



Wage System Manufacturing Company: Normative and Expectations

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ABSTRACT

The study determine the wages models applied by the company in Batam which is expected to provide a wide range of reference models in different strata of wage and cluster companies. It is also expected to help the local government as a factor in determining the minimum wage policy making through recommendations wages models are ideal in Batam. Data was collected using interview techniques to the manufacturing industry in three related units in a company that is human resource, administrative staff and production staff. The results of the study were analyzed qualitatively to explore models that have been applied and the desire of employees. The model has been applied to remuneration in accordance with the general models that already exist, but there are still some wishes of the employees on the compensation of employees in the company they both administrative and production employees. Researchers also analyzed employee satisfaction with the existing system and the results are most of the employees did not feel satisfied with the remuneration system.

Keywords: System, Local Government, Employee, Minimum Wage, Compensation

JEL Classifications: N60

1. INTRODUCTION

Law no. 25/1999 and its amendments, the Law no. 32/2004 on the local government has given the widest opportunity for districts to organize and manage their own local authority. Indonesia's Government Regulation no. 25/2000 also stated that the local government has the authority, one of which is about the authority of the local government as an autonomous region to formulate policies on the regional minimum wage (i.e., the provincial minimum wage and minimum wage district/city).

Determination of the minimum wage is based on the needs of daily live worthy for workers/workers lowest level. Determination of the minimum wage is set in the Regulation of the Minister of Manpower and Transmigration no. 17/2005 on the establishment of the components, and implementation phases of achieving

live worthy needs. It describes also the mechanisms that must be done to get the needs of decent living to the mechanism for the determination by the head of the local area. Minimum wage setting is done by the wage boards in each province and district. But in reality there is often a meeting point of minimum wages in accordance with the interests of workers and employers, so that it can trigger a lot of problems related to salaries and wages.

Batam is one of the cities in Indonesia which was developed as an industrial area. Every year workers in Batam are always demonstrated to demand an increase in their wages. Often these demonstrations ended with a riot, like a workers demonstration in November 2011. Workers' demonstration ended with the destruction of some public facilities and government offices, as well as causing some protesters and officers were injured as demonstrations ending anarchist. But eventually, the demonstration

ended with a pleasant decision for workers because of their desire to raise the minimum wage in accordance with the needs of decent living come true. This is unpleasant news for employers, especially employers processing industry because they feel the stability and sustainability of the company can be threatened. The increase in the minimum wage would spur increased production costs significantly, so they are often threatened not to continue to invest in Batam and chose to move to another city or another country, where labor costs are lower and have a more conducive business climate.

These problems are very disturbing for the development of the investment climate in Batam, especially for the manufacturing industry as one of the largest industries in Batam with the amount of labor is very large. Statistical data in 2010 showed there were 156.018 workers who worked for the 343 of industrial sector. Almost half of the total workforce of 265.431 is a labor of manufacturing industry, and if compared with the total number of residents, 17% of the entire population work in the processing industry. This number is significant for the development of an area, so it needs to look for solutions that can benefit between employers and workers.

One solution to break the deadlock between workers and employers to agree on the minimum wage is to find the various references. Some references are commonly used as a reference is local inflation rate, the need for decent living (Kebutuhan Hidup Layak), assuming economic growth and so on. The indicators are used regardless of the condition of the model is implemented in the company. Goschin (2014) suggests that Romanian counties are heterogeneous and the wage setting procedure is influenced by local characteristics that generate significant variation in average wages. Ewing (1996), examine the effect that performance-based pay on earning suggest that worker who are performance based pay jobs earn a substantial wage premium. If a variety of alternative remuneration models from various companies can be explored, then the models can be used as a reference by companies that do not have the ideal model and used as an additional reference for local governments in determining the minimum wage to avoid as much debate and conflict between employers and workers. Especially if the aspirations of the workers.

Objective this research to determine the wages models applied by the company which is expected to provide a wide range of reference models in different strata of wage and cluster companies. The results of this study will help the local government provide reference as a factor in determining the minimum wage policy ideal. In order for the investment climate in Batam is maintained.

