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Submission date: 26-Mar-2023 11:17AM (UTC+0700)
Submission ID: 2046567682
File name: 2_4_Afif_IJCJR.pdf (446.23K)
Word count: 6491
Character count: 38156

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Do employment and Business laws integrate? Identification of implications for organizational performance in Indonesia

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Abstract
The balanced corporate sector of Indonesia is strongly associated with the business laws and employment regulations prevailing in the country. Organizational conduct and business performance depend upon the association and fulfillment of these legislations. For this purpose, strict compliance in Indonesia exists to cope with business laws and employment legislation, the neglecting or ignorance of which results in negative business outcomes. Penalties, punishments, and concerned drawbacks are associated with the breach of business and employment laws. This research aims to consider employment laws and Indonesian business regulations to assess the integration between the two. For this purpose, these laws have been reviewed and implicated in the organizational performance of Indonesia. This research holds greater theoretical and practical significance. The research is an addition to the growing body of literature concerning corporate performance and better conduct in Indonesia. Practically, this research is a source of awareness for policymakers and regulatory authorities to assess the potential punishments and penalties in case of breaching these laws. The essential implications of business laws and employment laws in Indonesia are thus provoked through the present study.

Keywords: Business laws, Employment laws, Organizational performance, Indonesia.

1. Introduction

Indonesia is a developing nation. It has the largest economy in Southeast Asia, and it ranks number four, having the most population in the world (Fernandez & Joseph, 2020). The market of Indonesia offers many opportunities for domestic as well as foreign investors. But, the economy of Indonesia still falls bar behind those of the developed countries' economies (Haudi, Wijoyo, & Cahyono, 2020). In this regard, the government of Indonesia puts emphasis on the development of the industrial sector of the country and offers valuable opportunities for global companies' investments. Indonesia offers talent and low-cost raw materials to foreign businesses, but it is

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crucial for international investors to understand the Global Business laws as well as the Indonesian Business laws and also the worker protections, contract procedures, termination laws, and benefits for the employees and for the employers too (Ssenyonga, 2021).

As a developing region, Indonesia cannot get itself separated from the industrialization plan. This is because the industrial sector is rapidly growing in Indonesia (Ramadhan, Kamal, & Mamonto, 2021). With this rapid growth and development of the industry, employment, and business laws are crucial to understand and integrate. Employment laws and business laws integrate with organizational performance as they set the standards for the employer and employee relationship; in addition to this, if the organization follows the legal practices in accordance with these laws, it will boost employee morale which in turn enhances their performance. According to Genkin et al. (2020), if an organization integrates all the aspects of legislation into its daily operations and functions, it will create a safer and more secure work environment. Furthermore, such organizations will attain sustainability in the long run in the future. Contrary to this, if an organization has non-compliance with the business and employment laws, such business will face financial losses, and it will negatively affect its reputation (Chiriac, Munteanu, & Aivaz, 2022). For any country, employment laws are very necessary for the overall economy because these laws regulate the importance of security and protection, and they also guarantee fair and equal treatment to all employees without any discrimination for the welfare of the employees, their family, organization and the country as a whole. Employment laws fall under the category of Human Rights laws, so these laws are universal in nature and important for every nation of the world (Wright et al., 2019). The main essence of every employment law is to protect the dignity of every individual and to ensure they are protected from any misconduct or unlawful act and from excesses of government or states. It is the mandatory constitutional responsibility of the government of Indonesia, under the law Article 28I Paragraph (5), to enhance the advancement, protection, fulfillment, and enforcement of the basic human rights of all the residentials of the country (Yusa, Hermanto, & Aryani, 2020). In accordance with this condition, the Indonesian Constitution shall guarantee and regulate business laws and employment laws in a proper democratic manner. In this context, basic human rights are fundamental to every employee, laborer and worker in spheres of economic, social and civil.

The current study has utilized the secondary data collection method. For doing this research, the researcher has thoroughly reviewed the previous literature on international employment laws and business laws as well as the laws in Indonesia. The research has further analyzed the relevant case studies and theories to draw the conclusion of the study.

