2011). The recruitment and selection process can incur very high expenditures. Through employing outsourcing, costs can be reduced.

5.1.2 Wages

The components in wages which are examined consist of basic salary, housing, transportation and performance incentive. Both for permanent workers and outsourced workers, wages are paid each month through the IPC and KopegmarTanjungPriok respectively.

Basic Salary

Permanent workers:

As seen in Table5-1, regarding basic salary of permanent workers, the basic salary is evaluated each year.

Grade	Basic Salary (IDR)	Ref
10	4,461,000	Staf/SPV
11	4,082,000	
12	3,806,000	
13	3,589,000	Officer
14	3,400,000	
15	3,223,000	
16a	2,517,000	Helper
16b	2,288,000	
16c	2,080,000	
17a	1,891,000	
17b	1,719,000	
17c	1,561,000	

Table 5-1 Basic Salary of Permanent Worker

Source:(Indonesia Port Corporation II, 2013)

The salary gap range for staff/supervisor level is between 7.2% and17.2%, while for officer level, the gap is between 5.4% and11.3% and for helper it is much wider, between 9.9% and61.2%. In addition, the gap range between grade 10 and 17C is 185.7%.

Outsourced workers:

Grade	Basic Salary (IDR)	Ref
A	1,396,000	Administration Indoor
B	1,396,000	Field Officer
C	1,396,000	Operation Officer

Table 5-2 Basic Salary for Outsourced Worker

Source: (Kusmargono, 2012), Author

There is no difference in basic salary for outsourced workers, including grades A, B and C as set forth by KopegmarTanjungPriok.

In the comparison of both tables, it can be seen that the basic salary for outsourced workers is much lower than the lowest level within the IPC, namely grade 17C although the desk job type is almost the same, i.e, helping the administration, field and operation officers. The difference in basic salary amounts to 11.8%.

Transportation Allowance

Permanent Workers:

The value of transport costs for permanent workers is measured using the following formula:

$$\text{Transportation} = (A-B)/A \times C$$

A = Working days per month (22 days)

B = the number of days absent

C = Basic Transportation

The transport cost will be reduced based on the level of absenteeism including worker absence without a distinct reason, permission to leave work, sick leave with or without a doctor's certificate, leave other than annual leave, and employees who are in the pension preparation.

Grade	Basic Transportation	Ref
10	850,000	Staf/SPV
11	750,000	
12	700,000	
13	600,000	Officer
14	550,000	
15	500,000	
16a	465,000	Helper
16b	420,000	
16c	385,000	
17a	350,000	
17b	315,000	
17c	290,000	

Table 5-3 Transportation Allowance of Permanent Workers

Source:(Indonesia Port Corporation II, 2013)

The gap range in the staff/supervisor level is between 7.1% and21.4%, while for officer level, it is between 9.09% and20% and for helpers is much wider, between 8.6%and60.3%. Moreover, the gap range between grade 10 and 17C is 193.1%.

Outsourced Workers:

Grade	Transportation	Ref
A	261,000	Administration Indoor
B	261,000	Field Officer
C	261,000	Operation Officer

Table 5-4 Transportation Allowance of Outsourced Worker

Source: (Kusmargono, 2012), Author

There is no difference in the transportation allowance for outsourced workers, including grades A, B and C as set forth by KopegmarTanjungPriok. In the comparison of both tables, it can be seen that the transportation allowance at

helper level for permanent workers and outsourced workers varies, from 1.01% compared to grade 17c up to 61.9% compared to grade 16a.

Housing Allowance

Permanent Workers:

Grade	Housing (IDR)	Ref
10	2,293,500	Staf/SPV
11	2,124,100	
12	2,038,300	
13	1,784,200	Officer
14	1,698,400	
15	1,614,800	
16a	1,309,700	Helper
16b	1,190,700	
16c	1,082,400	
17a	984,000	
17b	894,600	
17c	813,000	

Table 5-5 Housing Allowance of Permanent Worker

Source:(Indonesia Port Corporation II, 2013)

The gap range for staff/supervisor level is between 4.2% and 12.5%, while for officer level is between 5.1% and 10.5% and for helper, the range is much wider, between 10% and 61.1%. Furthermore, the gap range between grade 10 and 17C is 182.1%

Outsourced Workers:

There is no housing incentive for outsourced workers. Thus, the company can save IDR 813,000-2,293,500.

