

Indonesia: Homeworkers and Enterprises – Survey Findings

In Indonesia informal work permeates throughout most sectors of the economy and home work is one type of informal work that can be commonly seen in the manufacturing sector. Home work is defined as work carried out by a person, homemaker, who work in his or her home or in other premises of his/her choice, other than the workplace of the employer, for remuneration, which result in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used (ILO Home Work Convention, 1996 (No. 177)).

The particular conditions characterizing home work, such as work at home in isolation from others, informal work arrangements between the workers and their employers/intermediaries, make it difficult for homeworkers to access decent work and many homeworkers, who are mostly women from poor households, work in substandard working conditions with low pay, long working hours and limited access to social and legal protection. Recognizing the need to improve the working conditions of homeworkers, the ILO Office for Indonesia and Timor-Leste has been raising awareness on homeworkers. Advocating for better working conditions for homeworkers requires building better understandings of how enterprises and homeworkers interact with each other.

This brief presents findings from a survey of 31 enterprises in 5 provinces across Indonesia. The brief shares information on the characteristics of enterprises and provides information that could be used to strengthen the competitiveness of enterprises, while improving the welfare of workers with whom they cooperate.

Box 1: Inside the ILO's MAMPU project

MAMPU – Access to Employment and Decent Work is an ILO project which focuses on improving women's access to decent work, particularly for homeworkers. This project is financed by the Australian Department for Foreign Affairs and Trade's through a Programme on Empowering Indonesian Women for Poverty Reduction (Maju Perempuan Indonesia untuk Penanggulangan Kemiskinan -

MAMPU).

The project seeks to support the empowerment of women through improving the working conditions of homeworkers and supporting their transition from informal to formal employment. The project works with the government, trade unions, employers' associations and civil society organizations to transfer knowledge and then build capacity of homeworkers to improve their working conditions. The project also works to increase evidence-based data to support policy and programme planning and development.

A survey of enterprises

In order to shed light on the enterprises who work with homeworkers in Indonesia, the ILO conducted a study involving 31 enterprises in 5 provinces including North Sumatra, West Java, Central Java, Yogyakarta, and East Java in 2015. Taking into account that little is known about homeworkers and that enterprises who work with homeworkers can be difficult to identify, this survey drew upon referrals gathered from a survey of 3010 homeworkers in Indonesia in order to locate enterprises that were interviewed in this study.¹

The survey research undertaken had two main aims, including to identify the characteristics of enterprises that work with homeworkers and to understand how enterprises and homeworkers work together. In particular, the study was designed to gather information in the following areas:

1. The characteristics of enterprises;
2. The income and expenses of enterprises;
3. Production and the business environment;
4. Relationships between enterprises, intermediaries, and homeworkers.

The study's participants completed a questionnaire with 66 variables. Questions focused on understanding the profiles of enterprises across variables including number of workers, workers' remuneration, labour productivity, and contractual arrangements, among others. It also focused on understanding the mechanisms through which enterprises interact with homeworkers, including

¹ILO (2015) Homeworkers in Indonesia, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

the benefits and challenges of operating in this business environment and how enterprises provide training and specifications to homeworkers.

Box 2: Summary of key findings

1. Enterprises that work with homeworkers tend to work in industries that have a higher concentration of women workers.
2. Enterprises that work with homeworkers tend to have lower employment costs per worker and lower levels of labour productivity.
3. Homeworkers are paid using a piece rate system that is determined by employers and they earn approximately one third of the wage of regular employees engaged by the interviewed enterprises.
4. The low skill of homeworkers presents challenges to enterprises, with product defects and quality control noted as the most frequent issues faced. Despite this challenge, it is uncommon for employers to provide training to homeworkers.

Profile of the sample

According to the Statistics Indonesia classification of industry by size, a microenterprise has 1 to 4 workers, a small enterprise has 5 to 19 workers, a medium enterprise has 20 to 99 workers and a large enterprise has 100 or more workers. Table 1 presents the characteristics of the sample according to enterprise size. Enterprises included in this sample were most commonly medium or micro enterprises, both of which are commonly subcontracted by larger enterprises (see box 3).

Table 1: Size of the enterprise

Enterprise size	Number	Per cent
Micro - 1 to 4 workers	11	35.5%
Small - 5 to 19 workers	7	22.6%
Medium - 20 to 99 workers	9	29.0%
Large - 100 or more workers	4	12.9%
Total	31	100.0%

Source: ILO (2015) ILO survey of enterprises working with homeworkers, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

The majority of enterprises interviewed in this study were owned by individuals and had a non-formal status (see table 2). There were also several enterprises interviewed that were included in the "other" category, which had a non-legal status known as "usahadagang" (a type of trading business). Only a small proportion of the

enterprises interviewed were formally registered companies (PT or CV).