2. Literature Review

2.1. Impact of Business Laws and Employment Laws on Organizational Performance

The Indonesian economy is rapidly growing and industrializing (Grabowski & Self, 2020). Through this continuous growth and diversifying nature, the economy of Indonesia has become very attractive for many global businesses (Fernandez & Joseph, 2020). But, to do so, businesses should understand and be aware of the

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employment and business laws in Indonesia. It has been observed that the law has played a crucial role for businesses and for society as well (Rahman & Thelen, 2019). In this era of globalization, it is essential for any business, especially for those businesses that are operating globally, to understand international business laws (Bahoo, Alon, & Paltrinieri, 2020). And for those businesses that are running locally to understand the domestic or local business laws of the country (Alon, Apriliyanti, & Henríquez Parodi, 2021). It is vital for businesses to practice employment and business legislation because conflict and other wrongdoings are common in the workplace; when people encounter such wrong acts or do any misconduct, laws must be there to resolve the issue and make effective decisions (Brous, Janssen, & Herder, 2019). In today's world, businesses are operating in a very intensive and competitive environment. These higher regulatory requirements present many challenges for organizations (Eldor, 2020). There is a great significance of legislation and laws on any business entity, which is why it is very crucial for any organization to understand the business and employment laws. The legislations require the business to reevaluate the skillsets, needed resources, and assets of an organization. Business laws assess the overall impact of the business (Li, Liao, & Albitar, 2020). Business laws also demonstrate the structure of an organization and the ways in which they respond to the stimuli, and how a business may adapt to ensure its sustainability and survival in the long run (Scherer & Voegtlin, 2020). Employment and business laws affect and improve business operations and play an important role in every aspect of the business. According to Fischer et al. (2020), business and employment, laws are implemented to control business operations. Botta and Wiedemann (2019) demonstrated that business laws are necessary to bring into practice into the business because they prevent competition between businesses and they also protect the rights and privacy of their consumers. Those businesses which do not follow and obey the employment and other business laws will face huge penalties and fines. In the modern era, the changing needs and wants of the customers require many modifications to the operations of businesses (Min, Zacharia, & Smith, 2019). The changes could be occurred because of dramatic discontinuities and sudden macro and micro environmental changes such as technological breakthroughs, political upheavals, and large-scale shifts in government rules and regulations. In this regard, business laws directly and hugely impact the performance of an organization. According to Vanchieri (2022), when major modifications in the legislation occur, it may cause severe pressure on the organization because the businesses have to abide by those changes and adjust their functions, strategies, operations, processes, and structures accordingly. The regulatory pressures alter the standards for accountability and affect the institutional environments greatly. Business laws are of vital importance because they give directions and commands to businesses on how to operate and how to conduct themselves. Moreover, Hu et al. (2021) reported that it is necessary for businesses to understand and comply with employment laws. Employment laws assist the business in the recruitment and termination of employees, and it also discusses other employees and employer benefits (Pessach et al., 2020). An organization that practices laws and regulations would have a positive impact on its employees and on society as well. According to Devie et al. (2020), an organization that complies with the employment law has a positive workplace

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environment, and the employees are also satisfied and loyal to such companies. On the other hand, organizations that do not abide by laws will lose the trust of their employees and of their consumers as well which will result in financial losses and instability. Business laws are affecting business in several ways. According to Kim, Kim, and Hwang (2020), a business that follows legal practices are loyal to themselves and to their consumers, but also these organizations are loyal to society and the country as well. As a consequence of this, these responsible organizations try to give back to society and benefit society through various corporate social responsibility initiatives. It is further stated by Ali, Danish, and Asrar-ul-Haq (2020) business laws create a positive impact and thus promote a positive relationship between the customer and an organization. A positive relationship is necessary for running the business. According to Deegan (2019), in order to incorporate a business entity, laws are necessary. Business laws are not only needed to establish and run the business but they are also required to dissolve it (Álvarez Royo-Villanova, 2019).