Performance Incentive

Permanent workers:

Performance incentives given to all workers and workers-to be/workers on probation are based on monthly performance assessment results or target attainment set by Key Performance Indicators (KPIs). The results are divided into five categories with different amounts of performance incentives, namely: E (0%), D (20%), C (40%), B (100%), A (130 percent).

Grade	Performance Incentive (IDR)	Ref
10	675,833	Staf/SPV
11	618,500	
12	576,667	
13	543,833	Officer
14	515,167	
15	488,333	
16a	381,500	Helper
16b	346,700	
16c	315,200	
17a	286,526	
17b	260,478	
17c	236,000	

Table 5-6 Performance Incentive of Permanent Workers

Source(Indonesia Port Corporation II, 2013)

The gap range for staf/supervisor level is between 7.3% and17.2%, while for officer level is between 5.5% and11.4% and for helper it is much wider, between 10% adn61.7%. Meanwhile, the gap range between grade 10 and 17C is 186.4%

Outsourced workers:

Grade	Performance Incentive (IDR)	Ref
A	990,000	Administration Indoor
B	990,000	Field Officer
C	1,320,000	Operation Officer

Table 5-7 Performance Incentive of Outsourced Worker

Source: (Kusmargono, 2012)

A different situation is displayed in the performance incentive variables for outsourced workers, whereby the incentive for outsourced workers is far greater than for permanent workers. For grade A and B, the amount is nearly three times higher than grade 17 C and four times higher for grade C. Compared to grade C, the performance incentive for grade 10 permanent workers is 50% lower.

5.1.3 Welfare Programs

The Asian Regional Conference of the International Labor Organization (ILO) has defined labour welfare as a term understood as “services, facilities and amenities that may be established in or in the vicinity of undertakings to enable the people employed to perform their work in healthy, congenial surroundings and to provide them with amenities conducive to promoting good health and high morale”(Regis, 2008). Labor welfare requires all activities of employers which are directed, providing the employees with several facilities and services in addition to wages or salaries.

The welfare programs in IPC are social protection and security (Jamsostek), health care program, 13th salary, religious holiday allowance, rest, bonus, pension package, pension, training allowance, outside job allowance and shopping voucher. The difference in welfare programs between permanent workers and outsourced workers is shown in Table 8.

No	Welfare Component	Permanent Worker	Outsourced Worker
1	Social protection & security (Jamsostek)	<ul style="list-style-type: none"> - death insurance - old age program¹ - occupational accident insurance 	<ul style="list-style-type: none"> - death insurance - old age program - occupational accident insurance - accident outside working environment insurance - health care insurance (limited)
2	Health care program	The health of employees and their families is fully covered by the company through Port Medical Center or appointed hospital.	Jamsostek, through the health care insurance program, is for the employees and their families with some limitations.
3	13 th salary	1 x THP (Take Home Pay)	No
4	Religious holiday (festive) allowance	2 x THP	1 basic salary + health allowance
5	Rest (annual leave) allowance	1 x (basic salary+housing allowance)	IDR 500,000 (package)

¹The Jamsostek Old-Age Program (JHT) for private sector workers is a provident fund where members get contributions and declared interest refunded in a lump sum when workers a) retire at age of 55 years; b) experience total and permanent disability; c) pass away before retirement age; or d) face unemployment given the employee has contributed for 5 years or more.
(from http://www.ilo.org/dyn/ilossi/ssimain.viewScheme?p_lang=en&p_scheme_id=3136&p_geoaid=360)

