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Wages of Labour Discrimination: Case Study on Nike Company Indonesia

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Abstract

Benham define wage brings the meaning of an amount of payments from an employer to an employee (labor under contract to perform service). In 2011, Nike has operated in Indonesia was criticized by several NGO's because of low wages for the employee which is 2.50\$ a day where the product itself is handmade and expensive. Nike Incorporation is a company that produces sports goods such as shoes, trousers, clothes and so on, where had been operating since the year 1976. Fiscal in 2015, has a manufacture in Vietnam, China, and Indonesia respectively produced 43%, 32% and 20% shoes branded by Nike. This paper made is intended to see how far Nike, Inc. violated business ethics in the wages of labor rate context which occurred in Indonesia. This also can become a reference to any parties to identify the causes of unethical business activity in the world.

Keywords: Wage, Labour, Nike, Ethic, Discrimination, Conceptual Paper.

Introduction

Ethic in business is an important thing that needs to be made discussion among businessman. Today, there are various issues that start to arise involve business world said violated some ethics, for example, fraud through advertising, good quality disproportionate with the selling price, employer discrimination towards employee, staff dishonest, Environmental damage cause business activity and so on.

Around year 2015, world uproar with some of the cases that involve business entity that violated ethics like reported by the Economist (2015), Volkswagen that developed illegal software for the purpose of manipulating production data for the purpose of cheating bank, Banco Espirito Santo (BES) officer in Portugal accused of cheating investor (Kowsmann, 2015). This issue got the attention of local and foreign media and for the purpose of prefiguring that a lot of bigger companies do not honest in business activity. According to report by Leoi, (2016), President Kesedaran Alam Sekitar Cameron Highlands, R. Ramakrishnan said increasing temperatures which occurred in Cameron

Highland, Malaysia between them caused by use of plastic cover greenhouse used by farmers. Climate expert, Prof Datuk Dr Azizan Abu Samah said global warming here is due to Cameron Highland condition itself.

30 October 2014, GDBH and Browne have files lawsuit on behalf of Vilma Zenelaj and Greta Zenelaj cleaners of Handy Book Incorporation as the employer did not pay wages for overtime that have done by the plaintiff plus 9 more cases of offenses such as failure to pay minimum wage, failure to provide a meal and others. Generally, the company has carried out its business as to maximize their profit including cut off employee wages (Cherry, 2016). As mentioned by Aeppel (2002), found that the majority of companies will reduce production costs for two benefits in return, and one of them is the maximum profit.

Literature Review

Maximize Profit

A business definitely having a clear mission in ensuring their activity able to sustainable this is including economical and uneconomical. Economical profit such as return on investment (earning), lower cost production, fixed cost and variable cost and the uneconomical profit are included sustainable environment, corporate social responsibility, job opportunities and many more. However, Aeppel (2002), found that the majority of companies will reduce production costs for two benefits in return, and one of them is the maximum profit. According to Jensen (2002), managers of a company which carried out business activity need maximize profit because this is a road on efficiency economically. Profit intended by Jensen (2002) is in earning profit.

According (Canadian Manufacturers & Exporters, 2015) a business will grow to make money by generating profits. The money will be used to invest in the business and pay dividends to its board of directors. In either case, the earning profit is also important for business growth that is ultimately to create jobs and generate income households and to provide prosperity to all Canadians. In general, the profit can be calculated using the formula ($Profit = Revenue - Cost$). In accountancy field, the cost of a business must be can be calculated by monetary value. Production cost fall into two types direct and non direct. Direct cost, including wages of labour, raw material, equipment rental and so on. Meanwhile cost none direct it cited as overhead includes utility and administration. All costs need to count with monetary value. If production costs are less, the earning profit is higher.

Each year, are companies, especially large companies will produce an annual financial report. Financial reporting that is good is important in effort company to continue competing with other companies. It is one of the company manager ways to communicate with customer, investor and also bank to importance of the company interest. Following by (Way), financial report must include financial conditions, operating results, cash flow and shareholder's equity.

Higher Unemployment

According Byrne and Strobl, (2004) based the ILO guidelines, a person is unemployed if the person is not working, currently available for work and seeking work. Generally, unemployment occurs is due to the attitudes of individuals who are demanding higher salaries are not commensurate with their productivity. Countries that have people who behave like this are usually high unemployment, (Nickell, Nunziata, & Ochel, 2005).

Studies by Udin and Osemengbe (2013), the causes of unemployment in Nigeria are including rural, urban migration, rapid population growth, low standard education, the rapid of expansion of the educational system, lack of steady and sustainable power supply and corruption. Founded by Udin et. al (2013), unemployment are an effect to inequality of Income, book haram, decline in quality of life, rise the unemployment rate of Nigeria, and job insecurity. The impact of unemployment has created an unhealthy environment in the country of Nigeria including increased crime, which ultimately makes citizen's lives are no longer safe.