3. Employment Laws of Indonesia

The employment laws in Indonesia hold greater significance because when a business is incorporated, Indonesia's corporations are bound to meet the required standards and necessities that fulfill legislative compliances. Before recruitment in Indonesia, it is obligatory to consider the employment laws. Taking into account the employment laws in Indonesia, the main terms of laws and employment still holds significance and a universal standard. Certain differences exist that must be considered by any foreigner who has a company or a running business in Indonesia (Ramadhan et al., 2021). In Indonesia, employment is regulated by the following laws:

- "The Manpower Law (also called the Labor Law)," "Law No. 13, 2003", that was recently amended in 2020 with the "Job Creation Law" or "Omnibus Law"
- "The Industrial Relations Dispute Settlement Law (IRDS Law), Law No. 2, 2004"
- "The Employee/Labor Union Law ("Labor Union Law") of 2000"

This is important because if employment laws are violated in Indonesia, different penalties and legal punishments are imposed on Indonesian companies. Indonesian laws and acts related to employment govern the rights and duties of employees, incorporating pension plans and job security, etc. The employer-employee relationship is controlled through such acts. Employment laws in Indonesia include a pattern and a wide range of different matters such as Remuneration, recruitment, bonuses, incentives, litigation, discrimination, etc. (Allen, 2016). Different integral regulations govern Indonesia's employment following the country's current laws of employment. According to Law 13/2003:

"The basic labor laws in Indonesia apply equally to all the employees, and no discrimination is made based on different types of workers."

(Employment Law 13/2003)

" The National improvements for the improvement of lives of all the Indonesians and increases encouragement of all the citizens of Indonesia to be transformed into citizens who are advantageous for the country, just, fair, prosperous and knowledgeable in both spiritual and material perspectives, Based on the 5 core rules (Pancasila) and the constitution of the republic of Indonesia."

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(UU Dasar Negara Republik IndonesiaTahum 1945)

The employees and employers that violate the employment laws in Indonesia would encounter penalties such as jail terms and fines etc. Irrespective of the financial and legal penalties, the Indonesian government creates repetitive offenders, name instructs, and the public other than the government entities and the commercial banking sectors refuse them the provision of loans and services (Yusa et al., 2020). The firms in Indonesia persist in breaking the labor laws, legislations, and regulations that are in existence for the protection of employees' rights. When a law is breached by the employee, the penalty can be imposed only if it is in documentation form, "a written contract or a working agreement" (Gaffar et al., 2021; Hidayah, Esfandiari, & Al-Fatih, 2021). When employment regulations are violated, such as failure to pay timely wages, the employer would be imposed a penalty that equals the percentage of the employee's wage.

4. Business laws of Indonesia

Based on the civil laws systems, the legal systems in Indonesia are regulated. The business laws in Indonesia are defined under Indonesian Law No. 25/2007 as an activity conducted through a foreign investor with the aim of business operations inside the jurisdiction of Indonesia. The PMA PT is considered a legal entity to regulate business laws in Indonesia through which the foreign firm, foreign national, and foreign governmental regulations can conduct their operations following the "Indonesia corporation's rules" (Himawan, 1973; Siregar, 2020). The establishment of PT PMA is conducted through Company laws no; 40/2007 concerning Limited Liability Companies. The shareholders in Indonesia are regarded as the owners of the company and have a top position in the decision-making hierarchy by the GMSI (general meeting of shareholders in Indonesia) (Gautama, 1997). The business laws of Indonesia thus prevail in a system in which the board of commissioners is in the capacity of overseeing management procedural policies and advice to the "Board of Directors" (Kartika, 2020). Business laws impose the compulsion to use official Indonesian languages for conducting different business operations in writing/documentation. The official language of Indonesia is "Bahasa Indonesia," undertaken in both education and commerce. Moreover, English is spoken intensively in the country it is not used outside the premises of major cities of Indonesia.

The Indonesian business laws are related to the Law No.40 of 2007 related to the Limited Liability entities, Law No.25 of 2007 regarding investment, Commercial laws (Wetboek Vankoophandel), Law No. 13 of 2003 regarding employees and other corporate laws. The main corporations in Indonesia are legal entities and corporate entities. In a legal entity, there is a distinction between the founder's assets and that of the developed entity (Maarif, 2004). The case in business entities is quite different, as establishing an entity requires the approval of different government authorities and regulatory bodies (Little & Kam, 2018). The development of business entities merely needs registration with governmental authorities (Harahap & Zulkarnain, 2020). The legal entities in Indonesia are "Limited Liability companies as PTs "Perseroon Terbatas." The advantage of using PT in Indonesia is that it is a legal entity composed of shares that should be developed through at least two shareholders (Tabalujan, 1996). The most common form of business vehicle is PT, as it is the limited

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liability of shareholders and a prominent capitalization administration. PT in Indonesia can either be a public or privately listed company (Mahy, 2013; Sinaga, Siregar, & Hutabarat, 2020).