6	Bonus	10.7 x (basic salary +housing allowance)	1 basic salary + health allowance
7	Pension package	60 x (basic salary +housing allowance)	1 basic salary + health allowance
8	Moving pension allowance	Yes	No
9	Training allowance	Yes	No
10	Outside job allowance	Yes	Yes
11	Shopping voucher (from KopegmarTanjungPriok)	IDR 500,000	IDR 225,000

Table 5-8 Welfare Program Comparison Between Permanent Worker and Outsourced Worker

Source: (Kusmargono, 2012), Author

As can be seen in Table 5-8 , the outsourced workers do not receive the 13th salary, pension or training allowance. Another difference is seen in the health allowance component. For permanent workers, the health of both workers and their families (1 spouse, 3 children) is fully covered by the Port Medical Center or hospital or at Jakarta Harbor Hospital as it is fully covered by the social security program, while for the outsourced workers, the social security program received is limited. Outsourced workers also receive a health allowance with the details as listed in the table 5-9.

Grade	Health Allowance (IDR)	Ref
A	502,700.00	Administration Indoor
B	578,105.00	Field Officer
C	613,294.00	Operation Officer

Table 5-9 Health Allowance of Outsourced Workers

Source: (Kusmargono, 2012), Author

Moreover, differences are also found in some other welfare programs such as religious holiday allowance, rest allowance, bonus, pension package and shopping voucher. The greatest difference is seen in the bonus and pension package programs. Permanent workers obtain a bonus of 10.7 times their basic salary, while the outsourced workers only get 1 times basic salary and health allowance as their bonus. For pension package, the amount of money obtained by outsourced workers is the same as their bonus, while for permanent workers, the pension package can reach 60 times their basic salary and housing allowance.

5.2 Cost Effectiveness in the Procurement Bureau

The regulation of the Minister of Manpower and Transmigration Number 19 in 2012 about The Terms of Resignation of Part of the Work Execution to Other Companies came into force on November 19, 2013, which later became the basis of the AsBUPI to determine any work categorized as core business and supporting work. It opens opportunities for employment of outsourced workers in the Procurement Bureau.

In terms of finance, the employment of outsourced workers can save significant costs compared to permanent worker salaries. This can be seen in the Table 5-10.

No	Component	Permanent Worker (IDR)			Outsourced Worker (IDR)
		Grade 11	Grade 12	Grade 13	Grade A
1	THP in a year				
	a. basic salary	48,984,000	45,672,000	43,068,000	16,752,000
	b. housing allowance	25,489,200	24,459,600	21,410,400	
	c. transportation	9,000,000	8,400,000	7,200,000	3,132,000
	d. incentive	7,422,000	6,920,004	6,525,996	11,880,000
	e. health allowance	-	-	-	6,032,400
	Total	90,895,200	85,451,604	78,204,396	37,796,400
2	13th salary	7,574,600	7,120,967	6,517,033	-
3	Religion holiday (festive)	15,149,200	14,241,934	13,034,066	1,898,700
4	Rest allowance	6,206,100	5,844,300	5,373,200	500,000
5	Bonus	66,405,270	62,534,010	57,493,240	1,898,700
6	Closing contract	-	-	-	1,898,700
	Total	277,125,570	260,644,419	238,826,331	81,788,900

Table 5-10 THP Comparison Between Permanent Worker and Outsourced Worker

Source: Author

There is a considerable distance between the THP of permanent workers and outsourced workers. For permanent workers in grade 13, for example, the THP they receive is higher or 292% of outsourced workers' THP on grade A. The percentage would be greater when it is compared to grade 11 or 12.

As described in the previous chapter, the author recommends a change in composition of employees in the Procurement Bureau. The composition must be based on the need for employees and increasing investment of IPC every year. With the addition of outsourced employees, it is expected that productivity in the Bureau of Procurement can increase, which soon reduces the burden of cost for employee salaries. The comparison can be seen in Table 5-11 below.