Table 2: Legal status of the enterprise

Legal status	Number	Per cent
PT	4	12.9%
CV	7	22.6%
Cooperative	0	0.0%
Individual	16	51.6%
Other	4	12.9%
Total	31	100.0%

Source: ILO (2015) ILO survey of enterprises working with homeworkers, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Table 3 provides a description of the sample according to industrial classification. The data indicates that the enterprises interviewed in this survey were most commonly involved in labour intensive industries, such as wearing apparel, footwear and other manufacturing for personal use. The enterprises were also commonly in resourcing intensive sectors, particularly in the processing of various types of food items. It was less common for the enterprises to be involved in capital intensive industries.

Table 3: Enterprise sector

Sector	Number	Per cent
Food and beverage	5	16.1%
Textiles	0	0.0%
Wearing apparel	11	35.5%
Footwear	4	12.9%
Wood	1	3.2%
Other manufacturing	10	32.3%
Total	31	100.0%

Source: ILO (2015) ILO survey of enterprises working with homeworkers, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Box 3: Manufacturing in Indonesia

The manufacturing sector in Indonesia is characterized by a small number of large firms, with the scale of micro and small enterprises considerably outnumbering larger scale firms (see table A). The expansion of large and medium enterprises, in terms of economic and employment growth, has not been robust as desired.²

Table B: Manufacturing sector statistics in Indonesia, 2013

²Allen, E. (2015) Labour and social trends in Indonesia 2014-2015: Strengthening competitiveness and productivity through decent work, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Classification	No. of firms	No. of workers
Micro and small (1-19 workers)	3,418,366	9,734,111
Medium (20-99 workers)	16599	690,130
Large (100 plus workers)	7099	4,314,782
Total	3,442,064	14,739,023

Source: BPS (2013) *Survey of micro and small enterprises in the manufacturing sector*, Badan Pusat Statistik, Jakarta; BPS (2013) *Survey of medium and large enterprises in the manufacturing sector*, Badan Pusat Statistik, Jakarta.

To illustrate, between 2004 and 2013, employment growth in large and medium manufacturing firms in the manufacturing sector only accounted for 10% of employment growth within the sector, with the remaining 90% of manufacturing jobs creating in micro and small enterprises. This trend indicates that employment growth in the manufacturing sector is largely associated with higher rates of labour absorption in micro and small firms. The relatively small number of large firms and the abundance of micro and small industries points to a high degree of connectivity between enterprises of different scales through the use of outsourcing, subcontracting, or the “putting out system”.

Enterprises hire many different types of workers, including regular employees, intermediaries and homeworkers.

Enterprises can hire many different types of workers on various employment contracts. They can hire both regular and casual employees to work within their enterprise, as well as own account workers and other workers to provide various types of services to their enterprise, such as intermediaries and homeworkers. The enterprises interviewed in this study tended to work in female-dominated labour intensive industries, such as the wearing apparel sector, and they employed a greater share of women in comparison to the average situation for the manufacturing sector. For example, 36.3% of regular employees in the manufacturing sector were women in August 2014, while over 60% of regular employees in the firms interviewed in this study were women.

In general, the intermediaries employed by the enterprises interviewed in this study tended to be men, while the homeworkers tended to be women. This may be because intermediaries are generally involved in the collection and delivery of raw materials and finished

products between the enterprises and houses of the homeworkers, which requires a degree mobility that many women do not have due to care responsibilities.

Enterprises that worked with a large number of regular employees that were directly employed within the enterprise tended to work with a smaller proportion of homeworkers. Conversely, enterprises that worked with a large number of homeworkers tended to have a small proportion of regular employees directly employed within the enterprise. In addition, enterprises that worked with a large number of intermediaries tended to also work with a large number of homeworkers.

The enterprises interviewed in this study indicated they tend to have informal work arrangements with intermediaries and homeworkers, with written contracts rare and the majority of work orders issued through verbal contracts. More specifically, enterprises reported that they employ intermediaries and homeworkers based on trust, without using a written contract.

