



# The differences of work engagement permanent and contract employee in a multinational company in Indonesia

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**Abstract.** This study aims to look at the differences in work engagement among employees with permanent contract and temporary contract status in multinational companies in Indonesia. Work engagement is a positive, satisfying, work-related state of mind characterized by vigor, dedication, and absorption. Employee contract status is estimated to be one of the factors that influence a person's work engagement so that it affects employee performance. This study uses the ANOVA method which aims to see differences in work engagement between three groups of employee status namely permanent, direct contract, and outsourcing. The sample of this research is 91 employees who work in one of the multinational companies in Indonesia. The results showed that there was no significant difference between the 3 groups of employee status. This can be explained by several other factors found in the field. The absence of differences in these 3 groups can be influenced by other things that make employees with permanent status, direct contracts and outsourcing engaged with their work. The results of this study can be used as a reflection for other organizations that have employees with several different contract statuses, so that their employees can be engaged with work, and show optimal work results.

**Keywords:** work engagement, permanent employee, direct contract employee, outsourcing employee.

## 1. Introduction

Indonesia is a country with a large number of foreign companies. Several factors underlying the establishment of foreign companies in Indonesia are the natural wealth owned and the number of workers available in Indonesia [9]. Foreign companies established in Indonesia are usually referred to as Companies with Foreign Investment. The Ministry of Investment/ Investment Coordinating Board released investment realization data for the January-March (quarter I) 2023 period of IDR 328.9 trillion, an increase of 16.5% compared to the same period in 2022 and absorbed 384,892 Indonesian workers [10].

The data shows that the absorption of Indonesian workers has increased from the previous year. However, what needs to be paid attention to is related to the employee status of Indonesian Workers. Several foreign companies investing in Indonesia follow several schemes in recruiting their employees. Not all workers in foreign companies are hiring with permanent status. Some employees, especially for companies with seasonal production, need contract workers who can be recruited directly by the company, or through an outsourcing company as a third party. Even so, as companies investing in Indonesia, these foreign companies must follow the regulations stipulated in the Manpower Act of the Republic of Indonesia in the process of recruiting and hiring employees. As stated in the Indonesia Manpower Law, there are 3 schemes in hiring employee, namely employee with a work agreement for a certain time or called a contract employee, employee with a work agreement for an indefinite or unspecified time or called a permanent employee, and outsourcing worker [9]-[11].

Contract employees can be hired directly by the company, commonly known as direct contract employees and contract employees hired through a third party (3rd party) are called outsourced employees. Both direct contract employees and outsourced employees are bound by work agreements for a certain period of time. No one can guarantee whether they can become permanent employees or not. So this usually has an impact on their performance, which is different from permanent employees. Where permanent employees usually have a better engagement than contract employees. Thus showing better performance compared to contract employees. In several studies, it was found that work agreements that affect employment status will affect work engagement [21]. Meanwhile, work engagement is needed to improve employee performance in order to achieve company goals [3]-[7].

Several studies show that permanent employees have better engagement than contract employees. Research from Perdana [14], shows that employees with permanent employee status have higher work engagement than outsourced employees. So they show better performance than contract employees. This is in line with the findings of Nuryono et al. [17], that there is a significant difference in performance between the performance of permanent employees and the performance of contract employees, where the performance of permanent employees is better than that of contract

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employees. Meanwhile, direct contract employees allegedly have better engagement with outsourced employees, this is as a result of different policies and regulations between direct contract and outsourced employees. Findings at a multinational company show that direct contract employees receive more benefits than outsourced employees.

### 1.1. Work Engagement

Work engagement is one of the concepts of positive psychology that is often applied in the world of work and industry. Employees who have an emotional bond with the company will usually show higher performance than those who do not. So that it becomes important to be owned by every employee and to be implemented in a particular company or organization.

