



## MINIMUM WAGE LEVEL FROM FEMALE WORKERS PERSPECTIVE: YOGYAKARTA CITY CASE

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### ABSTRACT

*Female workers play important roles in supporting the family's economy in Indonesia. The roles are even more strategic since about a half of Indonesian population is female. However, the important roles of female workers have not been compensated at a decent wage, so that the female worker potentials have not been optimally occupied. This has motivated this paper to build an empirical model for determining the minimum wage level that female workers are willing to get. Several factors that are considered to be the determinants of such a wage level are labor's education, type of jobs, access to finance, skill, as well as entrepreneurial spirit. A multiple regression model will be built for this purpose. If these factors are appropriately identified, policies will be imposed by the government to determine the optimal wage level for such workers. The result is used to motivate female workers to increase their bargaining power facing job offers in various industries. The increased bargaining power will be, eventually, followed by an increase in their skills. This is beneficial both for workers and companies that hire them.*

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**Keywords:** Female workers, Minimum wage level, Optimal wage level access to finance, Entrepreneurial spirit, Bargaining power.

**JEL Classification:** J16, J31, J83.

### Contribution/ Originality

This study is one of very few studies which have investigated the minimum wage that female workers are willing to accept. The paper's primary contribution is finding that the minimum wage level is mostly influenced by the workers education level and the non-salary benefit that they received from the employers.

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## 1. INTRODUCTION

Female workers play an important role in supporting families in Indonesia. That role comes to be particularly important given the low income of husbands and the high inflation, making the income value even lower from time to time. The contributions of female workers to their families have been significantly proven. Almost 50% of Indonesia population is female, a big human resource potential in economic development (Statistics Indonesia, 2013). However, this potential has not been optimally utilized. Women contribute significantly to the economy and to improve the welfare of the household and the community. This is demonstrated by the role of women as housewives, as well as their role in supporting the family's economy. Today, many Indonesian women do jobs that used to be considered as for only men who do them like being driver, mechanic, laborer, astronaut, and even president. Women are trying to get a job to meet their needs. Female workers are even involved in jobs that normally belong to men (Sheng, 2013). Women consider a variety of factors when deciding to participate in the labor market. These factors are marriage status, age, area of residence (urban or rural), income, religion, education level, and income level of the husband (for married) (for discussion, see (Yakubu, 2010).

The government, as state officials, should care and be able to provide assistance for the poor. Several programs have been launched by the government in this regard, such as *Jamkesmas* and *Raskin* programs. The *Jamkesmas* program is a social assistance program of health care for the poor. Each *jamkesmas* participant has the right for basic health services including health care (outpatient and inpatient), and outpatient health services are in advanced level, advanced level of hospitalization, and emergency services. The *Raskin* program is a food subsidy program as an attempt to improve food security and provide protection to the poor families through the distribution of rice. The rice is expected to reach poor families so that each family can buy 10 to 20 kg of rice per month with a net price of Rp 1,000 per kg. The minimum wage policies issued by the government are not always good for the economy in general. One suggestion is that the government should be neutral, in the sense of not siding with one party, namely the workers or employers. If the government is pro-worker, the employer might have a trouble which, in the most severe scenario, shuts down his company and leads to the termination of employment. On the other hand, if the government is pro employer, the minimum wage will be really small that devastate the workers.

Given the vital role of female workers in the economy of the community in supporting the family's economy, especially the grassroots population, but their wages are relatively low, this proposal plans to analyze the factors that determine the level of minimum wage that workers are willing to accept. This issue is of importance considering that female workers are still considered to be the second class workers, so they receive only marginal wages comparing to those that male workers get. Several factors that are thought to be the determinant are the level of education, type of work that does not require high skills, limited access to finance, lack of skills, as well as the lack of entrepreneurial spirit. The location of the study is the Municipality of Yogyakarta. Nevertheless, it is hoped that this study will be replicated in the whole county or other provinces in Indonesia, if it is assumed that the characteristics of economic structures in these places are not much different from those of Yogyakarta Municipality. In addition, this study confines itself to the female non-

managerial workers. This is motivated by the desire to empower the group, which currently still has a minimum level of welfare.