2. LITERATURE REVIEW

Milkovich et al. (1999) suggested that compensation is referring to all forms of acquisition finance, services and benefits that employees receive as part of employment relationships. Form of payment consists of the amount of compensation and in connection therewith, such as learning opportunities, status, job challenges and others that are psychological. Compensation is more transactional in nature, such as direct payments (e.g., base salary, achievement,

incentives, cost of living) and the payment is not directly as retirement benefits, health insurance, program balance between work and life, and uniforms.

Ruky (2002) describe two major groups namely exchange of direct and indirect remuneration. Direct remuneration consists of salary or base salary, cash benefits as a supplement wage/salary received each month or week, a religious holiday allowances and salaries to 14, 15 and so on, bonuses associated or not associated with job performance or the performance of the company, the incentive as awards for achievements including a commission for the sales force, and any kind of division of power supply (in-kind) received routine. While indirect remuneration consists of facilities/conveniences such as transportation, health care, wages or salary that was accepted by the worker/employee during the leave and permission to leave work, donations to the disaster, tuition assistance, social security contributions, pension funds, and life insurance.

Determination of the composition of remuneration is very important because the determination of the composition of the compensation is part of the strategy and policy of the company although some are set by the government through legislation such leave, license, pension funds and occupational accident insurance. The composition of the compensation should follow and support the corporate strategy. Companies that want to push the performance and productivity of employees should increase the number of components of direct compensation in the form of incentive or bonus gift is fully associated with individual performance, company performance and productivity (Ruky, 2002). It is inevitable that direct compensation greater impact on morale, motivation and productivity of labor. Fessler (2003), also supports that the financial rewards are still effectively improve the performance, especially when the task is less complex and are considered unattractive.

Law no. 13/2003 explained that the wage is the right of workers received and expressed in terms of money as a reward from the employer or the employer to workers are set and paid by an employment agreement, agreements or regulations, including allowances for workers and family for a job and services that have been or will be made. Obvious that the wages or compensation from the company to its employees can be obtained in the form of cash or non-cash, which aims to pay for services that have been performed by the worker to the company because of the employment relationship.

Several studies have shown an association between upahdangan compensation or performance of the company, and may also have an impact on public welfare (Addison et al., 2013; Alaniz et al., 2011; Ewing, 1996; Fessler, 2003). However, if the wage received by workers can not meet their needs, it is feared will degrade the performance of the employee and the company. Therefore, the government must also play a role in determining a fair wage for workers in the country. The minimum wage is expected to increase the welfare of society. Bird and Manning (2008) shows that on the one hand the increase in the minimum wage can indeed public welfare, but it is only 21%, because the balance of 79% is

the potential loss of jobs. Thus, efforts to increase the minimum wage may not be used as a tool to alleviate poverty in developing countries such as Indonesia.

Boeri (2012) examine the minimum wage in 66 developing countries and the results show that the minimum wage by the government is always lower or below the minimum wage demanded by workers because the government considers that the unemployment rate may be due to the higher minimum wage. The theory used is the theory of equilibrium between the elasticity of labor demand and presence of unemployment benefits on setting of minimum wage. The decision on the minimum wage should consider the impact on the economy as a whole, especially in terms of reducing unemployment. But also be aware of the needs of workers, and to know for certain the desire of workers it needs in the exploration of what their needs are and what the company has given to them. Analysis conducted Alghofari and Pujiyono (2011) showed the unemployment rate in Indonesia has increased from 1980 to 2007.

3. RESEARCH DESIGN

Most companies do not want to provide information related to the system of wage or salary in the company, especially if the survey by mail. Generally, the response rate is very low and dependent upon individual responses for the data (Hageman, 2008). To the researchers used survey method using a semi-open questions. The ways is by prepare a sheet of closed questions but provided a statement of the form fields and expectations so as to facilitate the participants to explore a deeper response from participants. This research is a case study carried out to several companies (multiple cash). The aim is to ensure that the data obtained is more common because it is at if from the input of various cases in the enterprise (Hancock and Algozzine, 2006).