On average the monthly income for regular employees as reported by firms in this study was IDR 1 million and the average monthly income of homeworkers IDR 340,000. Therefore, the average wage received by regular employees is higher than that of homeworkers, with homeworkers earning approximately one third of the wage of regular employees. The findings from the study indicate that regular employees that work within the premise of the factory receive wages that are above the provincial minimum wage, while homeworkers receive income that place them only just above the poverty line.³

The firms interviewed in this study indicated that homeworkers' remuneration levels are normally determined using a piece rate system by employers. An exception was when enterprises requested rush orders, in which case the enterprise may pay a bonus for timely completion of work orders.

Enterprises provide homeworkers with materials and tools to ensure consistency.

The enterprises interviewed in this study usually provided all the materials that were needed for production to homeworkers, in order to ensure consistency in the products produced. Table 4 outlines the different types of materials and tools that were provided to homeworkers by the enterprises interviewed in this study. In the wearing apparel sector, enterprises

³In September 2014 the national average poverty line for Indonesia was IDR 312,328.

provided materials such as fabric as well as thread for sewing. In the food processing sector, enterprises provided various types of food items needed to be peeled or shelled before further processing. In the electronics industry enterprises provided homeworkers with cables and various parts to be assembled.

Table 4: Materials provided to homeworkers by enterprises

Sector	Description of materials	Description of tools
Food	Shrimp, crabs, fish	Knife, bowl, scale, basket, icebox
Wearing apparel	Fabric, cotton thread, sequins	Sewing machine, needles, scissors
Footwear	Leather, paint, vinyl, glue,	Chisel, brushes, stationary
Wood	Wood, paint	Saw
Furniture	Wood, paint	Carving tools
Computers and electronics	Metal, bolts, plastics	Machines, scissors
Other manufacturing	Hair, paraffin, cotton thread, glue, ribbon, beads, feather	Tweezers, scissors, batik tools, hanging rack, needles

Source: ILO (2015) *ILO survey of enterprises working with homeworkers*, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Tools were also provided to homeworkers to support production. The tools provided by enterprises to homeworkers included sewing machines, needles, scissors and knives. The enterprises interviewed in this study did not require homeworkers to provide a deposit for the tools or materials that were provided to homeworkers.

In the majority of enterprises interviewed, the enterprises retained control over procurement and buyer-seller relations, as well as processes related to product design, such as cutting patterns. Processes that were undertaken by homeworkers focused on assembly and finalization activities. For example, in the wearing apparel sector, enterprises were involved in the procurement of raw materials and in the cutting of parts, while homeworkers sewed elements of the garment together, cut loose threads and ironed the garments.

Enterprises that work with homeworkers have a high share of employment costs in output, but a low employment cost per worker.

Analysis of employment cost in output and employment cost per worker provide important information on the profile of firms in terms of competitiveness and profitability. Table 5 presents data on these indicators for a selected number of enterprises that agreed to share this data, as well as data from the surveys of Statistics Indonesia for comparison. Employment costs in output for firms that work with homeworkers ranged from 15% to 32%, which is high in comparison to estimates for large and medium firms, but low in comparison to estimates for micro and small firms from the surveys of Statistics Indonesia. This is likely because of the labour intensive nature of home work.

Table 5: Employment costs in output and per worker⁴

Sector	Emp cost in output ratio	Emp cost per worker
Data: ILO's survey of enterprises working with homeworkers		
Example 1: Scarfs (14 large)	0.15	IDR 10,044,444
Example 2: Vinyl bags (15 small)	0.30	IDR 4,235,294
Example 3: Origami (17 med)	0.32	IDR 19,560,000
Example 4: Souvenirs (32 med)	0.28	IDR 7,242,857
Data: Statistics Indonesia's survey of large and medium firms, 2013		
Wearing apparel (14)	0.14	IDR 21,000,000*
Leather (15)	0.14	IDR 30,000,000*
Paper (17)	0.03	IDR 36,346,000
Other manufacturing (32)	0.14	IDR 28,000,000*
All large / medium firms	0.05	IDR 30,877,000
Data: Statistics Indonesia's survey of micro and small firms, 2013		
Wearing apparel (14)	0.17	IDR 17,573,241
Leather (15)	0.41	IDR 34,512,584
Paper (17)	0.29	IDR 14,907,758
Other manufacturing (32)	0.18	IDR 17,658,269
All micro / small firms	0.18	IDR 19,344,620

Source: Authors' own data (annualised estimates). Data on compensation of workers refers to employees, intermediaries

⁴Codes according to the international standard classification of industry (ISIC) are provided to allow the reader to compare the examples provided from the survey with the data from Statistics Indonesia. In addition, the size of the firm in the example is noted for similar purposes.

and homeworkers; BPS (2013) Survey of large and medium manufacturing enterprises 2013, Badan Pusat Statistik, Jakarta. *Denotes rounded estimates; BPS (2013) Survey of micro and small enterprises 2013, Badan Pusat Statistik, Jakarta. Estimates of employment cost per worker include paid workers only.