There are many concepts that explain work engagement, Shuck, et al [19] have their own concept related to engagement which is termed employee engagement. Employee engagement is defined as a psychological state that is positive, active, and related to work that is operationalized by the maintenance, intensity, and direction of cognitive, emotional, and behavioral energy. Schaufeli [17] explained that work engagement refers to the employee's relationship with his work. Employees who have high work engagement positively show better performance results. Schaufeli, et al [17] engagement refers to a more persistent and pervasive affective and cognitive state that does not focus on specific objects, events, individuals, or behaviors. "Schaufeli, et al [17] define work engagement as a positive, satisfying, work-related state of mind characterized by vigor, dedication, and absorption."

*Vigor is characterized by high levels of energy and mental resilience at work.* Employees with these characteristics will show high enthusiasm, especially when they are faced with certain difficulties, they will try to find a way to get out of the difficulties they are facing.

*Dedication refers to being strongly involved in one's work and experiencing a sense of significance, enthusiasm, inspiration, pride, and being challenged.* Employees with this characteristic will be easily inspired at work and have pride in the work being carried out. They perceive adversity as a new place to learn and prefer it. They are more enthusiastic and interpret their work.

*Absorption is characterized by being fully concentrated and very happy with one's work, where time passes quickly and one has difficulty detaching from work.* Employees with these characteristics will work wholeheartedly. They do not have the burden of carrying out a particular task. They love their job as much as they do their hobby. Employees with this character will easily avoid boredom and burnout, thus becoming psychologically healthier.

### 1.2. Employment Status

According to Indonesian Labor Law 13 of 2013 which was later amended in Law No. 11 of 2020 concerning Job Creation:

**Specific Time Work Agreement** is a work agreement between workers and employers to enter into a working relationship for a certain time or for a certain job. In practice, workers with "Specific Time Work Agreement" are also known as contract employees.

**Unspecified Time Work Agreement** is a work agreement between workers and employers to establish a permanent working relationship. In practice, workers with "Unspecified Time Work Agreement" are known as permanent workers or permanent employees.

**Outsourcing Worker** In practice, the term outsourcing is known as the outsourcing system, as explained in the Difference between Job Contracting and Provision of Worker Services.

### 1.3 Work Engagement Based on Employee Status

Coetzee and Villiers [3] conducted the study among employees working in financial institutions in South Africa and found that permanently employed employees have a higher level of engagement than those in a temporary contract position. They mentioned that permanent employees have a greater sense of job security, job resources, and efficacy in dealing with the challenges posed by the workplace.

The work engagement level of Permanent teachers was found to be higher than of ad-hoc teachers. A possible reason for such results could be the lack of job security and other benefits, such as medical benefits, leaves, lower pay [21]. As stated Jarvela & MacNeil [20], employment contract type has also been linked to aspects of work-related well-being: permanent workers experience higher levels of work engagement [19] and lower levels of work-related stress [13] than temporary workers. Temporary workers have been found to experience lower levels of work engagement than permanent workers [17].

## 2. METHOD

Measurement of the work engagement variable was carried out using Schufeli's Utrecht Work Engagement Scale, et al [17]. The number of items on this scale is 17 items. This scale measures 3 dimensions of work engagement which consist of the dimensions of vigor, dedication, and absorption. Participants are employees who work in a multinational company in Indonesia, with a total sample of 91 people. The analysis technique uses ANOVA to compare 3 employee statuses, namely, permanent, direct contract, and outsourcing. Data analysis using the help of JASP software.

## 3. RESULTS

To analyze using ANOVA, it is necessary to test assumptions. Normality which shows the normal distribution of data. Based on the results below, it shows that the data distribution is normal, so that it fulfills the assumptions to be analyzed using ANOVA.

**Table 1.** Assumption Checks

Test for Equality of Variances (Levene's)			
F	df1	df2	p
0.064	2	88	0.938

Table 1 show that the data fulfilling homogeneity assumption checks, which is p value > 0.05. This data gives information that the data group comes from a homogenous population. So that, the data can be analyzed using Anova.

