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**Proceeding**

# 4th AIMI INTERNATIONAL CONFERENCE 2015



**Transforming Business In  
Emerging Markets**

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Bengkulu, Indonesia**





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## **Welcome Message From Chairman of AIMI**

Assalamu alaikum wr. wb.

Welcome to the fourth International Conference AIMI 2015

As I have stated before that this International conference is the fourth International Conference organized by AIMI. The first was held in Denpasar Bali in 2010, and continued to the second which was conducted in Pekanbaru in 2011, and the third was held in Makassar in 2013. Time goes by and it has been for almost six years AIMI has been established and give beneficial to its members as well as Indonesian society. In line with the mission of AIMI which intends to bridge between academic field, especially faculty of economics and business, and the real business world, in terms of decision making process in a business organization and public as well as government institutions.

AIMI has considered, synchronized, and harmonized between the development and rapid progress in the management practice that is a decision making process including planning, doing, and evaluation in the business and public organization, and the development of higher education, as an institution to transfer knowledge and its development to students as well as to develop and create knowledge and technology. Whereas, the current condition remains showing that the role of higher education is still one step back than the management practice in terms of the effort to elevate public and private/business organizational performance.

As we commonly known that business organization cannot be separated from Industrialization as a process to fulfill the need of society and country. Industrialization is also an interaction of natural, human, financial, institutional, and technology resources. The interaction among them will influence the surrounding environment quality. The industrialization can be a driving of the production factor which moves the goods or raw material from the origin place of the production to the manufacturing process. Meanwhile, the finished goods as the result of manufacturing are also driven from the factory to the consumers who need the goods. By connecting the production factor and finished good movement to Indonesia as an archipelago state, it will bring it as one of the topics being discussed in this conference.

Moreover, referring to the contribution of AIMI as stated above, it is undoubtable that AIMI has a high role that is to strengthen Indonesian product and service competitiveness. Through four prominent programs for the next three years (AIMI Committee of 2014-2017) which are organizational, information, cooperation, and expertise programs, it is hoped that AIMI can elevate Indonesian product and service competitiveness.

Global market gives huge opportunities to companies which have product and service competitiveness. Therefore, this precious moment will become a great opportunity for business practitioners and academics to share. As for business practitioners, they can share their current activities, and for academics they can deliver relevant theories which are suitable with the current condition.



And finally, I would like to express my great gratitude to AIMI members, especially AIMI Bengkulu and all universities in Bengkulu who actively participate in this international conference. My gratitude is also expressed to all the business practitioners who have share their time and give us material and immaterial support. And the last, I would like to thank you to all the sponsors and our distinguished guests, the participants of the fourth AIMI International Conference.

Hope this International Conference will be beneficial for all of us and Indonesian Society.

Thank you.

Prof. Armanu Thoyib, Ph.D  
Chairman of AIMI



### **Welcome Message From Conference Chairman**

Welcome to International Conference Indonesian Management Scientists Association (AIMI) 2015.

This International Conference is a manifestation of an attempt to synergize the participation of practitioners and academics in building Indonesia, particularly in the field of economics and business.

AIMI IC 2015 hosted by Indonesian Management Scientists Association working with University Brawijaya, University Bengkulu and Dehasen University. Indonesian Management Scientists Association supporting role in promoting Bengkulu as an international city.

IC AIMI has successfully organized annual conferences in cooperation with the higher education institutions. Support of academics, researchers and business practitioners are clearly visible from a paper accepted by the organizers of this year. This year a total of 6 abstracts and 49 full papers were received and most of them will be presented.