No	Procurement Bureau	Actual		Proposed	
		Grade	THP (IDR)	Grade	THP (IDR)
1	Goods and Services I	11	277,125,570	11	277,125,570
		11	277,125,570	13	238,826,331
		12	260,644,419	Outsourced	81,788,900
				Outsourced	81,788,900
2	Goods and Services II	11	277,125,570	11	277,125,570
		12	260,644,419	13	238,826,331
		13	238,826,331	Outsourced	81,788,900
				Outsourced	81,788,900
3	Administration & Documentation	11	277,125,570	11	277,125,570
		11	277,125,570	13	238,826,331
		13	238,826,331	Outsourced	81,788,900
		13	238,826,331	Outsourced	81,788,900
				Outsourced	81,788,900
				Outsourced	81,788,900
Total		2,623,395,681		2,202,166,903	
Deviation (%)				83.94	

Table 5-11 Annual THP in the Procurement Bureau (Proposed)

Source: Author

In Table 5-11 above, it can be seen that the addition of outsourced personnel in the Procurement Bureau will save about IDR 421,228,778 per year or approximately 16.06% of the actual spending. If the re-evaluation and re-mapping of outsourcing can be applied comprehensively in all departments in IPC, the organization will have higher savings. The savings can be allocated to other posts, which are more significant, by the IPC. Meanwhile permanent workers who are previously placed on the Procurement Bureau may be assisted to other more strategically important posts related to core business in the company.

5.3 How to Perform Outsourcing Successfully

5.3.1 Issue of Workers' Strike

The reasons for the company to outsource its supporting activities are to focus on its core business and to increase its efficiency by holding down operating costs. Both reasons are very important to stay competitive in the market. However, in reality, many people oppose outsourcing due to employment reasons.

In June 2014, ground staff at Rio de Janeiro's airport planned to stage a 24 hour partial strike, the same day that Brazil hosted the opening match of the football World Cup (Aljazeera, 2014). The umbrella union that represented the workers was calling for World Cup bonuses, better working conditions and raises of up to 12 percent. Nonetheless, the employers said that they were offering a maximum of eight percent after nine months of intense negotiations, but the negotiations failed.

Meanwhile, as many as 286,000 outsourced workers in 20 State-Owned Enterprises (SOEs) performed a work strike on 30 December 2013 (Liputan 6, 2013). This was a follow-up action of protest by the workers who demanded an assignment as permanent employees. Similarly, a strike occurred in TanjungPriok, where outsourced workers of JICT demanded assignment as permanent workers (Kompas, 2010). As a consequence, due to these assertions, about 300 workers were terminated from their outsourced positions. They then performed further action by striking on February 1, 2010, which immobilized export/import activities in TanjungPriok.

Strikes undertaken by outsourced workers are usually aimed at demanding permanent worker status or requesting a raise in salary. It is, of course, not an easy decision taken by the company, as it will increase the company's expenses in terms of salaries of employees. This also leads to increasing logistic costs and

harms the competitiveness of Indonesian Ports, in particular IPC when they should compete with other ASEAN ports such as Singapore and Malaysia.

Therefore, it is very critical to formulate a win-win solution strategy to satisfy both IPC and outsourced workers.

5.3.2 Recommended Actions

The most important factor in solving the outsourcing problems is through building sustainable cooperation between the three parties, namely the user company, outsourced workers and outsourcing service provider company. Each party must be able to understand the rights and obligations of the others, so that conflicts do not occur. In the end, all parties are expected to work together based on mutual benefit, mutual respect and mutual understanding.

