

# Designing an Institutional Model of Local Government in Dynamic and Harmonious Industrial Relations in Bekasi Regency Indonesia

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**Abstract**— The facts in Bekasi Regency of Indonesia show that dynamic and harmonious industrial relations have not been achieved due to the large number of strikes. Based on data from the Bekasi Regency Police, in the last three years (2017-2019) there were 37 worker demonstrations. The number of layoffs, strikes, and industrial relations disputes submitted to the Industrial Relations Court and State Administrative Court shows that dynamic and harmonious industrial relations have not been achieved. This study aims to design an institutional model of local government industrial relations based on a three-tiered institutional frameworks referring to the model of New Institutionalism in Economic Sociology (NIES) by using the Soft Systems Methodology (SSM) methodology. The results showed the institutional model of local government industrial relations was built by three levels of institutional: 1) macro level is a policy to strengthen coordination and collaboration between local governments, trade unions and employers' associations in industrial relations affairs, on the other hand, is a policy to increase the organizational capability of local governments in industrial relations; 2) meso level is strengthening local government governance in industrial relations services and industrial relations databases; and 3) the micro level is the improvement of understanding and improvement of social relations in industrial relations between workers, employers and local governments.

**Keywords**— industrial relations, institutional model of local government, new institutionalism in economic sociology.

## I. INTRODUCTION

In the relationship between the central and local governments, the provincial and regency/city governments are local governments. The province and regency/city governments are essentially enforcing the central government's rules and policies in order to create dynamic and harmonious industrial relations. The function of local government in industrial relations matters is regulated in Law of the Republic of Indonesia Number 23 of 2014 concerning Local Government where part or all of these functions are carried out by the provincial government and regency or city government.

The facts show that dynamic and harmonious industrial relations in Bekasi Regency have not been achieved. Based on data from the Bekasi Regency Police, in the last three years (2017-2019) there were 37 worker demonstrations caused by worker dissatisfaction in the implementation of wage and social security regulations, contract status of outsourced workers, termination of employment, and other provisions violated by the company. Many work agreements are not implemented according to regulations so that workers do not get guaranteed continuity of work and their rights, as well

as experience discriminatory treatment. The foundation of the problem is a lack of coordination and collaboration between local governments, specifically the Bekasi regency administration and the West Java provincial government, in enforcing various labor laws, including labor inspection. In the local government system in Indonesia, the task of labor inspection is the responsibility of the provincial government, while tasks other than labor inspection are the responsibility of the regency and city governments.

Based on the description of the above problems, this study will discuss the institutional model of local government in industrial relations that is able to create a dynamic and harmonious industrial relations climate in Bekasi Regency, Indonesia.

## II. LITERATURE REVIEW

### *New Institutional Economics*

New Institutional Economics is an interdisciplinary science combining economics, law, organizational theory, political science, sociology, and anthropology to understand social, political, and commercial institutions. This new institutional economy has a focus on the

coordination of contracts, organizations, and institutions. These three things were ignored by economists until the 1980s. Economists only focus on market mechanisms. The term New Institutional Economics was raised by Williamson (1975). Institutions form the framework of human action. Institutions reduce uncertainty by providing a structure for everyday life (North, 1990). The new institutional approach begins with Coase's thinking about the "Nature of the Firm". Coase was the first to explain that organizational boundaries depend not only on productive technology, but on the costs of doing business. Within the Coasian framework developed and expanded by Williamson (1975, 1985, 1996b), Klein, Crawford and Alchian (1978), Grossman and Hart (1986), and Hart and Moore (1990). The Transaction Cost Economics (TCE) approach states that the simplest transactions require some type of mechanism which Williamson (1985) calls a governance structure. TCE views the efficiency of economic organization as related to the relative efficiency of optimizing transaction costs (Nee, 2003). Interpersonal relationships play an important role in both the marketplace and the firm, in securing trust, and serving as channels of information (Granovetter 1973, 1992 and 2005).

### ***New Institutional Economics Sociological (NIES).***

Through New Institutional Economy and Sociology (NIES), Nee (2003) proposes an approach as a critique of Granovetter's theory of transaction costs. NIES describes how institutions interact with social networks and norms to shape direct economic action. NIES has a focus on explaining how beliefs, norms, and institutions work in economic life.