I would like to thank and congratulate the chairman Indonesian Management Scientists Association, Rector of University Brawijaya, Dean of Faculty of Economics and Business, University of Brawijaya, Rector of University Bengkulu, Dean of Faculty of Economics and Business University Bengkulu, the Coordinator of the Doctoral Program in Management Science University Bengkulu, University Rector of Dehasen Bengkulu, Dean of Faculty of Economics University Dehasen Bengkulu for their support, the Ministry of Public Works and Housing Bengkulu Provincial People financial support of PT. Bank Bengkulu, PT. Rodateknindo Purajaya, PT. Rico South Son and other sponsors, PT. Pelabuhan Indonesia II Branch Bengkulu, Cipta Mandiri Planner, RSJKO Province of Bengkulu, Bengkulu Muhammadiyah University, University Professor Dr. Hazairin Bengkulu, STIKES Bakti Husada, PT. Foundation work Megah PT. Samumi Jaya Sakti, CV. Modecom, for their financial support. I want to thank you for all the participants and organizing for their support.

Ir. M. Nashsyah, MM., MT.  
Conference Chair

### **Welcome Message From Program Chairman**

As the conference manager of 4th ICAIMI 2015 Conference, it is my pleasure and privilege in welcome friends, colleagues, and participants from all over the world attending this conference.

The <sup>4th</sup> Interational Conference AIMI (ICAIMI) 2015 is designed to encourage management and business research, education, and more importantly the knowledge dissemination that are relevance to management studies. The conference provides a platform for all academia who are interested in management and business development issues relevant to the growth of global economic that enable the participants to share their knowledge and their experience and more specifically to develop mutual research interest collaboration.

Many countries in the world are projected to be leading economic countries in the next five years. Over 30 papers from 4 countries echoing the conference theme “Transforming Business in Emerging Markets” reflect that management, business research and business practices are evolved through the globalization.

We hope this conference to be successful and become an important and valuable resources under your contribution and participation. Finally, on behalf the organizing commitee members, i hope and i am sure you will have fruitful discussion and successful meeting, wish you all have a pleasant and enjoyable day in bengkulu and looking forward to seeing you in person.

Ananda Sabil Hussein, PhD.

2015 Program Chairman

## **2015 Program Acknowledgements**

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## **LABOUR OUTSOURCING AS A TRANSFORMING STRATEGY INTO WINNING THE COMPETITION IN AN EMERGING MARKET**

Created by: Muhammad Istan  
University of Bengkulu

### ***Abstract***

Organizations nowadays is trying to continuously transform their business in order to maintain or increase their competitive advantages, for example, implementing network organization, strategic business alliances, reengineering, benchmarking, and outsourcing. Outsourcing is a cooperative model between organization and vendors in deriving competitive advantages through the redeploying and efficient utilization of resources in the areas of human resources, research, technology, business processes, and etc. Many organizations have benefited from labour outsourcing by focusing on their core competencies strategic, for example: 1) laboureconomic/financial condition, 2) labour market, 3) educational level, 4) skill, 5) and labour laws that make labour outsourcing industry grows rapidly in emerging markets.

### ***Keywords***

*Transforming business, labour outsourcing, laboureconomic, financial condition, labour market, educational level, skill, labour laws, emerging markets.*

### **Introduction**

Organizations nowadays is trying to continuously transform their business in order to maintain or increase their competitive advantages. In a hyper-competitive climate, organizations have to consistently increase their level of efficiency. They have been trying to get such efficiency, for example, by implementing network organization, strategic business alliances, reengineering, benchmarking, and outsourcing.

Outsourcing is a cooperative model between organization and vendors in deriving competitive advantages through the redeploying and efficient utilization of resources in the areas of human resources, research, technology, business processes, etc. Outsourcing characterizes is an organizational pattern of using another resource from the internal capacity of a third party to meet activity or process requirements to achieve competitive advantage. It also becomes foundation for downsizing oriented organizations to reach their goals by focusing on their strengths and doing things according to their core competencies. In this way, outsourcing, in the example of Just in Time (JIT) method which not only makes supplies available from the suppliers but integrates the value chain of the suppliers into the business firm, and thus resulting a lean and streamline business process that keeps the resource efficiency and increase product quality and core competencies of the organizations. Some reasons for organization to outsource are: to improve and increase business focus, to get access to world class capabilities, to accelerate reengineering benefits, to share risks, and to obtain free resources for another purposes, such as to make them possible to redirect their resources from non-core activities.