The data on employment cost per worker highlights that firms that work with homeworkers tend to have a lower employment cost per worker than the firms on average in Indonesia.

Estimates for labour productivity and the labour share of value added are provide in Table 6. The data highlights that enterprises that work with homeworkers tend to have lower levels of labour productivity in comparison to the average situation for the same size firm, as illustrated by data from Statistics Indonesia. Gains in labour productivity are essential in order to improve competitiveness of enterprises and the welfare of workers. In particular, gains in productivity should positively influence the wages and working conditions of all workers, including homeworkers, particularly if wages and productivity increases are linked.

Table 6: Estimates for value added and labour productivity⁵

Example enterprise	Labour productivity	Labour share VA
Data: ILO's survey of enterprises working with homeworkers		
Example 1: Scarfs (14 large)	IDR 57,777,777	17.4%
Example 2: Vinyl bags (15 small)	IDR 8,075,294	52.4%
Example 3: Origami (17 med)	IDR 34,654,285	56.4%
Example 4: Souvenirs (32 med)	IDR 12,600,000	57.5%
Data: Statistics Indonesia's survey of large and medium firms, 2013		
Wearing apparel (14)	IDR 96,236,000	21.8%
Leather (15)	IDR	28.4%

⁵According to Statistics Indonesia, input or intermediate cost is defined as cost of raw materials and supporting materials, fuel, other materials, industrial services, lease building, and the cost of non-industrial services such as management fee, promotion/ advertising, and others. Employment cost is defined as the compensation of workers in terms of money and goods, including wages, overtime, bonus, pension and other non-wage costs. Output refers to the total value of all processed goods which include production, electricity sold, industrial services, profits, change in stocks and others income. Value added is defined to be the revenue (output) minus the expenditures (inputs) and therefore includes the compensation of workers and enterprise profits. Labor productivity is defined as the ratio of value added to the number of paid workers. Labors' share of value added refers to the compensation of workers in value added.

	105,538,000	
Paper (17)	IDR 435,937,000	8.3%
Other manufacturing (32)	IDR 73,646,000	38.0%
All large / medium firms	IDR 294,778,000	10.5%
Data: Statistics Indonesia's survey of micro and small firms, 2013		
Wearing apparel (14)	IDR 27,139,000	42.0%
Leather (15)	IDR 29,185,000	88.9%
Paper (17)	IDR 13,709,000	58.3%
Other manufacturing (32)	IDR 15,736,000	55.0%
All micro / small firms	IDR 19,425,000	44.7%

Source: Authors' own data. *Annualised data, BPS (2013) Survey of large and medium manufacturing enterprises 2013, Badan Pusat Statistik, Jakarta; BPS (2013) Survey of micro and small enterprises 2013, Badan Pusat Statistik, Jakarta. *Estimates for labour productivity in micro and small enterprises includes paid and unpaid workers.

Analysis of labours' share of value added indicates that enterprises that work with homeworkers tend to have higher shares of value added going to workers in comparison to the average situation for the same size firm. In simple terms this means that the profit margins of enterprises that work with homeworkers are small. Because the profit margins of the enterprises interviewed were small, they were not able to invest in upgrading their production mechanisms. Indeed, the majority of enterprises interviewed indicated that they would like to upgrade their facilities, but that they did not have the capital to support this.

Box 4: Medium sized manufacturing firms and the "missing middle"

The Indonesian manufacturing sector suffers from a phenomenon known as "the missing middle". The missing middle is a situation that refers to the existence of a large portion of small firms and a comparatively small number of middle-sized firms.⁶ The number of medium sized enterprises in Indonesia is indeed small and there are many reasons for this "missing middle"

⁶ According to Statistics Indonesia, a micro firm has 1 to 4 workers, a small firm has 5 to 19 workers, a medium firm has 20 to 99 workers and large firms have 100 or more worker. This definition differs from ILO's definition (medium 50 to 250 workers and small 10 to 50 employees). Also see World Bank (2012) Picking up the Pace: Reviving Growth in Indonesia's Manufacturing Sector, World Bank, Jakarta.

phenomenon. In particular, limited access to finance is one reason why firms may remain small. Another reason is that firms may wish to “stay small” in order to avoid taxation and compliance with other regulations, including labour regulations.⁷ In this regard, the use of homeworkers for production may be playing a role in the phenomenon of the missing middle within the manufacturing sector.