NIES is also here to define and explain the social mechanisms that also determine the relationship between formal and informal social groups in institutional structures that are monitored and enforced by organizations and the state. NIES has contributed to explaining the emergence of formal institutional rules that shape economic behavior. In classical economic concepts, the market is only interpreted as an arena for the struggle of interests between individuals who constantly compete rationally.

Economic life activities contain social attachment (embeddedness). Therefore, the economic actions taken by an individual cannot be separated from the social relations that develop in society. The market is a place for "transformation of social values" which has

implications for other aspects of life, such as economics, politics, and culture.

### ***Industrial Relations***

Industrial relations studies are multi-disciplinary. The diversity of disciplines that study industrial relations issues results in a variety of approaches, theories, and views on industrial relations. Industrial relations can be studied from a case study approach to specific cases or comparisons between countries or between industries. Industrial relations can also be studied relying on Unitary, Pluralist, Marxist, Social Action, or Systems Approach theories. Unitary theory analyzes industrial relations systems as a subsystem of society (Dunlop, 1958). An industrial relations system at any one time in its development is regarded as comprised of certain actors, certain contexts, an ideology which binds the industrial relations system together and a body of rules created to govern the actors at the workplace and work community. The pluralist theory developed by Sidney and Beatrice Webb (Webb & Webb, 1920). According to Flanders (Flanders, 1970), conflict is inherent in an industrial system. Collective bargaining is central to the industrial relation system. Collective bargaining is central to the industrial relations system. The rules of the system are viewed as being determined through the rule making process of collective bargaining, which is regarded as a political institution involving a power relationship between employers and employees.

The radical approach is built on the sociological assumptions developed by Karl Marx. This assumption recognizes the plurality of groups. Conflict is also recognized as a natural phenomenon and inherent in society. The difference lies in the nature of the conflict itself. Supporters of the radical approach assume that conflict is caused by the structural conditions of society. According to them, conflict arises as a result of social inequality between a small group of people who have little or no control over economic resources and a large group of people who control a lot of economic resources. Inequality is an inherent reality in social and political structures (Hyman, 1971; Watson, 1997; Salomon, 1992).

The social action perspective looks at industrial relations from the point of view of individual motivations. Each actor individually has his own goals in the industrial system. According to Green (Green, 1994), "the social action theory views industrial relations from the individual's viewpoint and motivation".

According to Rose (Rose, 2008), the social action approach considers the organization from the position of the individual members or actors who will each have their own goals. This perspective regards conflicts of interests as normal behavior and part of organizational life.

The practical application of social action theory is actually more or less the same as the pluralistic and Marxist perspectives, the parties interested parties will sit down at a table to discuss their respective interests and seek reconciliation so that common goals or enabling mechanisms are obtained each goal is achieved without negating the interests of the other party.

The systems perspective sees industrial relations problems not from the bottom up (individual to system), but on the contrary, from system to individual. This perspective considers that problems in industrial relations are caused by the system or structure of relations, rather than by personal motives.

This departs from the view that the industrial relations system consists of not only actors, but working conditions and environments, rules set by the state and

shared ideologies that are practiced in the process of producing goods and services.