The Organizations that outsource are seeking to realize benefits or address the following issues (Gareiss, 2002), are:

1. Cost savings: The lowering of the overall cost of the service to the business. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, and cost re-structuring. Access to lower cost economies through off shoring called "labour arbitrage" generated by the wage gap between industrialized and developing nations (Engardio, *et al.*, 2006).
2. Focus on core business: Resources (for example investment, people and infrastructure) are focused on developing the core business. For example often organizations outsource their IT support to specialized IT services companies that are able to provide a higher level of service competency.
3. Cost restructuring: Operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed overheads to variable cost and also by making variable costs more predictable based on their service demands to support their core activities.
4. Improve quality: Achieve a step change in quality through contracting out the service with a new service level agreement.
5. Knowledge: Access to intellectual property and wider experience and knowledge from outsourced partners (Engardio & Kripalani, 2006).
6. Contract: Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services (Joana, 2003).
7. Operational expertise: Access to operational best practice that would be too difficult or time consuming to develop in-house.
8. Access to talent: Access to a larger talent pool and a sustainable source of skills, in particular in science and engineering (Couto, V., Mani, M., & Lewin, A. Y., & Peeters, C. (2006).
9. Capacity management: An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier.
10. Catalyst for change: An organization can use an outsourcing agreement as a catalyst for major step change that cannot be achieved alone. The outsourced partner becomes a Change agent in the process.
11. Enhance capacity for innovation: Companies increasingly use external knowledge service providers to supplement limited in-house capacity for product innovation (Couto, V., Mani, M., & Lewin, A. Y., & Peeters, C. (2006).
12. Reduce time to market: The acceleration of the development or production of a product through the additional capability brought by the supplier.

13. Co modification: The trend of standardizing business processes, IT Services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations.
14. Risk management: An approach to risk management for some types of risks is to partner with an outsourced partner who is better able to provide the mitigation.
15. Venture capital: Some countries match government funds venture capital with private venture capital for startups that start businesses in their country. Experiences in many locations and countries, including those developed ones, prove significant role the venture capital can play in creating various local outsourcing firms to boost economic condition of the related country.
16. Tax benefit: Countries offer tax incentives to move manufacturing operations to counter high corporate taxes within another country.

The Outsourcing can best be viewed as a cycle, beginning with the decision making process, followed by managing the contract, then evaluating the results, and, finally, re-examining the outsourcing contract, at which point we have to renew the contract or select again from available alternatives. But to take the initial step, deciding, companies will need to be aware of all the options, current and emerging in the outsourcing sector.

In a simple way, the outsourcing is transferring a part of organization works into external parties, or purchasing services from external parties that undertake a certain portion of works the organization should perform in order to produce goods / services to sell to their customers. Actually, the idea and concept of outsourcing has flourished years ago, at that time organizations were looking for external groups to relieve their internal resource constraints, and help in performing works that could not be finished by the organizations internally.

### **Labour Outsourcing**

Outsourcing can take many forms. One of them is labour outsourcing. Many organizations have benefited from labour outsourcing by focusing on their strategic core competencies (Manning, et.al, 2008), for example:

1. To avoid the high investment costs required for setting up and managing manufacturing activities, Nike Inc., a well-known shoe producer, has its shoe products fully made in an outsourcing manner by their partnered organization outside of USA. In a hyper-competitive business environment, Nike considers outsourcing a procedure to hire the best manufacturer in the world to perform routine manufacturing business functions so that it can focus their organizational resources on key activities of certain chain values, such as R&D on shoe technology, branding and marketing activities.
2. To share risk. A popular paper manufacturer in Surabaya that employs thousands of employees transfers employee transport management into an external organization. In this way, the company has no risk with damaged vehicle, traffic accident, automotive spare parts, technicians, and so on.