5. Integration of employment and business laws in Indonesia

Business laws and employment laws are not integrated but are linked closely with each other, as the creation of one leads to the establishment of the other. The employment laws of Indonesia are particular about employees' well-being, their competencies, and righteous wages grating. The business laws, however, are fundamental before incorporating a business in Indonesia. According to labor law 13/2003 regarding Manpower, the existing Indonesian employment laws reflects the principles of anti-discrimination. However, Indonesia's firm must consider both the compliances, i.e., Business and employment laws. Each employee in Indonesia's firms/businesses must have equal opportunities to obtain work without any racial or gender differences. The employees are thus entitled to equal treatment from the employer without any discrimination according to the constraints of Articles 5 and 6 or Labor laws in Indonesia. Business laws and employment laws are compulsory to apply, and without the existence of rules or obligations, business entities and employers/owners are entitled to punishments and penalties (Iqbal, 2015). Indonesia's corporate sector has considered necessary implications for business laws because these define acceptable behaviors and ensure stability and certainty. For the protection of rights, these laws are crucial o implement, and businesses in Indonesia are bound to follow them. The integration of both laws is not so prominent but highly inter-connected. A business in Indonesia is first incorporated through the provision of essentials that later leads to the fulfillment of employees' obligatory laws. A mechanism to avoid conflicts and differences is promoted through business laws in Indonesia (Susanto & Sulistyarini, 2021). Business law in Indonesia is important to apply and maintain by the relevant authoritative bodies because the covering of all activities that business can operate with some extent of predictability is assured through the implication of Business laws.

The employment laws are put in place by Indonesia's regulatory personnel as these assure the protection of workers from wrongdoings by their supervisors, owner, and employers. Confidence in the judiciary system is built by employees if their rights are carefully protected. Without the prevalence of Indonesia's employment constraints, the employees may feel vulnerable to a variety of threats. The main elements of employment laws incorporate the minimum wages, discrimination, health, and workplace safety, as well as child labor laws and workers' compensation also fall in the employment laws of Indonesia. The importance of both employment and business laws is significant and has its importance. Indonesians are bound to follow these constraints to assure workplace progression both from the perspectives of employee satisfaction and monetary benefits (Maarif, 2001). Therefore the Manpower Laws in Indonesia are considered as a basis for employment laws as these recognize two categories of employees based on the duration of the employment contract such as fixed-term and permanent employees. The overtime work expected from Indonesia's employees is crucial to subject to the consent of employees and must be confined to three hours per day and 14 hours weekly (Basri & van der Eng, 2004). To conduct

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business in Indonesia, both the business and employment laws are equally important and are closely integrated, as a violation of one can cause a problem for the other.

6. Implications for Indonesia's organizational performance

The business laws and employment regulations imposed in Indonesia are conducted with the perspective of attaining maximized organizational performance. The organizations in Indonesia are thus concerned for their employees' rights and laws constraints that, in turn, result in the maximization of their goodwill financial and non-financial performance. The businesses in Indonesia when are ignorant regarding their obligation towards coping business laws measures and employees rights protection, which results in a negative impact on those companies along with dissatisfaction among employees concerning their workplace contentment (Rahadi, 2016). Indonesia's businesses, particularly the corporate manufacturing sector, are observed in alliance with the communicated laws and employees' rights. The ability of Indonesian firms to accomplish their aims and objectives is measured through the extent to which those firms observe legal legislation compliances and laws of employees. It has been observed that Indonesia is attracting people for investment from different areas as apart from its sound investment climate, Indonesia also has a wide variety of natural resources, a growing economy, and a young and experienced workforce (Indarti, 2004). These factors are of no use if Indonesia's business fails to comply with the communicated standards and policies. The employment laws implied in Indonesia's organizations follow Law No. 13 of 2003 on "Manpower." Law No. 11 of 2020 regarding "Job creation." Law No. 2 of 2004 on Industrial relations dispute settlement (IRDS Laws). Law No. 21 of 2000 concerning "Employee labor Union/ Labor Union Law" (Crouch, 1975). Businesses in Indonesia thus incorporate the employment agreement for the permanent workforce may in writing or orally. When the agreement has verbally proceeded, an employment letter must be issued by the employer to the employees, including details of the employee, etc. (Umar, Sasongko, & Aguzman, 2018). Businesses' laws, when operated in alliance with the civil law systems and other legislative measures communicated, the probability of feasible operations by those Indonesian corporation increases.

