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The Effect of Real Wages on Employment Absorption and Human Resource Quality: A Human Resource Management Perspective in Eastern Indonesia

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Abstract: This study aims to examine the effect of real wages on employment absorption and human resource (HR) quality in Eastern Indonesia from a Human Resource Management (HRM) perspective. The study employs a quantitative approach using secondary data collected from several provinces in Eastern Indonesia over the 2010–2023 period. The data were analyzed to examine the direct effect of real wages on HR quality as well as the indirect effect through employment absorption. The findings indicate that real wages have a positive and statistically significant effect on HR quality. Higher purchasing power enables households to meet educational, healthcare, nutritional, and other productive needs, thereby contributing to improvements in overall quality of life and human capital. However, real wages do not have a statistically significant effect on employment absorption, and employment absorption does not mediate the relationship between real wages and HR quality. These findings suggest that an increase in the number of employed individuals does not necessarily translate into higher human resource quality when available jobs are characterized by low wages, employment instability, and limited social protection. From a Human Resource Management perspective, wage policies should be integrated with productivity enhancement, competency-based training, social protection, and the creation of decent employment opportunities.

Keywords: Real Wages, Employment Absorption, Human Resource Quality, Human Resource Management.

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1. INTRODUCTION

Human resource (HR) development is determined not only by the availability of employment opportunities but also by the quality of compensation received by workers and the extent to which employment enables a decent and sustainable standard of living. In this context, real wages provide a more meaningful indicator than nominal wages because they reflect workers' actual purchasing power after accounting for changes in the cost of living. As real wages increase, households gain greater financial capacity to meet basic needs while investing in children's education, healthcare, nutrition, transportation, and skills development. Consequently, real wages should not be viewed solely as a labor cost from the employer's perspective but also as a strategic compensation instrument capable of strengthening human capital by improving the welfare and productive capacity of workers and their families.

The importance of this relationship is evident in the pattern of human development and labor market conditions across Eastern Indonesia during the 2010–2023 period. An assessment covering 11 provinces in the region indicates that the quality of human resources remains at a moderate level, with substantial disparities across provinces. These findings suggest that improvements in labor income and employment opportunities have occurred alongside considerable variation in human development outcomes. Empirically, Papua records relatively high real wages, yet its Human Development Index (HDI) remains below that of several provinces in Sulawesi. In contrast, North Sulawesi and South Sulawesi achieve higher HDI scores despite not consistently recording the highest real wage levels in Eastern Indonesia. These differences provide preliminary evidence that higher wages do not automatically translate into improvements in human resource quality, as their impact is strongly influenced by access to education, healthcare, basic infrastructure, living costs, and the quality of available employment.

Labor market conditions in Eastern Indonesia further underscore the importance of this study. Previous evidence indicates that the proportion of informal workers in several provinces of Eastern Indonesia remained between **62% and 78%**, according to Statistics Indonesia (BPS, 2024). The dominance of informal employment suggests that many workers continue to face unstable earnings, limited labor protection, inadequate social security coverage, restricted access to training, and limited career advancement opportunities. Consequently, an increase in employment alone cannot be equated with improvements in welfare or human resource quality. Employment growth concentrated in low-productivity, low-income, and insecure jobs offers limited opportunities for households to invest in education, healthcare, and long-term human capital development.

From the perspective of Human Resource Management (HRM), these conditions highlight the importance of distinguishing between job creation and decent work**.** Decent work encompasses not only adequate income but also occupational safety and health, employment security, competency development opportunities, social protection, and career advancement. When wage policies are integrated with competency-based training, productivity enhancement, labor protection, and the expansion of formal employment, increases in real wages are more likely to strengthen workers' capabilities while improving human resource quality in a sustainable manner. Conversely, wage increases that are not accompanied by productivity gains may raise labor costs for firms, potentially constraining business expansion and reducing labor demand.

Previous empirical studies have produced mixed findings regarding the relationship between wages and human development. Several studies report that higher wages contribute positively to the Human Development Index (HDI), as increased income enables households to invest more in education, healthcare, and essential consumption (Faizin, 2021; Ismanti, 2017). However, Kiha et al. (2021) found that the provincial minimum wage had no significant effect on the HDI in East Nusa Tenggara Province. These inconsistent findings indicate that the relationship between wages and human resource quality is highly context-dependent. Its magnitude depends on labor market structure, productivity levels, the prevalence of informal employment, investment quality, and the availability of education and healthcare services. Accordingly, this study addresses three research questions: (1) How do real wages affect employment absorption? (2) How do real wages influence human resource quality? and (3) Does employment absorption mediate the relationship between real wages and human resource quality in Eastern Indonesia?