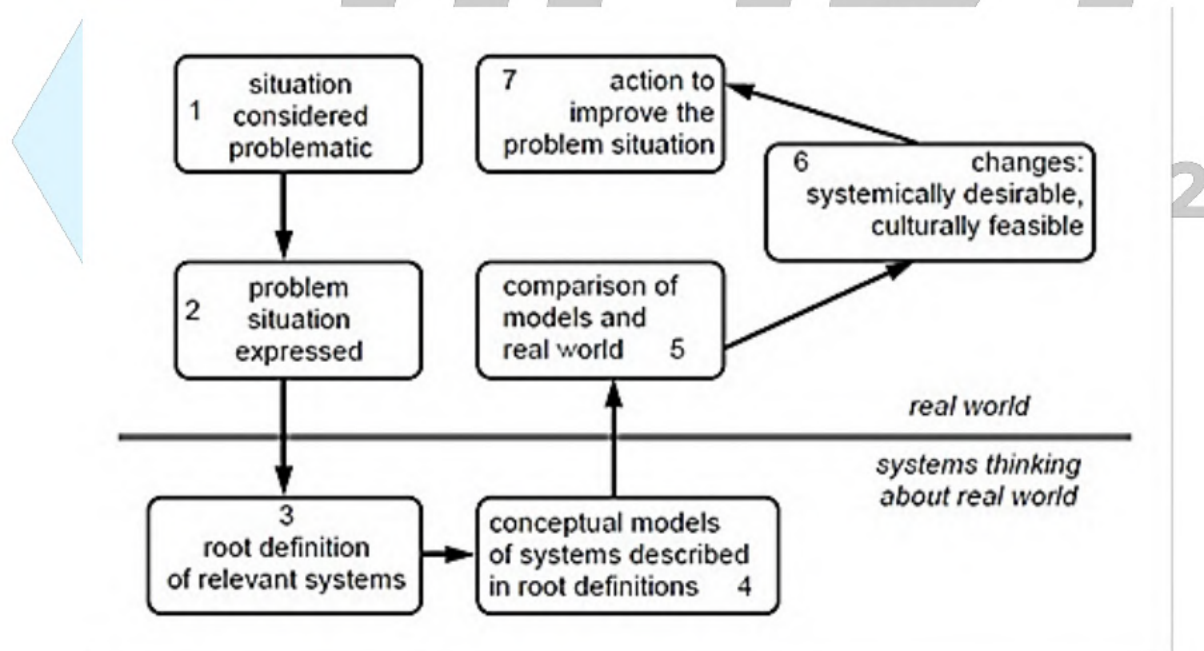
The configuration of the elements that make up the industrial relations system can be simplified into a micro-relations system and a macro-relations system. The micro-relationship system occurs in one company.

This system is formed by making internal organizational rules that are sourced from the attitudes, values, and interests of various parties, including the government. These attitudes, values, and interests are shaped by the economic and socio-cultural structure of the community.

### III. METHODOLOGY

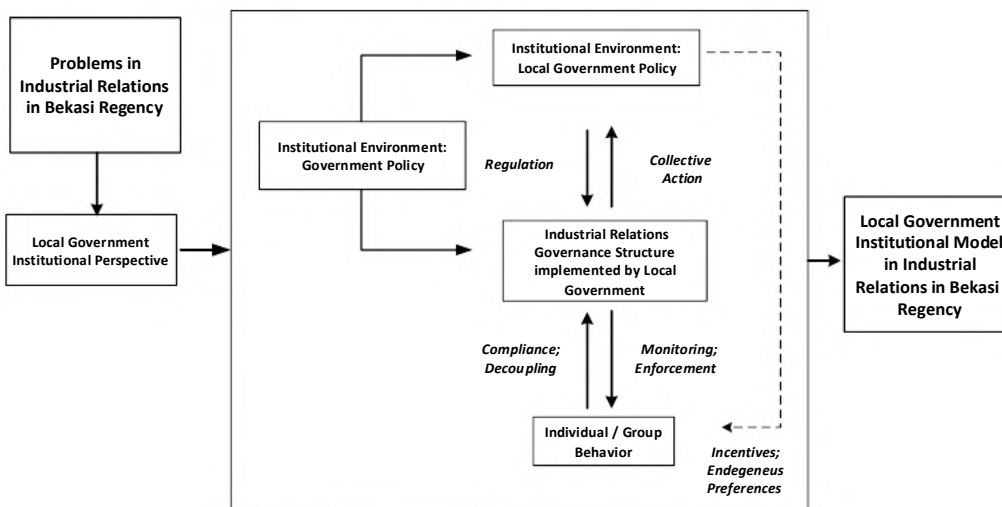
The problems of local government institutions in industrial relations in Bekasi Regency are relatively complex and dynamic. Therefore, this research uses Soft Systems Methodology (Checkland and Scholes, 1990).

The systems approach is an attempt to understand a complex and dynamic problem. The institutional model was developed based on a goal-oriented systems mindset to generate solutions.



**Figure 1.** Activity Step in Soft Systems Methodology  
*Source: Checkland (1999).*

The following is a research framework to design an institutional model for local government in dynamic and harmonious industrial relations in Bekasi Regency.