If these factors are identified, the policies will be taken by the government to improve the level of wages received by female workers. These policies will include development in education and training system, entrepreneurship boosting, and access to investment funds, among others. In the long term, it is expected that female workers would be able to increase their bargaining power to face job offers in various industries. In addition, the increase in female workers' bargaining power is an indication of their increasing skills, which are important for companies, especially in the sense of human resource development.

### 1.1. Literature Review

Researches related to the wages of workers currently focus on the collective bargaining power such as [Dobbelaere \(2005\)](#) and [Hirsch and Schnabel \(2011\)](#). Other topics covered are gender-oriented workers' bargaining power ([Agarwal, 1977](#)) the bargaining power of workers in relation to the capital structure ([Kvistrum and Kagerman, 2012](#)) symptoms of labor allocation and inter-sectoral wage competitiveness in the monopolistic competition industry ([Pompermeier, 2003](#)) female workers and demographic transition ([Iyigun and Walsh, 2007](#)) or in relation to female workers as housewives ([Doss, 2013](#)).

Various problems faced by female workers today are discrimination, sexual harassment in the workplace, overtime work without compensation, neglect of menstrual leave and maternity leave, dismissal of pregnant workers because the company did not want to bear the cost of labor, and their low salaries than male labors' one. Sometimes, the money should be handed over to father, husband, or in-laws (see [Dashora \(n.d\)](#)).

Researches related to female workers are still a few in Indonesia. The topics that have been studied include female worker's contribution to the family income, the impact of women on family welfare workers, female workers productivity, as well as the intensity of female workers. The minimum wage for female workers perspective has also been the subject of studies, but the minimum wage from the perspective of female workers, as far as the authors concern, has not been carried out, especially in Indonesia, particularly in the City of Yogyakarta.

Most women have part time jobs because they need to look after the young and because they have some social responsibilities (see [Delsen \(1998\)](#) and [Fagan \*et al.\* \(2001\)](#)). That the economic and non-economic motives motivate women to work has been investigated by [Chiang \*et al.\* \(2013\)](#). Using the method of embedded case study, they found that married women work for economic and non-economic motives. The contribution of female workers and female labor income has been investigated by [Ekong \(2008\)](#). By using multiple linear regression analysis, she showed that age, education, experience, and family responsibilities significantly affect female workers income.

### 1.2. Theoretical Background

According to Law No. 14 of 1969, Republic of Indonesia, labor is any person who is able to carry out work inside or outside the employment relationship in order to produce goods or services

to meet the needs of the community. Female workers are females who have regular or continuous activities within a specified period with a clear objective, namely to generate or to obtain something in the form of objects, money, services or ideas.

Work is defined as an attempt to achieve goals. In terms of economics, work is defined as an activity to produce goods or services, both for his own use or to obtain a reward. Work is basically a venue that allows human to express their ideas, create products, and form social networks. Humans exist not only for themselves, but also for others (Christensen, 2007).

Female workers have some basic rights that must be protected (International Labour Organization, 2007). The first one is the right to equal payment for equal work. According to the International Labor Organization (ILO), the national average wage of women is slightly higher than two-thirds of the wages received by male workers. The second one is the right to equal opportunities. This means that women have an equal opportunity to compete in all kinds of jobs, especially jobs that were previously not open to women. The third one is the right to be free from discriminatory treatment in the workplace. Female workers also have a right to be free from all forms of inhumane treatment and freedom from discrimination is also entitled to fair working conditions and safety, as well as a decent income for themselves and their families. Fourthly, the rights associated with reproductive function.