**Table 2.** Anova Work Engagement

Cases	ANOVA - Work Engagement			F	p
	Sum of Squares	df	Mean Square		
Employment status	18.84	2	9.419	0.206	0.814
Residual	4027.45	88	45.766		

Based on the results of data analysis using ANOVA, it was found that the data fulfilled the normal assumption test. The p value is known to be >0.01 so that it can be said that there is no difference in work engagement between the 3 groups of employees. The absence of difference between three groups employment status can be explained from data descriptive below:

**Table 3.** Descriptive of Work Engagement

Employment Status	Mean	SD	N
Direct Contract	63.87	6.580	30
Outsourcing	63.80	7.150	20
Permanent	62.93	6.710	41

From table 3, work engagement mean value from 3 groups' employment status showing nearly the same value. The work engagement mean value of a direct contract employee is 63.87, the work engagement mean value of an outsourced employee is 63.80, and the work engagement mean value of a permanent employee is 62.93. From this descriptive data can conclude that there is no difference between direct contract, outsourcing, and permanent employee.

**Table 4.** Marginal Means

Employment Status	Marginal Mean	SE	Lower CI	Upper CI
Direct Contract	63.87	1.235	61.41	66.32
Outsourcing	63.80	1.513	60.79	66.81
Permanent	62.93	1.057	60.83	65.03

Table 4 shows the lower value of work engagement and upper value of work engagement from 3 groups. This table shows that lower value and upper value from 3 groups are nearly the same. Direct contract employees have 61.41 of lower value's work engagement and 66.32 upper value. Outsourcing employees have 60.79 of lower value's work engagement and upper value is 66.81. While, permanent employees have 60.83 lower value's work engagement and upper value is 65.03. This data explains that there is no difference in work engagement between direct contract, outsourcing, and permanent employee.

**Table 5.** Post Hoc Tests

		<b>Post Hoc Comparisons - Employment Status</b>				
		<b>Mean Difference</b>	<b>SE</b>	<b>t</b>	<b>Cohen's d</b>	<b>p tukey</b>
Direct Contract	Outsourcing	0.067	1.953	0.034	0.004	0.999
	Permanent	0.940	1.625	0.578	0.061	0.831
Outsourcing	Permanent	0.873	1.845	0.473	0.050	0.883

From table 5 show that the P tukey value between direct contract employee and outsourced employee more than 0.01 is 0.999. The P tukey value between direct contract and permanent employee more than 0.01 is 0.831. And P tukey value between outsourcing and permanent employee more than 0.01 is 0.883. From this data, can be concluded that: There is no difference between direct contract and outsourced employees. There is no difference between permanent and outsourced employees. There is no difference between permanent and direct contract employees.

#### 4. DISCUSSION

The results of Faridi & Baloch [5] showed that the effect of modern T&D is small but significant on professionalism while moderate significant on employee engagement. Therefore, the modern T&D strengthens the positive effect of professionalism as well as employee engagement on the employees' work performance.250

Human management system based on Jiang, et al [15] which includes recruitment, selection, training & development, performance appraisal, compensation, incentives, benefits, promotion and career development, job security, job design, teamwork, involvement employees, formal complaint and grievance processes, and information sharing all influence work engagement. HR practitioners need to pay attention to the right management system to be able to create welfare and fairness among permanent and contract employees, so that they can have great work engagement and show their best performance.

Findings in the field indicate that there is no significant difference in treatment between permanent and contract employees, so that work engagement does not differ as follows: a.) Contract employees are given fair compensation, incentives and benefits with permanent employees, according to the regulations on employment and job creation. b.) Employees have the opportunity to improve and develop skills. c.) Employees have the opportunity to become permanent employees if employees consistently show good performance. d.) Employees receive the same occupational health and safety treatment as contract and permanent employees. The results of this study can be used as material for reflection in the implementation of the Human Resource Management System. The treatment of employees with permanent and temporary contract status should pay attention to the matters that must be met by multinational companies investing in foreign countries. By following the rules that apply, even rules that exceed the rules that apply (positively), then employees will feel the same treatment according to their portion, so that they can show good engagement with work and show optimal performance.

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