This article examines the relationship among real wages, employment absorption, and human resource quality from a Human Resource Management perspective by conceptualizing wages as a form of strategic compensation rather than merely a production cost. Likewise, employment absorption is viewed not simply as the number of individuals employed but as the opportunity to obtain productive, protected, and competency-enhancing employment. Through this perspective, the study is expected to provide empirical evidence to support the formulation of wage policies, the promotion of decent work, and more inclusive human resource management strategies in Eastern Indonesia.

2. LITERATURE REVIEW

2.1 Human Capital Theory

Human capital theory posits that education, health, and skills constitute forms of investment that enhance individuals' productive capacity (Becker, 1993). Higher real wages provide households with greater financial resources to support these investments. For low-income households, additional real income can be allocated directly to expenditures that improve key dimensions of the Human Development Index (HDI), such as education, healthcare, and nutrition. Therefore, from a theoretical perspective, higher real wages are expected to contribute positively to improvements in human resource quality.

From the Human Resource Management (HRM) perspective, strategic compensation is not merely regarded as a labor cost but as a mechanism for attracting, retaining, motivating, and developing employees. Compensation that is both internally equitable and externally competitive enhances workers' economic security and organizational commitment. These effects become more substantial when wage policies are accompanied by access to training, occupational health and safety programs, transparent performance evaluation systems, and career development opportunities. Accordingly, adequate wages serve as a fundamental component of human resource development, although they are not the sole determinant.

2.2 Labor Demand Theory

Labor demand theory explains that firms employ workers according to their production requirements and their ability to pay wages. In neoclassical economics, labor demand is considered a derived demand, meaning that firms' demand for labor depends on the demand for the goods and services they produce. Firms tend to hire additional workers as long as the value of the additional output generated exceeds the wage costs incurred (Borjas & Van Ours, 2010).

In general, wage increases may raise production costs, potentially encouraging firms to reduce hiring, shorten working hours, or substitute labor with capital and technology. Nevertheless, the effect of wage increases on employment absorption is not necessarily negative. When wage growth is accompanied by improvements in productivity, skills, and workforce quality, firms may maintain or even expand their workforce. Suharto and Dharmala (2016) found that minimum wages can influence employment absorption, whereas Sakti et al. (2021) argued that the effect of wages on employment should be interpreted alongside investment conditions and economic growth.

Therefore, employment absorption should be understood not merely as the number of employed individuals but also as the creation of decent jobs that provide adequate income, social protection, occupational safety, and opportunities for competency development.

2.3 Wage Theory

From a theoretical perspective, wages represent the compensation received by workers in return for their labor, time, skills, and contributions to the production process. Neoclassical wage theory argues that wages are closely associated with the marginal productivity of labor. Accordingly, workers with higher levels of skills, experience, and productivity are more likely to receive higher wages (Borjas & Van Ours, 2010).

The efficiency wage theory complements this perspective by suggesting that adequate wages improve employee motivation, discipline, loyalty, and productivity while reducing absenteeism and labor turnover. In this study, real wages are employed as the primary measure because they reflect workers' actual purchasing power after adjusting for changes in the general price level.

2.4 The Relationship Between Real Wages, Employment Absorption, and Human Resource Quality

Higher real wages may contribute to improvements in human resource quality through both direct and indirect mechanisms. Directly, increases in real wages enhance workers' purchasing power, enabling households to allocate greater resources to education, healthcare, nutrition, transportation, and skills development. These investments strengthen human capital accumulation and ultimately improve human resource quality, as reflected in higher Human Development Index (HDI) outcomes.

Indirectly, real wages are associated with employment absorption and the quality of jobs created. Adequate wages can enhance employee motivation, retention, and productivity, particularly when supported by training opportunities, labor protection, and career development systems. Productive, stable, and protected employment provides workers with income security and opportunities to enhance their competencies. However, wage increases that are not accompanied by corresponding productivity improvements may increase labor costs for firms. Under such circumstances, employers may postpone recruitment, limit business expansion, or implement labor-saving strategies, meaning that higher wages do not necessarily result in greater employment absorption.