According to INQUIRER.net, Global Employment Trends report, the unemployment rate in Brunei last year was 3.7 per cent, Myanmar (3.5 %), Indonesia (6 %) while the Philippines has the highest unemployment rate in the region of (7.3 %). This percentage shows that in 2014, Indonesia is the second-highest unemployment rate among the countries on the Asian (Utusan, 2014). However, Utusan, (2014) found the highest rate of unemployment at the global level is the 27.6% recorded in the country of Spain.

Based on study by Oliver, Jonathan and Matteo (2014) have found that 19 percent of ASEAN own business or are planning to switch investments from China to their business to the Asian region. They identified Indonesia as the most attractive countries for business expansion, followed by Vietnam, Thailand, and Myanmar. Low labour costs in countries such as Cambodia, Indonesia, Laos, Myanmar and Vietnam can be a competitive advantage. The average factory labour costs of about USD7 a day in Vietnam and USD9 in Indonesia, much lower than the average USD28 in China. Trend wages like this has happened since 2007.

Wage Minimum Policy Enforcement

The determination of wages, or often called the minimum wage to be paid by the employer or the worker or employee of the company first introduced by Australia and New Zealand in the late 19th century (Kurlillah, 2014). Based on previous study, originally, minimum wages did not play a positive role in the neoclassical model (Martin, 1991). According Nurlillah, (2014) Minimum wage in Indonesia is different according to regions or territories which are under the decision of Governor and the leader in small areas. Although the legal minimum wage was first introduced in Indonesia since 1970, but the federal government is not actively involved in the enforcement of those laws. Usually it has been established by the council of each area for each region.

The minimum wage level is set based on the estimated amount of money needed to cover basic needs in their respective territories (Chun & Khor, 2010). In a forum that discusses the issue of the minimum wage in Jakarta on February 4, 2016, the International Trade Union Local and the dispute between the minimum wage salaries USD103 to USD224 per month is too low to cover the basic needs of a worker. Due to the minimum wage level, there has been a demonstration that involved 3 million workers in December 2015 in Indonesia (Fair Labour Association, 2016). Fair Labour Association also gave suggestions to the government of Indonesia to refer Conventions 26 and 131 of the International Labour Organization as the main guide for the process of revision of minimum wages in Indonesia to be implemented by employers or businesses.

Labour Productivity

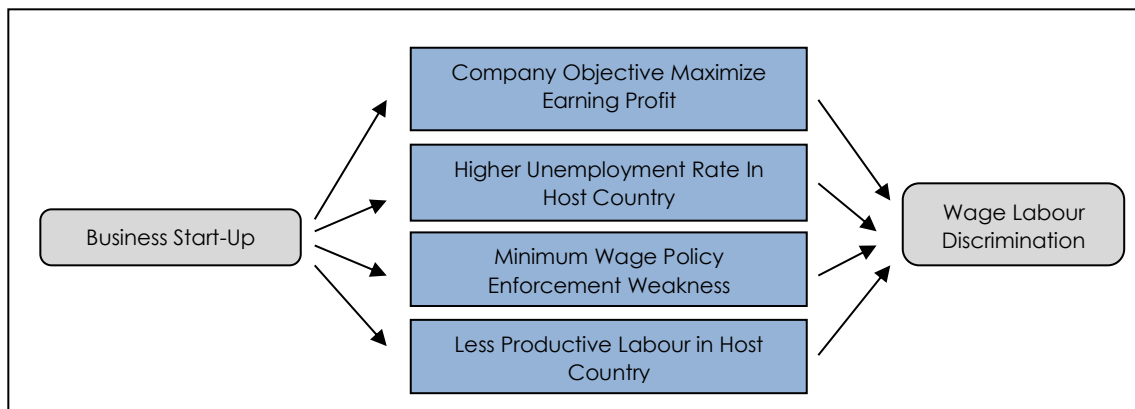
According to International Labour Organization (ILO), Labour productivity, defined as GDP per employed person, has been increasing gradually over time in Indonesia, with productivity in the industrial sectors nearly double that of the services sector and quadruple that of the agricultural sectors. For example, between 2005 and 2009 productivity expanded at an average annual rate of 3.3 per cent. Between 2010 and 2013 productivity expanded by average annual rate of 4.3 per cent. This trend has been supported in part through investments in infrastructure, as well as structural changes that have seen the expansion of employment in higher value-added industrial sectors and the contraction of employment in lower value-added agricultural sectors.