**Figure 2.** Research Framework Designing an Institutional Model of Local Government in Industrial Relations in Bekasi Regency (Adaptation of NIES Theory. Nee, 2003)

This research was conducted with the aim of solving local government institutional problems in industrial relations. In addition, the research framework used in this study was adapted from the theory of The New Institutionalism in Economic Sociology (Nee, 2003). This research further uses Soft Systems Methodology.

#### IV. RESULTS AND DISCUSSION

Primary data collection for the purposes of this study was carried out by interviews and Focus Group Discussions (FGDs) with respondents who were selected according to the data criteria required. Interviews and FGDs were conducted to gather information. Primary data collection for the purposes of this study was conducted by interviews and FGDs with respondents who were selected according to the data criteria required. Interviews and FGDs were conducted to gather information from selected respondents. Respondents to be interviewed represent stakeholders (workers' associations, employers' associations, and local government officials), academics, and researchers on industrial relations practices in Bekasi Regency. Interviews and FGDs for the purposes of this research were conducted during April 2018 to February 2020 before the government of the Republic of Indonesia ratified Law Number 11 of 2020 concerning Job Creation. The results of interviews and FGDs show that problems of local government in industrial relations in Bekasi Regency are:

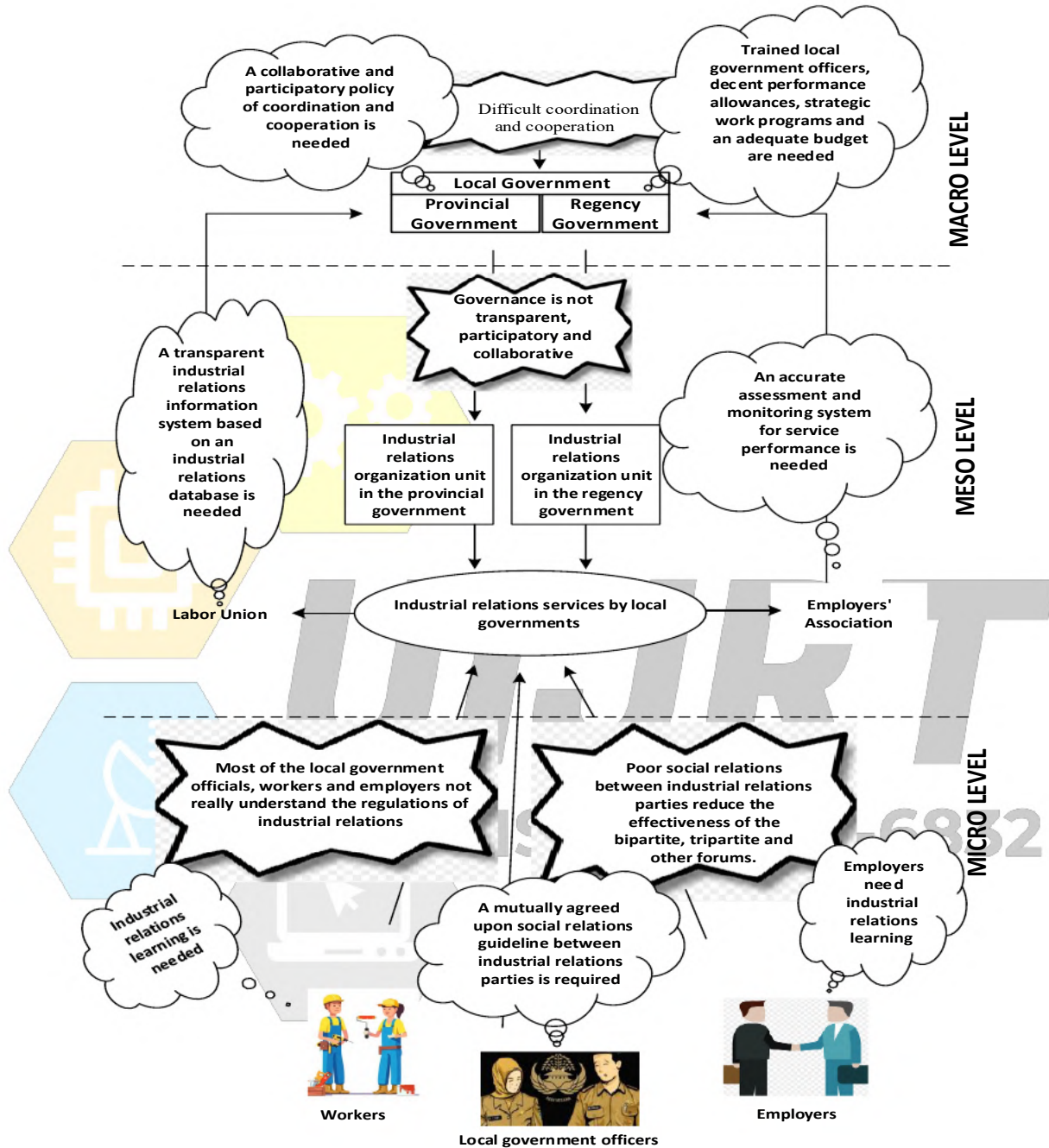
1. There is no coordination system and inadequate organizational capability (aspects of state regulation), resulting in various difficulties in coordination and collaborative between industrial