Therefore, from a Human Resource Management perspective, real wages should be viewed as an integral component of strategic compensation that must be aligned with productivity growth and job quality. In this study, real wages are measured as the ratio between the nominal provincial minimum wage and the Consumer Price Index (CPI), thereby reflecting workers' purchasing power. Employment absorption represents the number of employed individuals but should be interpreted alongside the quality of available jobs. Meanwhile, human resource quality is measured using the Human Development Index (HDI), which captures cumulative achievements in education, health, and a decent standard of living.

3. METHOD

This study employs a quantitative explanatory research design using secondary panel data at the provincial-year level. The unit of analysis consists of 11 provinces in Eastern Indonesia, namely West Nusa Tenggara, East Nusa Tenggara, North Sulawesi, Central Sulawesi, South Sulawesi, Southeast Sulawesi, Gorontalo, West Sulawesi, Maluku, North Maluku, and Papua, covering the period from 2010 to 2023. The data were obtained from publications of Statistics Indonesia (Badan Pusat Statistik/BPS). After data adjustment and the treatment of extreme observations, a total of 154 effective observations were retained for analysis.

The data were analyzed using path analysis with the assistance of SPSS software. Real wages were specified as the exogenous variable, employment absorption as the mediating variable, and human resource quality as the endogenous variable, proxied by the Human Development Index (HDI). Real wages were calculated by adjusting nominal wages using the Consumer Price Index (CPI), while employment absorption was measured by the number of employed persons. Direct effects were estimated using the regression coefficients for each structural path, whereas indirect effects were calculated by multiplying the path coefficient from real wages to employment absorption by the path coefficient from employment absorption to human resource quality. The findings were interpreted based on the direction of the estimated coefficients and their statistical significance.

4. RESULTS AND DISCUSSION

The findings indicate that real wages have a positive and statistically significant effect on human resource quality, with a regression coefficient of 3.731 and a significance value of 0.001. This result suggests that improvements in workers' purchasing power are associated with higher levels of human resource quality. Higher wages enable workers and their households to meet educational, healthcare, nutritional, and other productive needs. Consequently, real wages play an important role in enhancing quality of life and promoting human development.

These findings are consistent with Ismanti (2017), who reported that wages significantly influence the Human Development Index (HDI) in Indonesia. Similar evidence was reported by Faizin (2021), who found that the provincial minimum wage positively affects the HDI across districts and municipalities in East Java Province. Likewise, Shavira et al. (2021) demonstrated that minimum wages contribute to improving social welfare. Collectively, these findings reinforce the human capital perspective, which argues that higher income enables households to increase investments in education, healthcare, and overall quality of life.

However, the present findings differ from those of Kiha et al. (2021), who found that the provincial minimum wage had no significant effect on the HDI in East Nusa

Tenggara Province. This discrepancy suggests that wage increases do not automatically improve human resource quality. In regions characterized by high living costs, limited access to education and healthcare, and a predominance of informal employment, additional household income may be allocated primarily to basic consumption rather than long-term investments in education and health.

The results further indicate that real wages do not have a statistically significant effect on employment absorption. In other words, increases in wages are not necessarily accompanied by higher levels of labor recruitment. This outcome may reflect firms' consideration of business capacity, production costs, labor productivity, and prevailing economic conditions before expanding their workforce.

This finding is consistent with Sakti et al. (2021) and Shafira (2020), who concluded that minimum wages do not necessarily influence employment absorption. However, it differs from the findings of Indradewa and Natha (2015) and Lokiman et al. (2014), who reported a positive relationship between wages and employment. These contrasting results indicate that the effect of wages on employment depends largely on regional economic structure, industrial composition, labor productivity, and firms' capacity to absorb higher labor costs.

The study also reveals that employment absorption does not significantly mediate the relationship between real wages and human resource quality, with an indirect effect coefficient of −0.0671, which is statistically insignificant. Thus, an increase in the number of employed individuals does not necessarily lead to improvements in human resource quality. The positive impact is likely to be greater when available jobs provide adequate income, employment security, labor protection, and opportunities for skills and competency development. Furthermore, the model explaining human resource quality produces a coefficient of determination (R^2) of 0.597, indicating that approximately 59.7% of the variation in human resource quality is explained by the variables included in the model, while the remaining 40.3% is attributable to factors outside the scope of this study.