The manufacturing sector is an important sector for the Indonesian economy. It is highly diverse, with significant differences between the performance of large and medium (LM) establishments and the micro and small (MS) enterprises, particularly in regard to employment growth, job quality and labour productivity. The manufacturing sector is the second largest contributor, after the service sector, to regular wage employment. This regular wage employment is concentrated in the large and medium sized establishments. Regular wage employees in the establishments are likely to receive higher wages, have terms of employment that comply with labour regulations, have better access to social security, and have higher chances of being involved in labour unions.

Moreover, large and medium sized establishments are likely to innovate, attract foreign direct investment and embark on technology transfers. These characteristics are critical to the dynamism of the economy and provide an essential source of growth. By contrast, the micro and small establishments suffer the opposite characteristics, with much lower productivity and their workers receiving far lower wages. To further emphasize, while the overall average real earnings of workers in the manufacturing sector only mimic the real average earning of workers in the overall economy, the level of average real wage received by workers employed in the large and medium establishments is much higher, approximately twice average real wage in the overall economy. In addition, while employment growth has been picking up in the overall manufacturing sector, large and medium firms have had comparatively lower rates of employment growth.

In regard to labour productivity, it is observed that despite the wage level in manufacturing being similar to that of in the overall economy, labour productivity within the manufacturing sector is double that of the overall economy (see figure below). Building on this, labour productivity in large and medium establishments is approximately twice of that productivity in the general manufacturing sector and around three times higher than labour productivity in the overall economy. Here it is important to note that workers in large and medium establishments receive wages approximately twice as high as workers in the overall economy. This signals that higher productivity can lead to higher wages.

Given the fact that large and medium establishments have low employment growth while enjoying much higher productivity and wages level, the opposite must be true for micro and small establishments. This situation highlights several challenges for policy makers. First is how to increase employment growth in large and medium establishments, in order to open greater access to more quality jobs and in doing so allow workers to move out of lower wage and lower productivity sectors. For this, the overall expansion of the large and medium establishments is critical. Second is how to



increase productivity of the micro and small establishments, in hope that the productivity gains would positively influence wage levels. To emphasize, the manufacturing sector remains an important economic sector for the dynamism of the economy and is a source of quality employment. Within the sector, large and medium establishments play an important role as they are better situated in terms of achieving productivity growth and wage growth, attracting skills investment and technology transfers, providing social protection and fostering social dialogue. The challenge is on creating sufficient employment growth in these establishments. On the other hand, while micro and small establishments have higher employment growth, they are disadvantaged on the other characteristics. Strategies strengthening micro and small enterprises, particularly “home based industries”, will be highly important for strengthening competitiveness and productivity of the manufacturing sector in the future.

Theoretical Framework

This section demonstrates the theoretical framework for this study. Miles and Huberman (1994) defined a conceptual framework as a visual or written product, one that explains, either graphically or in narrative form, the main things to be studied on the key factors, concepts, or variables and the presumed relationships among them. This study aims to identify factors that can affect the employer or owner of the company of discriminating against their employees' wages. Based on the theory that, four major factors that have been identified include the attitude of employers or companies that are concerned about earning profits in the business, the unemployment rate in the country is too high, the enforcement of the minimum wage policy is weak and the level of labour productivity is low.