3. To get the best and the cheapest. Organizations with no expertise in recruiting employees outsource their recruitment process to HR organizations specializing in talent identification, development and recruitment. In this way, the outsourcing organizations will benefit from recruiting the best employees due to the external partner having powerful database and experience in the issue. In addition, the outsourcing organization can benefit from the process for eliminating the need to pay for special staff to deal with recruitment.
4. To focus on core competencies. Organizations will succeed if they base their activities on creativity, innovation, knowledge, and expertise. Real potency of organizations is expressed in their “core competencies”. Maintaining and developing core competency are challenges that organizations need to overcome for them to survive in competition. Core competency is a combination of business specialization and human skills that gives expression to certain character to organization. It comprises such resources as motivation, employee efforts, technology and professional expertise that provide organization with strategic power.

These benefits make labour outsourcing industry grows rapidly in many parts of the world, including in emerging markets such as Indonesia, India, China and Asia Pacific countries.

#### **Labour Outsourcing in Indonesia**

National Statistics Board of Indonesia said that there were 105.8 million workforces in Indonesia in 2005. The large proportion of manpower worked in agriculture, forestry and fishing and their labour participation held fairly stable for the recent five years, at about 44%. The quality of expertise offered to companies differs greatly with geography. Out of Java and other many main cities, the workforce comprises mainly of low- and semi-skilled workers in low value manufacturing activities. There is a lack of information-technology employees and a deficiency of managers who possessed specific skill competencies. Consequently, firms highly depend on expensive international employees, thus skyrocketing standard labour expenses in Indonesia. Female participation in the workforce is extraordinary low. It was reported at 46.3% in 2003. This illustrates a great potency of Indonesia a place for multinationals to outsource their business projects.

Indonesian Parliament issued Law 13/2003, the recent Manpower Law, in March 2003. The regulation empowers the bargaining power of employees and imposes minimum acceptable parameters for working conditions and establishes more transparent regulations for severance and compensation prices (Kantor Perburuhan Internasional, 2004).

Indonesia is one of the countries that have the lowest standard basic salary in Asia though the gap is gradually reducing when compared with its neighboring nations. Manpower Law 13/2003 supported a 40-hour business week with a maximum of eight hours workday. After working 4 hours, there must be a rest of at least 30 minutes. The law allows shift work. The law also provides a framework to for firms to make firing employees extremely difficult. According to Manpower Law 13/2003, severance disbursement comprises 1-9 times the worker's last monthly wage (Business Monitor International, 2006).



Basically all the regulation of the outsourcing and protection of the outsourced labour and all the system about the outsourcing process have already written in Indonesia Act No.13 / 2003 and managed by Indonesia Ministry of Manpower, but the situation in the real life is that the Indonesia government is more concerned about the investors rights and thus ignoring the labour rights. The government must realize that the companies and labour are two major components of the market economic system that must work together, and the government plays an important intermediary role to mediate the differences between labour unions and employers.

Many multinational companies (MNC) can benefit from outsourcing their human resources to local companies in Indonesia that can interpret the Labour Law effectively and negotiate with the local governments to mediate differences among the unions and thus continue to enjoy the low labour costs of the Indonesian market, and in such instance, MNCs can derive the benefits, for example:

1. MNCs can intensify focus on their core business.
2. MNCs can get financial advantage from worker payments through a management outsourcing.
3. Existence of continuous supervision by Indonesian company may reduce their HRD workloads, including giving punishment to employees.
4. MNCs can realize performance in an optimal manner because of training, supervision and control affairs are made by both parties.
5. Easiness in making available potential workers from various qualifications as needed.
6. MNCs can minimize risks and anticipate as well numerous problems occurring to employment affairs such as: strikes, destructing, and any other activities related to performance and indiscipline for the responsibility of employment is automatically transferred into Indonesian company.
7. MNCs are widely authorized to make valuation and selection or apply for employee replacements if necessary.
8. MNCs are free from legal requirements with respect to their employment issues.