According to Law of Ministry of Labor No. 1, 1999, Article 1, paragraph 1, Republic of Indonesia, the minimum wage is the lowest monthly wage consisting of basic salary including fixed allowances. This wage applies to those who are single and have a working experience of 0-1 years, serves as a safety net, established by Decree of the Governor on the recommendation of the Board Remuneration and valid for 1 year running.

According to Article 94 of Law No.13 of 2003 on Employment, Republic of Indonesia, wages consist of the basic wage and fixed allowances, while the amount of the basic wage is at least 75% of the basic salary and fixed allowances. Fixed allowance is an allowance which is paid on a regular basis and is not associated with the presence or of achievement.

If a female worker is offered a very low wage, she can choose not to work or do other activities that can help her family. The created unemployment, namely unemployment because workers do not like the terms of the work contract such as salaries, wages, and benefits, is called voluntary unemployment. If unemployment is created because the workers really do not get the job, then he called involuntary underemployment.

Since a potential worker will consider the wage offered by the employer, in this case the company where she will work, it is necessary to learn the wage determination from the employer point of view.

### **1.2.1. Wages from Employers Point of View**

Various experts examined the behavior of employers in wage setting. Krotz (2011) mentions five stages in determining the wages of workers, namely (1) reviewing the remuneration practices that have been done, for example, based on a policy that has been done so far, (2) defining the work as clearly as possible, (3) studying the competitors, namely fellow employers, (4) determining the salary range that can be given to certain types of work, (5) making a salary as a part of a large

package that also contains other benefits such as insurance, bonuses, and so on.

Lucas (2013) stated that in order to avoid losses in determining wages, it is advisable for the employer to conduct the following steps. The first step is taking enough time to consider the salary rate that will be offered to the workers. Secondly, the employer should have a good relationship with fellow employers that have information about the level of wages that occurred in a particular type of work. The third step evaluates employees who have worked at your place, and gives salary increases based on employee performance, not only by an increase in the cost of living. Fourthly, in a volatile market, considering giving a bonus if it is necessary, because the bonus will be removed when the situation returns to normal.

Parker (2013) stated that when companies hire employees, in general, he would pay twice the salary offered. Other components that must be spent by the company are taxes, a variety of benefits such as health insurance, pension, severance, and various other additional benefits, the cost of training and other related expenses.

Of the three studies, representing a variety of studies that have been done, it appears that an employer will attempt to set salary in the most rational way. This applies both for prospective employees and employees who have worked a long time.

### 1.2.2 .Wages from Workers Perspective

To determine the demanded salary, (Purdy, 2008) suggests workers to look for information about wages in similar jobs. If workers know for certain the types of jobs they apply for, they should dare to mention the amount of salary. Otherwise, it would be better to wait for an offer.

Rynes *et al.* (2004) ) found that money is not the only motivator and also not a primary motivator for workers. But they agreed that money is an important motivator. They also found that the way employees view money as their wages are also influenced by a variety of variables such as the variability of payment as well as the level of performance of each employee.

## 2. METHODS

This paper uses primary data. Interviews and prepared questionnaire are expected to encompass a wide range of information about the minimum wage they are willing to receive and factors expected to influence it. A clear definite framework of population data are difficult to identify because of the nature of the distribution of workers to be investigated. However, this study attempts to find the best possible sample data, namely the sample that can be regarded as a representation of the data population. For this purpose, the sample collection method used is a random sampling method, which is one of the probabilistic sampling methods. This paper randomly select 30 female workers from various types of job. Interviews, guided by a list of well prepared questions, are conducted with the workers. Bo so doing, ambiguity in understanding and answering the questions can be avoided.To obtain the answers consistency from businessmen and female workers, we will be built empirical models based on information from the aforementioned interviews and questionnaires. This analysis tool will also be able to provide information about significant variables determining the minimum wage from female workers perspective. The estimated regression model is s follows:

$$MWWR_i = \beta_0 + \beta_1 EDU_i + \beta_2 EXPER_i + \beta_3 TR_i + \beta_4 CW_i + \beta_5 BEN_i + \beta_6 HI_i + \beta_7 DEP_i + \beta_8 LA_i + \beta_9 NLA_i + \beta_{10} FUN_i + \beta_{11} INS_i + \beta_{12} GS_i + \varepsilon_i \quad (1)$$

where

- MWWR* = Minimum Wage Women Received (Rp),
- EDU* = Education (years of schooling, starts from elementary school),
- EXPER* = Experience (month)
- TR* = Training (days),
- CW* = Current Wage (Rp)
- BEN* = Benefits other than salary received by the workers (Rp)
- HI* = Husband’s income (Rp)
- DEP* = number of Dependence
- LA* = Liquid asset (Rp)
- NLA* = Non Liquid asset (Rp)
- FUN* = Other source of funding, including from relatives (Rp)
- INS* = Insurance (1 means has an insurance, 0 means NO)
- GS* = Government Support (1 means receives government support, 0 means NO)

### 3. RESULTS AND DISCUSSION

The data for this research covers 30 respondents from various locations in Yogyakarta City. These respondents work as sales promotion girl in various malls, and various non managerial jobs in hospital and beauty salon. The statistic summary of the data is as follows. The minimum wage that female workers are willing to accept ranges from Rp 1,500,000 to Rp 3,000,000 with the mean of Rp 2,043,333. The current wage that female workers receive ranges from Rp 1,300,000 to Rp 2,000,000 with the mean of Rp 1,660,000. In addition to the current wage they received, they also get some benefits in various ways from their employer. If the benefits are expressed in Rupiah, they range from Rp 125,000 per month to Rp 2,750,000 per month with the average of Rp 591,666.7 per month. The years of education ranges from 12 years (high school graduated) to 15 years (graduate diploma), with the mean of 12.5 years. This means that most of them graduated from high school.

**Table-1.** Summary of Variables Statistics

	Minimum	Maximum	Mean
Benefit	125,000	2,750,000	591,666.7
Current Wage	1,300,000	2,000,000	1660,000
Dependence	0	3	0.966667
Education	12	15	12.5
Experience	7	226	67.06667
Funding From Other Sources	0	1	0.4
Government Support	0	1	NR
Husband’s Income	0	4,000,000	666,666.7
Insurance Ownership	0	1	NR
Liquid Asset	15,000,000	18,000,000	9,383,333.0
Mwwp	1,500,000	3,000,000	2,043,333
Non Liquid Aasset	0	1.5E+08	8,333,333
Training	0	180	38.93333

The experience of working ranges from 7 months to 226 months with the average of 67 months (5.5 years). The other key characteristics of the respondents can be summarized from Table 1.

Using OLS with heteroskedasticity consistent coefficient covariance of Newey-West technique to avoid both heteroskedasticity and serial correlation, we get the following results. The LM test for heteroskedasticity revealed that the model is free from such violation. The LM test for serial correlation revealed that the model is free from such violation, even though we can say that with 10% significance level, the model suffers the serial correlation.

The result of the estimation concludes that only education, experience, and insurance ownership influence the MWWP.

Table-2. Result of Estimation of Model 1

Variable	Coefficient	t-Statistic	Prob.
C	-1543257.	-1.580333	0.1325
EDU	228535.2	4.987503	0.0001
EXPER	1566.097	2.390538	0.0287
TR	-656.7690	-0.717479	0.4828
CW	0.059171	0.185461	0.8551
BEN	-0.094441	-1.833995	0.0842
HI	0.000903	0.043368	0.9659
DEP	54466.59	0.876563	0.3929
LA	0.008403	0.712753	0.4857
NLA	0.000891	1.432306	0.1702
FUN	132690.1	1.201884	0.2459
INS	496263.7	2.848016	0.0111
GS	-115488.6	-1.291602	0.2138
R-squared	0.629631	F-statistic	0.765005
Adjusted R-squared	-0.193411	Prob(F-statistic)	0.706462