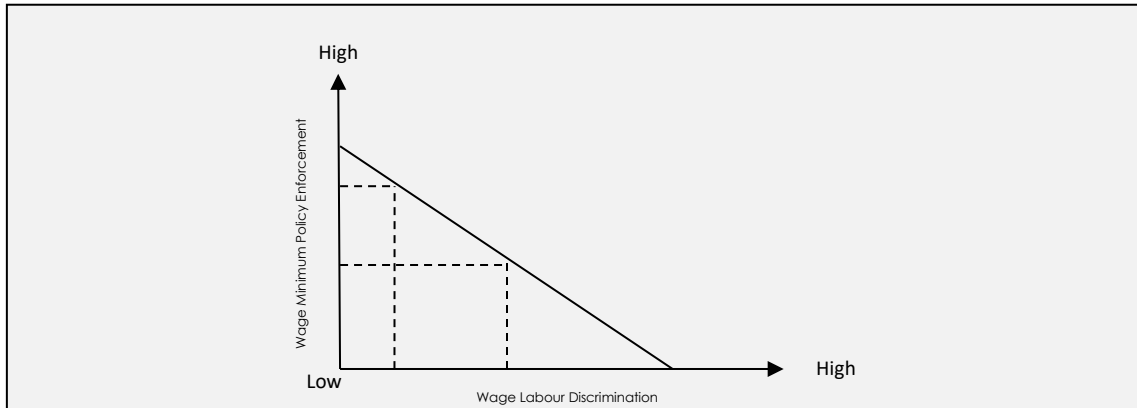
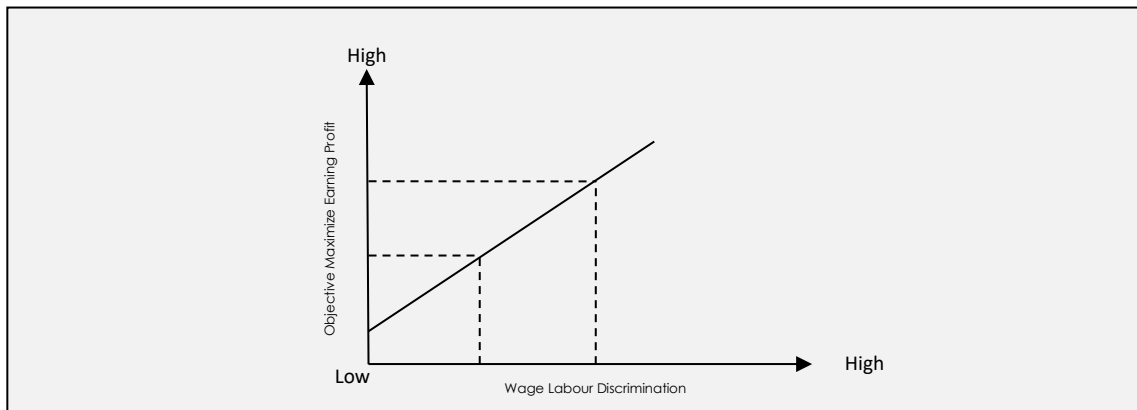
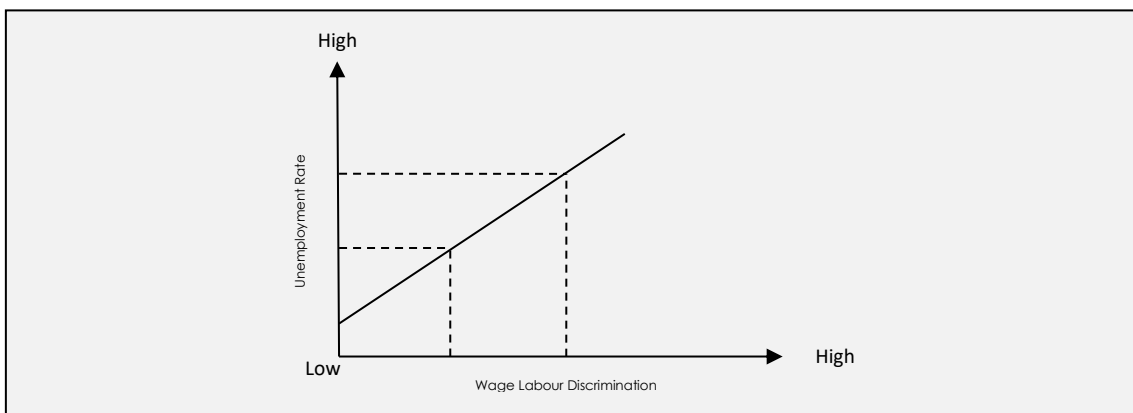


Figure 1: Factors influencing the behaviour of wage discrimination by employers



Graph 1: Relation between objectives maximizes earning profit and wage labour discrimination



Graph 2: Relation between unemployment rate and wage labour discrimination

Graph 3: Relation between wage minimum policy enforcement and wage labour discrimination



Graph 4: Relation between labour productivity and wage labour discrimination

Four key factors outlined are independent variables that have influence on the dependent variables of wage discrimination. Graph 1 shows a positive relationship exists between the behaviour of employers who prefer to make profits with the possibility of wage discrimination. The higher the desire for greater profits, the higher the possibility of wage discrimination against their trade. Refer to graph 2, relationship between unemployment rate in host country and possibility of wage discrimination are also positive.

In addition, referring to graphs 3 which involve independent variables police enforcement of minimum wages and labour productivity they showed a negative relationship. However refer to graphs 4, relationship between labour productivity and wage discrimination is constant. Weakening and low policy enforcement of minimum wages, the possibility of wage discrimination is high.

Conclusion

In conclusion, an unethical attitude of the employer in discrimination (wages) not only involving themselves but also from the external factors that may also contribute to this unethical behaviors. Based on the concept that has been made, there a list of factors that may contribute to unethical decision making which is lacking in enforcement from the government in minimum wages. Besides that, a high unemployment rate in Indonesia also leaves a gap for the employer to easily abuse the power that been given to them. Nevertheless, the attitude of the employee to misuse their power to the maximum has become the major factor of discrimination of wages of the employee in Indonesia, for example, Nike case 2011.

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