7. Conclusion

The research highlights that employment laws in Indonesia have been formulated to protect employees who are currently performing business operations or are expected to perform after recruitment. Those employees are righteous and are projected not to be treated with any discrimination. The racial, linguistic, and fair treatment of employees is a compulsion in Indonesia. Similarly, business laws are different for different situations. When a business is initiated in the country, there are various policies and procedural plans to operate the business. Foreign investors seem to have different business laws for investing in Indonesia, and the country's regulatory bodies imply different regulations on Indonesians for business operations. The research has also highlighted that discrimination among employees is a severe issue and is subjected to penalties (Hamzah, 2016). Discrimination is thus divided into different categories according to Indonesian Employment acts. The biased treatment based on gender discrimination and different remuneration policies for the

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employees providing the same level of services is also subjected to a penalty. Employment laws are introduced in the country to escalate the strong relationship between employees and employers. Under discrimination Law No. 21 of 1999 on "Ratification of ILO convention No. 111 of 1958," discernment in terms of occupation and employment defines discrimination. Moreover, Indonesia's Discrimination acts also declares that unlawful discrimination incorporates discrimination based on the opportunity to attain a job and receive the same treatment from their respective supervisor/employer (Isnaini & Utomo, 2019). However, the rights of employees are not only declared in terms of male employees, but a gender equivalence has been ensured by the Manpower law, and female employees are also equally entitled to get maternity leaves and incentives as male employees. Indonesian law assures that during maternity leave, the employee would be entitled to a whole wage (comprised of basic salaries and fixed allowances) (Kharlie & Cholil, 2020). The employment law of Indonesia also declares a strong association between the employer and employee mutual relationship. The termination of employment also has to align with Indonesian legislation. The employer cannot unilaterally terminate an employment relationship if it contains a prior order from the IRC (Industrial relations court). Until the attainment of such an order, the employer's obligation to grant full wages and the employment relationship persists.

The research has revealed that Indonesia's businesses are formulated based on the civil procedural system under which all cases are covered. Indonesia has been observed as a lawful country, and the business laws indicate the formal procedure for the establishment of businesses in the country. The regulations concerning the selling of corporate entities are also included in their business laws. The business laws are for different Indonesian business entities such as PT, PMA (Foreign-owned companies/Penanaman Modal Asing), KPPA (Representative office), and PTA (Local company/Perseroan Terbatas). For each entity, there are different sets of regulations. The necessity to meet legislative measures is associated with the progressive and inclined business trends in the country. The business, when formulated on the grounds of laws, legal acts, and the constitution, the prevalence of equal employee treatment without any gender discrimination exists in the country (Gaffar et al., 2021; Kurniawan, 2020). If a business is formed meeting legal requirements in Indonesia, its long-term projected growth is observed as such businesses later fulfill the employment contracts and maintain a healthy/productive relationship between the employee and the employer. In Indonesia, till today, the limited company is a private limited company (Prayitno, Hasan, & Subarsyah, 2022). A distinction between public and private companies in Indonesia appears as it is found in the Company Act of Singapore, which is not yet known in Indonesia (Prayitno et al., 2022). The private and public business entities comprise fair treatment to the employees and legal fulfillment of obligatory standards in alignment with the Law of Indonesia. The guidelines that all Indonesian companies must undergo fall in the Business law as business laws not only benefit the government or a particular country's corporate sector but also protects consumer rights (Prayitno et al., 2022). This is among one of the many issues that consumers being the stakeholder of businesses, Indonesia's business laws tends to regulate corporations to protect the rights of all possible stakeholders of the business.

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6.1. Theoretical and Practical Implications

The research holds greater theoretical and practical significance, particularly from a perspective of Indonesia's corporations and their organizational performance. Business laws are crucial in any country as they protect the rights of different business stakeholders. Through the study, the existing literature regarding Indonesia's business conduct has been expanded, highlighting the significance/ pros and cons of Indonesian business laws. The practical insights of the study cannot be neglected as this research ensures guidelines for different companies to incorporate business laws and ensure their organizational success through which the economy grows in the longer run. The study's insights and laws comprise an addition to Indonesia's businesses.

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