Overall, these findings demonstrate that improving human resource quality cannot be achieved solely by expanding employment opportunities. Wage policies should be complemented by productivity enhancement, workforce training, social protection, and the creation of decent work so that the benefits of wage growth can be distributed more broadly across workers and society.

4.1 Analysis from a Human Resource Management Perspective

First, the direct effect of real wages highlights the role of compensation as an investment in human capital. From an organizational perspective, wage policies should consider workers' local purchasing power rather than focusing solely on compliance with nominal wage regulations. Adequate base wages should be complemented by health benefits, transportation allowances, meal subsidies, and social protection programs that reflect regional living costs. Such compensation packages help sustain employees' productive capacity while reducing the likelihood that households will sacrifice investments in education and healthcare.

Second, the insignificant relationship between real wages and employment absorption points to structural challenges related to labor productivity and labor market conditions. Much of Eastern Indonesia's economy continues to rely on informal employment, agriculture, microenterprises, and capital-intensive extractive industries. Under these conditions, firms may respond to rising labor costs by limiting recruitment

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or improving operational efficiency rather than expanding employment. Moreover, formal-sector wage increases benefit only a portion of the workforce and often fail to reach the large informal labor force.

Third, these findings emphasize the distinction between employment quantity and job quality. The number of employed individuals does not necessarily reflect the availability of jobs that promote learning, provide social protection, and enable upward income mobility. From an HRM perspective, quality employment is characterized by adequate income, reasonable working hours, occupational health and safety, access to training, employment security, and opportunities for career development. Without these essential elements, high employment levels may contribute only marginally to improvements in human resource quality.

4.2 Policy and Managerial Implications

The findings of this study have important implications for regional governments, private firms, universities and vocational training centers, as well as micro, small, and medium-sized enterprises (MSMEs).

Regional governments should incorporate trends in real wages and sectoral productivity into wage policy evaluations. Strengthening enforcement of wage compliance and expanding access to social protection programs are also essential to preserving workers' purchasing power while reducing economic vulnerability.

For businesses, wage adjustments should be integrated with productivity improvement strategies rather than implemented independently. Wage increases should be accompanied by employee training, process improvements, occupational health and safety initiatives, and competency- and performance-based incentive systems. Such measures ensure that higher compensation enhances employee motivation and productivity without encouraging firms to reduce hiring.

Universities and vocational training centers should play a more active role in preparing workers whose competencies match the needs of regional industries. Training programs should be designed based on labor market demand and complemented by professional competency certification. This approach will enable local workers not only to access employment but also to secure decent jobs and achieve long-term career advancement.

For MSMEs and the informal sector, continuous assistance is needed to improve business productivity, financial management practices, market access, and gradual participation in social protection systems. Such efforts are essential to ensure that employment growth in the informal sector is accompanied by more stable earnings, better working conditions, and greater opportunities for skills development.

These strategies should be implemented in an integrated manner. Wage policies without competency development may create cost pressures for firms, while training initiatives without adequate compensation are unlikely to improve employee retention or welfare. Therefore, governments and employers should recognize productivity as the outcome of sustained investment in human capital, technology, work organization, and sound industrial relations, rather than merely expecting employees to work harder.

5. CONCLUSION

Real wages have a positive and statistically significant direct effect on human resource quality in Eastern Indonesia. This finding indicates that compensation capable of maintaining workers' purchasing power constitutes an important mechanism

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through which households invest in education, healthcare, and a decent standard of living. However, real wages are not found to consistently increase employment absorption, and employment absorption does not mediate the relationship between real wages and human resource quality.

From a Human Resource Management (HRM) perspective, these findings suggest that improvements in human resource quality depend more on the quality of compensation and the quality of employment than merely on an increase in the number of employed workers. Jobs characterized by instability, low wages, or limited social protection and learning opportunities are unlikely to serve as effective channels for human development. Therefore, wage policies should be viewed as an integral component of a broader human resource development strategy that encompasses productivity enhancement, competency development, social protection, and the creation of decent work.

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