relations parties due to Law 23/2014 separating the function of labor inspection in the West Java Provincial Government and the other industrial relations functions (such as arrangements for employment relations, wages, social security for workers, prevention and settlement of industrial relations disputes) in the Bekasi Regency Government;

2. There is no industrial relations service management system and database system that is professional, transparent, collaborative and participatory (governance aspects);
3. The absence of sufficient cognitive and social relations values in the context of industrial relations (cognitive and norms aspects) results in difficulties in building agreement on various issues of differences in interests between workers, employers, and local governments, and on the other hand, non-compliance with existing rules or agreements;
4. There is no service management system and database system that is professional, transparent, collaborative and participatory, resulting in difficulty in controlling and enforcing rules for workers and employers who do not comply with the rules (monitoring and enforcement aspects);
5. There is no service management system and database system that is professional, transparent, collaborative and participatory, resulting in dissatisfaction with local government policies and services that lead to complaints and/or demonstrations (collective action aspect);
6. There is no coordination and collaboration between industrial relations parties, resulting in difficulties

in developing incentive programs and inculcating Pancasila (as the philosophy of the state) values in individuals and groups of employers and especially workers (incentives and preferences aspect).

Referring to these findings, I created a rich picture of industrial relations problems with local government institutions in Bekasi Regency, as follows.



**Figure 3.** Rich Picture of Industrial Relations problems in Bekasi Regency.

Root Definition (RD) is a description of what the system does, how and why. The PQR formula models the transformation process: do P (what), with Q (how), to

help achieve R (why). Here is the RD that I made based on the rich picture above.

*Table 1. Root Definition based on the rich picture.*

<b>RDs</b>	<b>Activities</b>
<b>1. Improved Coordination and Cooperation of Local Governments on industrial relations</b>	The local government system of the West Java Provincial Government and Bekasi Regency Government produces a policy of coordination and participatory cooperation of three parties in Industrial Relations (P) through the authority to draft local head regulations (Q) to improve coordination and participatory industrial relations cooperation in order to build local government institutions regarding dynamic industrial relations harmonic (R).
<b>2. Increasing the Capacity of Local Government Organizations regarding industrial relations</b>	The local government system of the West Java Provincial Government and Bekasi Regency Government produces policies to increase the capability of local government organizations regarding industrial relations (P) through the authority to prepare program plans and budgets (Q) to improve organizational performance and local government officials regarding industrial relations in order to build local government institutions regarding relations dynamic and harmonious industrial (R).
<b>3. Improving Industrial Relations Service Performance</b>	The local government system of West Java Province and Bekasi Regency produces a system of performance appraisal and monitoring of the performance of participatory industrial relations services (P) through the collaboration of three industrial relations parties in monitoring the performance of industrial relations services based on information technology (IT) (Q) to build a dynamic industrial relations climate and harmonious (R).
<b>4. Transparency of Industrial Relations Data and Information</b>	The local government system of West Java Province and Bekasi Regency produces a transparent management of industrial relations (P) database and information systems through the collaboration of three industrial relations parties to implement an IT (Q) system-based industrial relations data and information system to build a dynamic industrial relations climate and harmonic (R).
<b>5. Improved Understanding and Competence of Industrial Relations</b>	The industrial relations knowledge and competency learning system produces industrial relations officers, workers and entrepreneurs who have good industrial relations understanding and competence (P) through the development of an online-based industrial relations competency learning system (Q) to improve the mindset, attitude and behavior related to relations industrial relations in order to build a dynamic and harmonious industrial relations climate (R).
<b>6. Development of Values of Social Relations in Industrial Relations</b>	The bipartite and tripartite cooperation system overcomes incompatibility and achieves a consensus on the interaction system between the individual industrial relations parties (P) through the development and internalization of the agreed values into the norms and ethics of interacting among the Tripartite elements (Q) to build a system of interaction between the individual industrial relations parties. in order to build a harmonious industrial relations local government institution (R).