### **Outsourcing in India**

Information technology, call centers, chip engineering, financial examination, and even pharmacology outsourcing have been extensively studied in India given the fact today India is one of the largest country in the provision of service and business process outsourcing. In 2008, McKinsey estimates that these sectors will rise to become an important export-driven sector worth \$57 billion annually, involving 4 million persons and making 7% of the India's GDP. The primary rationales for this are: small wage expenditure, a well-educated manpower and the expanded use of English. Furthermore, it is supported by democratic state administration with legal procedure which encourages the business climate, Western accounting standards and the benefit as the largest manpower population of the world (over 50% of its population is 25 years of age or low).

India is one of the most attractive locations for many international firms to outsource their business activities. Mitra (2007) identified that the country as a great place with expansive pool of talented workers with global standards highly sought by international companies and suggested a couple of rationales that exalt India's position for outsourcing at such global level.

a. Rich Talent Pool

- 1) A country inhabited by people with great computer abilities and English-speaking skills—among the most promising in the world. It can be correlated with the significance of education in Indian people.
- 2) Over 2 million undergraduate alumni, as well as over twenty percent engineers, every year.
- 3) Over 0.3 million postgraduate alumni yearly.

b. Lower Attrition Rates

A large number of unemployed people in India reduces employment attrition ratio to as low as 1:7 compared with the industry nations as it is very competitive to secure a job in India. For international firms looking to reduce overhead cost, India becomes an attractive location due to its low attrition rate and low cost labour structure, and these attract the private sector into outsourcing their business jobs into the country. Expense of non-technical workers in an industry economy, which is about \$2500 to \$3000, could be minimized as low as only ten percent of the overall labour cost to about \$200 to \$300, in India. As the result, outsourcing in India takes flight as it enjoys tremendous cost efficiency.

c. Technological Competency

Previously, the technology discrepancy has been recognized as a gap in the Indian industry but the gap has narrowed rapidly over recent years as India opened up its market to foreign players that brought along with their technical know-how and technologies. Today, India's technology infrastructure and services in many costal and industrial cities are of reasonable standards to global norms. For this witnessed many international global banking and insurance industry player to outsource their CRM, human resources and software building to Indian companies. All those higher technological growth to the advancement of information technology and telecommunication industries in India. Technological expansion has seen rapid growths in recent decade generally because of the privatization of the market as accorded to WTO and the decreasing governmental interference in the economic activity of Indian market. This cutting-edge technology has empowered India to increase the quality of service at a fairly minimized expense.

d. Geographical Benefit

The benefit of 12-hour time difference to the US gives an excellent chance for organizations in US market to offer continuous service to their clients, and fulfilling deadlines after office hours. The service extension through outsourcing in India market ensures companies in US to enjoy a competitive advantage over their rivalry by upping the ante of service quality.

e. Economical Advantage

From international firms that adopt BPO, large conglomerates in India such as Tata, Reliance, the Bharti group and the Hero group, also use BPO to support their group activities, and these organizations have showcased and prove the efficient usage of BPO to streamline process, and enjoy higher value of productivity. With the large conglomerates showing the economic results of BPO other small corporate such as Customer@asset.com and www.24/7customer.com also join

the fray of the BPO industry and this results a competitive landscape and dynamism in the outsourcing industry.

### **Outsourcing in China**

China is the most populated country in the world. In addition to low cost consideration attracting many multinationals to build their factories there, Chinese are well known as tough and persevering people. These benefits make China can be a good place for outsourcing. The Government of China has embarked logistics as a tactical sector and expanded greatly in increasing facilities like domestic multi modal transport systems and large scale of state-of-the-art logistics and distribution centers to support manufacturing activities and manufacturing investments in the country (Lau and Zhang, 2006).