Table-3. White Test for Heteroskedasticity of Model 1

F-statistic	0.765005	Probability	0.706462
Obs*R-squared	18.88894	Probability	0.529056

Table-4. Breusch-Godfrey Serial Correlation LM Test for Model 1

F-statistic	1.577871	Probability	0.238825
Obs*R-squared	5.214452	Probability	0.073739

To get rid of the problem of serial correlation, and also to increase the efficiency of the estimation, we delete the highly insignificant variables from the estimation. The remaining model is as follows:

$$MWWR_i = \theta_0 + \theta_1 EDU_i + \theta_2 EXPER_i + \theta_3 BEN_i + \theta_4 DEP_i + \theta_5 NLA_i + \theta_6 INS_i + \xi_i \quad (2)$$

The LM test for both heteroskedasticity and serial correlation suggest that the model is free from both classical assumptions violations. The estimation results show that all variables are significance at 5%, except for DEP which is significance at 9%.

**Table-5.** Result of Estimation of Model 2

Variable	Coefficient	t-Statistic	Prob.
C	-1216002.	-2.073658	0.0495
EDU	226345.4	4.703596	0.0001
EXPER	1530.541	2.634079	0.0148
BEN	-0.134543	-3.074790	0.0054
DEP	42457.28	1.796223	0.0856
NLA	0.001183	2.030159	0.0541
INS	395637.2	10.45773	0.0000
R-squared	0.676138	F-statistic	8.002990
Adjusted R-squared	0.591652	Prob(F-statistic)	0.000097

**Table-6.**White Test for Heteroskedasticity of Model 2

F-statistic	0.982443	Probability	0.489523
Obs*R-squared	10.22511	Probability	0.420971

**Table-7.**Breusch-Godfrey Serial Correlation LM Test for Model 2

F-statistic	1.389776	Probability	0.271122
Obs*R-squared	3.506650	Probability	0.173197

It is clear that education is the dominant variable that determines the minimum wage female workers willing to receive (MWWP). Therefore, providing more education to the workers could be the primary policy to increase the wealth of such workers. Experience is also important in determining the MWWP. However, there is nothing we could do about this variable, since experience comes with time. The benefit that is received from the employer has a negative impact on MWWP. This sign is clearly match with the expectation. This means that the higher the benefits, the less MWWP. This is because the employees are happy with low MWWP, as long as they can get higher benefits from the employer. Non liquid asset is also an important variable that influence the MWWP. The sign of the coefficient is positive, which means that the higher the non liquid assets, the higher MWWP they expect. This means that the higher non liquid assets made the workers more confidence to demand higher MWWP.

The ownership of insurance is very significant in determining the MWWP, with a positive sign. This is in contrast with the expectation. Probably, this phenomenon can be explained in the following way; the ownership of insurance made these workers feel confidence that they deserve to have higher salary, namely MWWP in this case.

#### 4. CONCLUSION

This paper investigated the nature of female workers in Yogyakarta City. It also intended to model the minimum wage female workers are willing to receive (MWWP). It found that the minimum wage that female workers are willing to accept ranges from Rp 1,500,000 to Rp



3,000,000 with the mean of Rp 2,043,333. The current wage that female workers receive ranges from Rp 1,300,000 to Rp 2,000,000 with the mean of Rp 1,660,000. In addition to the current wage they received, they also get some benefits in various ways from their employer. If the benefits are expressed in Rupiah, they range from Rp 125,000 per month to Rp 2,750,000 per month with the average of Rp 591,666.7 per month.

It found six variables influencing MWWP, namely education, experience, benefits other than salary, number of dependence in the family, non liquid asset, and insurance ownership. The variables proven to be insignificant in determining the MWWP were training experience, current wage, husband income, liquid assets, funding from relatives, and government support.

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