The findings in this study indicate that the local government institutional model in industrial relations is built by three institutional levels. At the macro level, since the issuance of Law Number 23 of 2014 concerning Local Government, there has been a weakening of the authority of district and city governments in matters of labor inspection. The authority of labor inspection by the Bekasi Regency Government was taken over by the central government and then delegated to the West Java Provincial Government. After several years of carrying out inspections, it turns out that the labor inspection work

unit is less effective in carrying out the functions of Labor Inspection. This is because many supervisors are incompetent and the work unit organization has an inadequate budget.

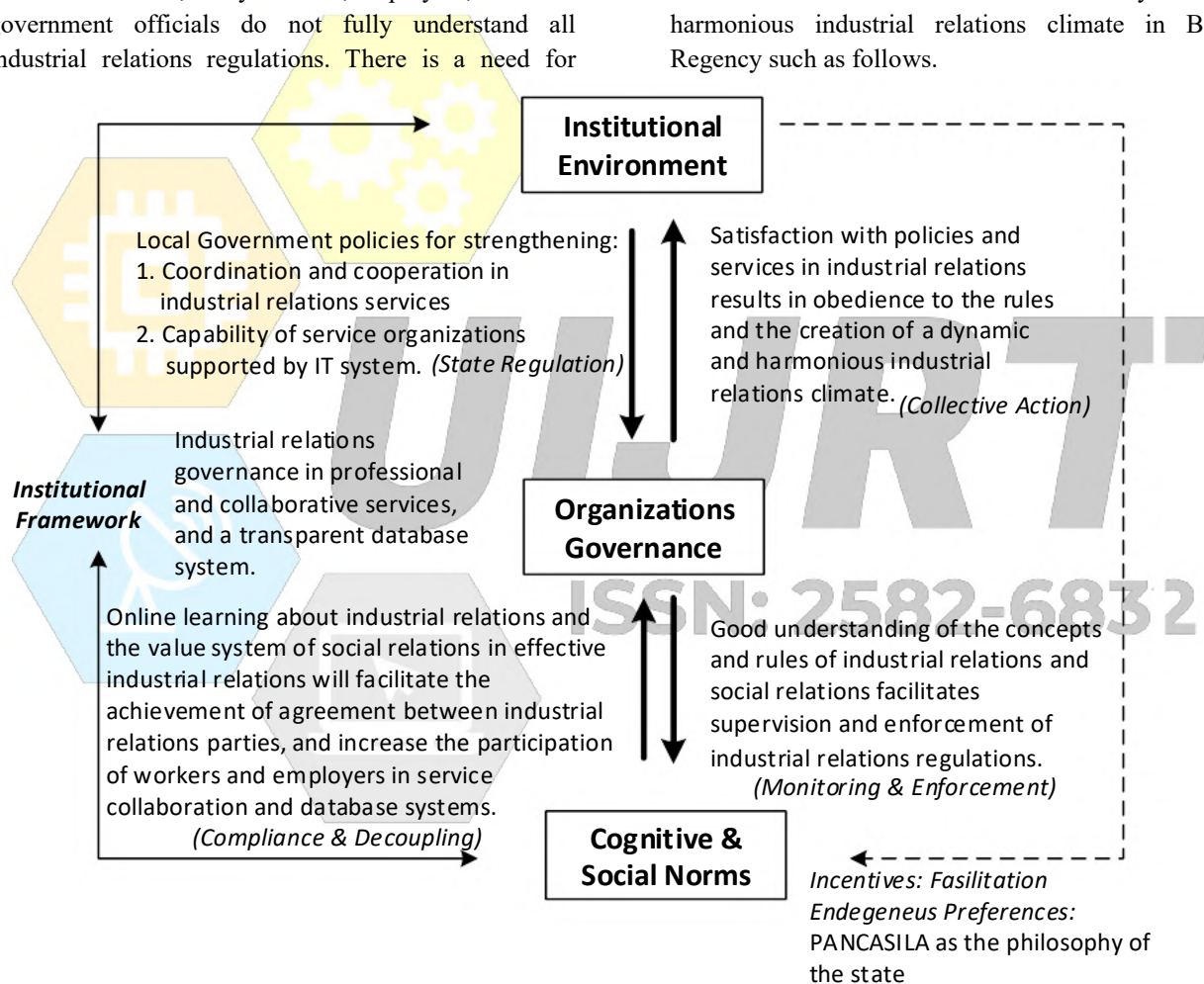
At the meso level, the practice of providing local government services in industrial relations matters, particularly in terms of dispute resolution and labor inspection, has not satisfied workers. Bipartite and Tripartite Cooperation Institutions have not been maximal in resolving industrial relations problems, especially in cases where workers are not treated