The entry of China into World Trade Organization has created accessibility to the local transport and logistics industries from direct international involvement (Lau and Zhang, 2006). As a result, higher competition between Chinese and international logistics players China is likely to intensify private sector involvement in the logistics infrastructure development that is important to support a growing manufacturing base (Lau and Zhang, 2006). The shift towards greater market participation transformed the China market from total dominance of the state firms to co-existence of private players and joint-venture formats between state and private investors (Lau and Zhang, 2006).

The market competition and the increasing sophistication of logistics function have driven more organizations to explore the prospect of outsourcing in China as producers are relying logistics companies to distribute their products to the fast-growing consumer marketplaces. In terms of labour outsourcing, China is characterized by its huge manufacturing base that international companies are inclined to outsource its lower-value manufacturing and assembly activities. China was trailing behind India in the outsourcing industry, especially when China had too many hurdles to overcome in terms of central-provincial governmental policy inconsistency, international business language barriers, lack of transparency judiciary system, cultural factors and many others. In this regard, Lau and Zhang (2006) suggested that China outsourcing industry is primary driven by low labour cost across its manufacturing activity.

#### **a. Low Labour Costs as Pull Factor**

The most interesting advantage of China as an outsourcing location is the low labour cost structure. As suggested by Bryan Huang, the president of BearingPoint Great China said that an engineer pricing \$4,000 per month in the US would price just \$500 in Shanghai. For other industrial cities, the salary rank of an engineer in some areas such as Xian or Dalian is next to US\$250 monthly.

#### **b. Intellectual Property Concerns**

China has taken a large step since participating in the World Trading Organization in 2001. At present China's laws has amended to satisfy or go beyond the norms made by primary international IP agreements, and the new changes have decreased the upper limit for applying proceedings against a IP lawbreaker, such as providing a deterministic framework and supporting legal recourse for IP protection right, and, most providing education and awareness as an aid to prevent potential IP lawbreakers. This has encouraged global

companies to increase their confidence level in outsourcing their manufacturing and product development activities into China.

**c. Supportive Government and Policy**

Apart from cleaning their acts on IP protection, the China government also supports the software sector. China software export rose to \$5 billion in 2005 due to supportive governmental policy in protecting the IP rights of software developers. The country aims to build local core competencies in its software industry targeting of achieving more than \$602 million in sales revenues. For this purpose, China is building many software parks as firm incubators. Other supportive government initiatives includes: 1) tax incentive-zero duty on taxable articles concerning IT goods, 2) focusing on IP rights education and empowering IP regulations, 3) finance reimbursement for CMM certification, and special income tax handlers for recently founded software firms. In the future, firms will not taxable on their disburseable income for the first two years of their business operation, and benefit extends to include tax discount of fifty percent on normal tax rates for the following three years.

**Outsourcing in Asia Pacific Countries**

Apart from India and China, Asia Pacific countries today have become an ideal substitute location of outsourcing activities for most multinational corporations. Davison (1999) suggested that obtaining access to unique skill and stressing on the primary capabilities as the primary driver for firm to outsource in Asia Pacific. He illustrated that Australia as his case study and concluded the country's outsourcing activities was limited to a few huge firms, but with important government schemes local outsourcing sector started to grow, primarily in the higher value chain that includes information, communication, technology, media and creative industries. He added that as the region lacks in top-level vendor offerings in higher value chain, such offerings become a logical approach to develop the outsourcing industry in Australia (Grant, 1997).

In addition, Beaman & Eastman (2003) highlighted that Asia / Pacific outsourcing sector tended to concentrate on human resources activities and roles:

**a. Recruitment**

The largest portion of Asia or Pacific outsourcing sector comes from recruitment. Since recruitment is hardly a client's principle capability, it is meaningful to outsource this functional role to a provider that has expertise in managing the lifecycle of manpower. Providers of recruitment outsourcing utilize automate and streamline procedures, various sourcing media, websites and software "spiders" of their own that scrutinize thousands of work locations and looking for hundreds of thousands of biography as simple as within a mouse clicking.