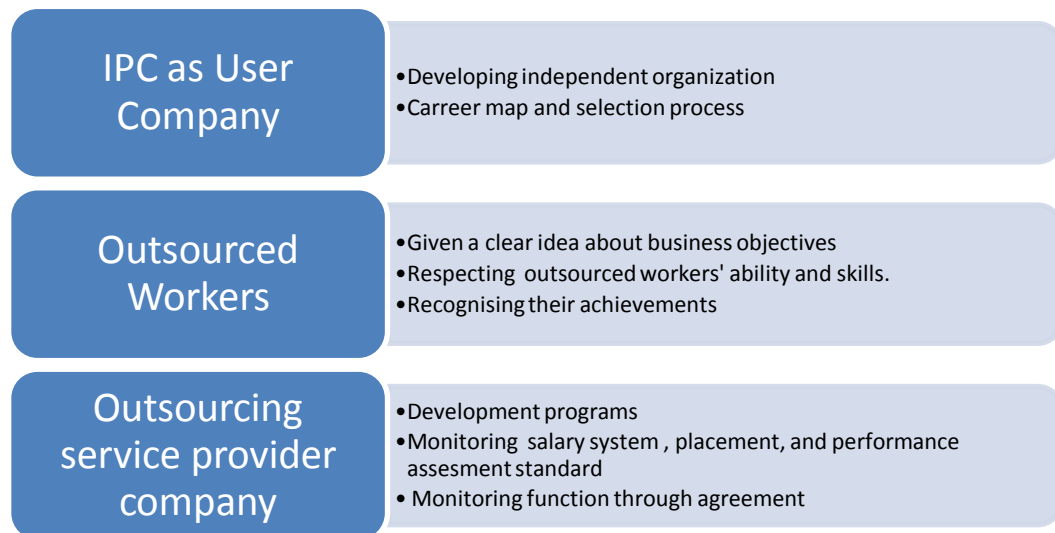


Figure 5-1 Recommended Actions for IPC

Source: Author

IPC as as User Company:

Developing independent organization

The proportion of outsourced workers compared to permanent workers in the IPC reached 57% in 2013. The number increased, from 3,009 workers in 2012 to 3,445 workers in 2013. In subsidiary companies, the proportion of outsourced workers is 52% or 1,813 workers. The large number of outsourced workers requires structured management. Currently, it is the HR Department alone that is responsible for managing all those workers, which is not sufficient. There is no specific department/division to handle outsourced workers.

Therefore, IPC needs to establish an independent body to manage outsourced workers separate from the HR Department. This independent body is expected to accommodate and manage those workers, which is considered a more appropriate way to manage them.

For instance, early this year PT Pelabuhan Indonesia III formed a new subsidiary named PelindoDaya Sejahtera Corporation (PDS), which is an independent company to deal with outsourced workers. The establishment of this subsidiary is an effort to increase the efficiency and effectiveness of the provision of outsourced manpower. Another aim of the subsidiary is to provide supplementary services such as cleaning service, security service, procurement of administration equipment and so on. In addition, the establishment of PDS was accomplished through an acquisition between PT PersadaJasaUtama (subsidiary) and KoperasiPegawaiPelabuhan Indonesia III (Kopelindo III). Their main business was providing outsourced workers and also providing supplementary services as mentioned before.

It required IDR 17.5 billion as start up capital where PT Pelabuhan Indonesia III possesses 90% of the ownership and the remaining 10% is owned by PDS (Liputan 6, 2014). The formation of the PelindoDaya Sejahtera Corporation refers to Decree of Minister SOE Number S-701/MBU/2013 dated November 22, 2013 regarding approval of the acquisition of Indonesia Port Corporation III subsidiary .

The Director of Personnel and General PT Pelabuhan Indonesia III, EdyHidayat N, stated that at first, approximately 1,200 people employed in the PT Pelabuhan Indonesia III operations would be relocated under PDS (Liputan 6, 2014). Henceforth, the entire outsourced workforce who worked in PT Pelabuhan Indonesia III will be transferred to PDS.

The human element is the key of all the managerial and organisational change. Not paying the proper attention to the employees will lead every transition effort to total disaster (Francou, 2002). IPC can adopt the same policy as the PT Pelabuhan Indonesia III to manage outsourced workers. So, all outsourced workers can feel secure and problems can be minimized (Dewi, 2013). Eventually, it will reduce the risks faced by IPC as the user company.