according to regulations or work agreements. The governance structure of local government in industrial relations has not yet fully implemented the principles of public participation, transparency, and professionalism, as requirements for good governance. The workers doubted the integrity and independence of local government officials. In addition, workers want industrial relations services online. The workers want the disclosure of data and information in the entire process of industrial relations services. Workers also want an information technology-based industrial relations database system that ensures transparency.

At the micro level, many workers, employers, and local government officials do not fully understand all industrial relations regulations. There is a need for

learning, especially online learning, for workers, entrepreneurs, and local government officials. On the other hand, there is no social relationship value system that can be used as a guide in formal and informal interactions between local government officials, employers and workers in the context of industrial relations. A value system of social relations is needed that guides them in interacting and communicating openly, respecting and trusting each other.

Based on the disclosure of the problem situation described in the rich picture and root definitions, I created a model for local government institutions related to industrial relations that is able to create a dynamic and harmonious industrial relations climate in Bekasi Regency such as follows.



**Figure 4.** Institutional Model of Local Government in Industrial Relations in Bekasi Regency (Adaptation of NIES Theory. Neer, 2003)

Besides that, I developed an institutional model of local government in industrial relations with three institutional levels. Macro level is a policy to strengthen coordination and collaboration between local governments, trade unions and employers' associations in the field of industrial relations services, as well as

increase the capacity of local government organizations in industrial relations. Meso level is the strengthening of industrial relations service governance and industrial relations database system. Micro level is the cognitive strengthening of industrial relations and social relations

of industrial relations between workers, employers, and local governments in the context of industrial relations.

#### V. CONCLUSION AND RECOMMENDATION

The conclusion of this study shows that the local government institutional model in industrial relations in Bekasi Regency which is able to create a dynamic and harmonious industrial relations climate consists of three levels, which are:

1. At the macro level, policies are needed to strengthen coordination and cooperation between the West Java Provincial Government, Bekasi Regency Government, trade unions and employers' associations. Good coordination and cooperation is required in the program: a) monitoring the performance of the industrial relations office; b) management of industrial relations database and information; c) industrial relations learning services; and d) and develop and apply the values of social relations in industrial relations. At the macro level, a policy to increase the capability of local government organizations in industrial relations is also needed.
2. At the meso level, local governments need a governance structure for industrial relations service organizations and the management of an industrial relations database system in accordance with good governance principles, such as professionalism, transparency, collaboration and participation.
3. At the micro level, an agreement is needed between workers, employers and local governments in the development and implementation of learning systems and social relations systems in industrial relations. The provision and operation of the two systems will be able to improve the understanding, attitudes and behavior of individual workers and employers, as well as local government officials in industrial relations matters so as to minimize potential conflicts and facilitate conflict management in the event of a conflict. This will ultimately form a dynamic and harmonious industrial relations climate.

Recommendation in this study, first, local governments should create and implement a conceptual model of local government institutions in industrial relations which are arranged in three institutional levels as produced in this study to create a dynamic and harmonious industrial

relations climate. The second suggestion is that further research is needed that focuses on the role of IT in controlling the balance of a more democratic, participatory, and transparent industrial relations system.

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