Corresponding to curriculum vitae with firm's parameters in view of expertise and practice is simple because outsourcing companies have the skills and expertise to filter and match candidates to specific job roles. By using an outsourced recruitment process, the client able to harness the vast network of recruitment providers and skills to fasten recruitment process, achieve higher productivity, decrease worker turnover, and thus allowing the firms to focus on achieving greater volume of sales, and higher satisfaction of customer.

b. Training

Training and development is another area of outsourcing provided in Asia / Pacific region. Known as a back office function that serve internal customers (employees), outsourced training providers can offer online computer-based training (CBT) and, in a number of conditions as decided by firms' training requirements, and at many instance online tutors are made available over the Internet to meet the firms' training and development requirements. An IDC study studied this new unexplored outsourced learning marketplace, and found that the e-learning has drawn a large number of novel competitors with numerous dissimilar competencies that could match with the diverse needs of organizations. International Data Corporation forecasted that a great number of large firms will change their purchasing models from distinct outsourcing of individual learning and development procedures to a more complete BPO comprising of various components of human resources (Brennan and Danilenko, 2003).

c. Payroll

The outsourcing of compensation system has become prevalent in the area of Asia/Pacific for the recent ten years. Prior to that situation, a number of firms purchase the compensation system as part of the ERP package to be rolled out. However, this ERP method still makes a firm exposed to problems in regard to government obedience, especially when the responsibility is under the control of a small in-house group, who are frequently incapable of understanding the complexity and difficulty of taxation rules.

A general issue often as a result of in-house payroll team (either intentionally or unintentionally) pertaining to the uses of a number of separate regulations, policies and contracts for several worker segments. For instance, one firm in Hong Kong was overcompensating overtime charge to the range of one million HKD annually as a result of various employment contracts.

Albeit the expenditure to outsource may surpass the expenditure of employees managed by in-house team, the minimal time required and correctness of contract coverage lead many global corporate to prefer an outsource vendor over in-house team to manage their payroll. For instance, Asian nations 'labour regulations (not including Australia as well as New Zealand) do not offer accumulative coverage for leave entitlements but this is a significant necessity for GAAP reporting in US. In order to make sure correct reporting is made to the government, shareholders and the corporate executive board, firms that adhere to GAAP reporting are amongst the firsts to outsource compensation system.

d. Legislation

There is an emerging concern by companies that compliance cannot be assured if the procedure is maintained internally — as well as, as a matter of fact, the firm probably is at risk of non-compliance especially when it does not use experienced and knowledgeable specialists. Internal resources are usually not as experienced as external specialists, and often face some difficulties in wading through numerous tax alternatives and managing legal problems.

For instance, multinational corporate often have to face with diverse taxation regimes across their country operations, and in this regard, selective procedure is sometimes adopted by in-house team to reflect the operational reality but this may place the organization into non-compliance risk.

### Conclusion

Organizations nowadays is trying to continuously transform their business in order to maintain or increase their competitive advantages. In a hyper-competitive climate, organizations have to consistently increase their level of efficiency. They have been trying to get such efficiency, for example, by implementing network organization, strategic business alliances, reengineering, benchmarking, and outsourcing. Outsourcing is a cooperative model between organization and vendors in deriving competitive advantages through the redeploying and efficient utilization of resources in the areas of human resources, research, technology, business processes, and etc.

Outsourcing can take many forms. One of them is labour outsourcing. Many organizations have benefited from labour outsourcing by focusing on their core competencies strategic, for example: 1) labour economic/financial condition, 2) labour market, 3) educational level, 4) skill, 5) and labour laws. These benefits make labour outsourcing industry grows rapidly in many parts of the world, including in emerging markets such as Indonesia, India, China and Asia Pacific countries.

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