Career map and selection process

In order to obtain the best workers, IPC will have to employ quality workers as well. Also, in order to maintain their workers' quality, IPC needs to conduct performance assessments of all outsourced workers. By running this regularly, IPC will be able to recognize which workers are not productive and should be reviewed, or even replaced.

Further, in order to retain their employees, career mapping is a good example of how to create employee loyalty and best performance. For instance, by having career mapping, outsourced workers will be motivated to work as best they can so they get promoted to become permanent employees. In return, IPC will enjoy having skillful and experienced workers, instead of acquiring and training new employees, which is costly and inefficient.

To Outsourced Workers

Given clear idea about business objectives

It is IPC's responsibility to provide a clear understanding of the visions, missions and objectives of the company. Thus, they will be working in line with the company's direction.

Appreciate the ability of outsourced workers

Besides to reduce the cost of employment, the reason for employing outsourced workers is because of the knowledge and skills they possess. Since they are working in the front line, their inputs are valuable information for the company's improvement. So IPC Management should consider involving them in discussions and meetings. IPC must encourage them to contribute new ideas, not only regarding their jobs, but also regarding the company business. In addition, management also should give motivation of personnel to convince them to improve their efficiency (Francou, 2002).

Recognize their achievements

Evaluate their work and give rewards when they meet or exceed the targets set by IPC. Workers often want recognition of their hard work. For instance, IPC can hold a competition to determine the best outsourced worker every year. The result of the work and the competition can be a consideration in the selection of becoming permanent workers

To The Outsourcing Service Provider Companies

Development programs

IPC should advise the KopegmarTanjungPriok to provide technical training continuously to tackle the difficult aspects or problems that may occur. Then, they

need to perform periodic evaluations to measure the effectiveness of training toward employee performance. In addition, the workers should also be given soft skill training to improve their communication skills and business etiquette.

Monitoring system of payroll, placement and performance assessment standards

Regarding the system of payroll, IPC should affirm that the agreement with the service provider ensures that the system of payroll, allowance and insurance is aligned with current legislation.

Also, there should be clarity about the assessment standards established by the outsourcing service provider company to assess performance of employees in order to get qualified employees.

A professional outsourcing service provider company must provide wages, allowances and Jamsostek (worker's security protection) to their human resources placed in the company. In addition, the company is not allowed benefit from making wage cuts to their workers for any reason, except:

1. Cutting wages that have been governed by the rule of law
 - Income tax (PPh) Article 21
 - pension/retirement insurance from Jamsostek
 - Wage cuts if the employee did not perform the work (Manpower Act Article 93 Paragraph 1)
2. Cuts imposed by a third party
 - Other cuts that become the employees obligation and are made by a third party
 - Administration fees by a bank because of payroll transactions
3. Cutting wages for an employee is loan installment to the outsourcing vendor.

The IPC must actively conduct surveillance, so that an outsourcing service provider company always complies with the provisions of the law during the period of the contract. This is to prevent manpower violations.

Monitoring function through agreement

IPC is involved in resolving employment problems between KopegmarTanjungPriok with its outsourced workers, whereas this problem should be resolved between KopegmarTanjungPriok and the outsourced workers. In fact, the purpose of utilizing outsourced workers is to avoid involvement in dealing with such issues and problems.

To avoid these problems, the rights and obligations between the user company and outsourcing service provider company must be set out explicitly in the agreement. Through that agreement, IPC can undertake effective monitoring functions toward KopegmarTanjungPriok or the outsourced workers.

The monitoring function can be in the form of sanctions against KopegmarTanjungPriok for not implementing the terms and conditions of the agreement, from the lightest sanctions up to the toughest sanctions such as work termination.