In particular, the enterprises interviewed in this study tended to directly employ a small number of employees that work within the enterprise premises, as well as a number of intermediaries and homeworkers that work outside the enterprise premises. Therefore, firms may work with a larger workforce than the workforce that they directly contract as employees. The use of the putting out system, outsourcing and sub-contracting arrangements may therefore be an important factor behind the limited expansion of medium sized manufacturing firms in Indonesia.

Should firms that work with homeworkers formalize and become medium sized, with production carried out in factories instead of through homeworkers, they would be subject to inspection and would need to comply with minimum wage regulations and other labour regulations. Incentives to “stay small” and “fly under the radar” may therefore be quite strong.

The most common challenges that enterprises reported were on access to finance and on the skill of workers.

The findings from this study indicate that the most common challenges that enterprises face were related to the access to finance and the skill of workers. In regard to skills, enterprises reported that they faced challenges related to either the low skill of workers in the areas surrounding their enterprise or challenges associated with retaining workers with higher levels of skill within their enterprises. In particular, enterprises noted that low skills could be a reason for problems that they encountered related to product defects and misunderstandings on instructions and work schedules. However, they admitted that it was difficult to find skilled worker who were willing to work as homeworkers. If they did find skilled workers, these workers were difficult to retain as homeworkers. The issue of low skills and product defects is therefore a difficult problem for enterprises to overcome.

⁷World Bank (2012) Productivity performance in Indonesia's manufacturing sector: Policy note 5, World Bank, Jakarta.

There are different ways through which enterprises can ensure that products that are produced by homeworkers are in accordance with standards, namely through provision of specifications or training. Specifications or introductions can be used to constitute a measurement of work quality, therefore, it can be argued that provision of explanations on specifications constitute an indirect supervisory technique on product quality. Table 7 summarizes the result of this study. In general employers reported that they provide specifications as this is an important aspect of minimalizing faults in the production process. While employers generally provide homeworkers with specifications, it was less common for them to provide training.

Table 71: Training and standards on production processes

Variable	Always	Sometimes	No
Number in the sample			
Specifications on production	22	8	1
Occupational safety and health	8	6	17
Training on production skills	7	6	18
Per cent in the sample			
Specifications on production	71.0%	25.8%	3.2%
Occupational safety and health	25.8%	19.4%	54.8%
Training on production skills	22.6%	19.4%	58.0%

Source: ILO (2015) ILO survey of enterprises working with homeworkers, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Employers provide instructions to produce to quality standards, rather than training to increase the capacity of homeworkers.

Supply chain pressures from buyers also create business challenges for factories. In regard to buyer relations, enterprises reported that they often experience a high degree of uncertainty regarding orders from buyers as well as rush orders, both of which make it hard for enterprises to meet the expectations of buyers. In addition, it was common for the enterprises interviewed to highlight penalties for defects as one of the challenges that they face. Penalties decrease profit margins, as the enterprise has to cover the cost of defective products themselves.

In addition to standard challenges that enterprises encounter within the business environment, enterprises that work with homeworkers encounter further

challenges. The most common issue reported by enterprises in working with homeworkers related to quality control and the timely completion of work orders (see table 8). Homeworkers undertake their work at home without the direct supervision of enterprises, thus quality control and timelines for product completion are often beyond the control of enterprises.

Table 8: Challenges in working with homeworkers

Challenge	Number	Per cent
Sourcing raw materials	3	9.6%
Quality control	14	45.2%
Finding homeworkers	4	12.9%
Timely completion of products	13	41.9%
Low skill of workers	6	19.4%

Source: ILO (2015) ILO survey of enterprises working with homeworkers, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

Table 9 presents data on the market that the enterprises interviewed in this study service. It was found that the majority of enterprises interviewed produce for national markets (51.6%). It was common for food produced by homeworkers to be sold within the local or provincial markets. Products such as garments and handicraft were typically sold within provincial or national markets, while products such as wigs, eyelashes and wearing apparel for international brands penetrate on to the international market.

Table 9: Market location for which enterprises produce

Market	Number	Per cent
Province	10	32.3%
National	16	51.6%
International	5	16.1%
Total	31	100.0

Source: ILO (2015) ILO survey of enterprises working with homeworkers, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

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