Thus, it becomes very important to draft an agreement about the proper use of outsourcing in accordance with the needs of the company's business. Moreover, it will protect the interests of the related parties in the cooperation.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

Based on the problem selection and the objectives in this dissertation as described in chapter 1, the result of data collection and analysis in chapters 4 and 5, several conclusions can be drawn as follows:

1. Firstly, the use of outsourced workers by IPC was driven by the authorisation of regulation of the Minister of Manpower and Transmigration Number 19 of 2012 concerning the Requirement of Assignment of Part of the Implementation of Work to other Companies issued on November 19th, 2013. It is also due to determination of the flow of port business by asBUPI that allows IPC to employ outsourced workers, both in direct and indirect supporting work.
2. Second, the proportion of outsourced workers in the IPC reached 57% in 2013 based on service centres and 52% based on subsidiaries. However, this huge number of workers has not been managed properly and needs a more structured independent organization separate from the Human Resource Department to represent and accommodate all of the workers.
3. Further, IPC will benefit from several advantages from the use of outsourcing such as recruitment, benefits, welfare programs and productivity advantages.
4. Lastly, outsourced workers, on the other hand, often obstruct operational activities through strikes and demonstrations demanding equality of employment and salary raises. Therefore, it is very important for IPC to formulate a win-win solution strategy that will satisfy all parties.

6.2 Recommendations

Considering all of the findings of this research, this study attempts to address several recommendations for IPC regarding outsourcing as follows:

1. Activities that have been formulated by AsBUPI as the basis of the use of outsourced workers include as the following:
 - Activity flows of non-container terminal
 - Activity flows of container terminal
 - Activity flows of pilotage boat
 - Activity flows of ship service
 - Types of core work and port service supporting work
 - Ship services, container terminal, non-core terminal services, miscellaneous business, engineering (facilities), HR, finance, internal control systems, information systems, corporate secretaries, marketing and development, law, risk management and quality systems, procurement.
2. In the Procurement Bureau, there are two types of jobs categorized as indirect support work, namely: (1) the company's planning and control, (2) procurement administration. The company will determine the structure of employment and the assignment of permanent and outsourced workers based on their needs.

Based on the analysis of workload performed at the Procurement Bureau, it was found that IPC needs to reconsider the composition of employment. Previously workers consisted of 5 junior staff, 2 senior officer and 3 junior officers, which should become 3 junior staff, 3 junior officer and 8 outsourced workers. The addition of the number of workers will give positive effects, such as accelerating the completion of work and reducing the occurrence of errors.

3. The addition of outsourced employees in the Procurement Bureau will save IDR 421,228,778 per year or approximately 16.06% from the current actual spending. The savings can be allocated to other posts, which are more

significant for the IPC. Meanwhile permanent workers who were previously placed in the Procurement Bureau may be assigned to other strategic posts related to core business in the company.

4. Build a good and continuous dialogue between the IPC, outsourced workers and outsourced service provider company in order to reach a common understanding of the rights and obligations, so they can work together in harmony.
5. As mentioned before, concerning all outsourcing issues that may occur, the following are several recommendations of action for IPC to satisfy all parties:
 - a. Internal IPC
 - Developing an independent organization by establishing a subsidiary to oversee the outsourcing
 - Career mapping and selection process to retain competent outsourced workers and to promote them into permanent employees.
 - b. To Outsourced Workers
 - Given a clear idea about business objectives so they will work in line with the objectives of the company
 - Appreciating their ability and involving outsourced workers in company meetings
 - Recognizing their achievements
 - c. To Outsourcing service provider company
 - Develop training programs, both technical and soft skill training
 - Monitor systems of payroll, placement and performance assessment standards
 - Monitoring functions through an agreement between IPC and the outsourcing service provider company

6. Future research

Many questions arose during the writing of this dissertation and those require further research. The author has made an analysis of the application of outsourcing in the Procurement Bureau in the Headquarters of IPC and cost effectiveness of the company. Further research is suggested to analyse the application of outsourcing in all fields of IPC, either in the branches or in the subsidiaries. In addition, it is proposed for the future researcher to analyse the managerial level as well. The recommendation for IPC to form an independent subsidiary company to deal with outsourcing requires a deeper analysis on planning, financing and organizational structure.

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