The target participants are the head of the company or part of human resources (HR) management to explore the system represents wages and salaries in the company as well as the basis for setting the system. Then, to confirm the results of the survey was also conducted on the employees part of the production/operasioan section to find out how the wage system and the expectations of improved production systems of this section. This part of the survey is completely done on the lower level employees in a company and next is the administration part is a supporting part of company operations. Therefore in this section pengupahannya systems usually differ from production, the researchers also prioritize for confirmation on the wage system for the administration of the company. In such a case survey method, confirmation of the survey needs to be done to ensure the validity of the data and to dig deeper into the problem in order.

Questions are also adapted to the wage system in two parts, that is the question to production and the question to administration. The survey questions were developed from existing theory of compensation as of Baker et al., 1988; Fowler, 2006; Gerhart and Bretz Jr, 1994; Mahoney, 2008; Milkovich et al., 1999; Ruky, 2002; Queshi et al., 2014. At the beginning of the interview participants were asked about the identity of the participants of data such as

name, age, gender, company name, position in the company, and email address. The core question about the prevailing wage system in the company to the administration and to production, as well as questions about the factors that influence the adoption or change in a company's compensation system. Confirmation question to the administration and the academic part is almost the same as the question to the HRs department, but was not accompanied by a question the factors that influence the establishment and change the wage system, and they obtained additional questions, that is about their satisfaction with the existing wage system. The research used analytic induction to analyze the data and presented the results in this case study (Willis, 2007; Yin, 2014). Data from the survey questions and record the answers of the participants in the resume, then in conformity analysis results with theory.

4. RESULTS AND DISCUSSION

4.1. Description of Data

Description of data profile from 17 company as a sample consist of 10 electronic company, 1 offshore equipment company, 2 fishing tools company, and remaining piping, medical tools and medical tools company. On the other hand, amount of employee consist of permanent employee, contract employee and outsourcing. Amount of permanent employee is dominan from the others. And then, size of company as a sample were company with medium and big i.e., with capital more than 500 million. Almost all company are foreign investment, only one company is domestic investment.

Profile of respondent from company exactly respondent representing management to relationship with employee like HR department. out of 17 respondents 11 were males (64.71%) and 6 were females respondents (35.29%). Position of respondents in their organization consist of only 1 as manager, 7 respondents as HR, 1 respondent as HR supervisors 1 respondent as HR assistant, 3 respondents as HR staff, 1 respondent as HR officer, 2 respondents as officer, and 1 respondent as staff.

Position in their organization consist of project manager, accounting and tax, HR officer, staff, clerk, supervisor, logistic, QA/QC, and IT staff. The amount of respondent each position evenly on each section. Only staff and clerk have dominan respondents. The data from production staff consist of 9 male and 8 female respondents. Respondents' position for production staff in their organization consist of technicians, operator, leader production, weloer, ship mark and stamp, assistant supervisor, and manufacturing engineer. Dominant respondent were position as operator and leader production. Table 1-4 provides the descriptive statistics of the respondents.

4.2. Wages System of Administration Employee

Average point 1 shows that nearly all companies implementing such systems. Conversely, if the average close to 0, it means that only a small portion of the company implementing the wage system. The first financial compensation, fixed salary, health insurance, insurance for accident and death, and holiday allowance have point 1, it is mean all company used this system for administration employee. The smallest point (0) is education allowance for children, all company does not apply this system.

Table 1: Profile of company

Demographic	Item	Frequency	%
Type of business	Electronics	10	58.82
	Offshore equipment	1	5.88
	Fishing tools	2	11.76
	Metal stamp	1	5.88
	Piping	1	5.88
	Medical tools	1	5.88
	Plastics	1	5.88
Amount of Employee	Permanent employee		
	<100	5	29.41
	>100-1000	10	58.82
	>1000	2	11.76
	Contract employee		
	<100	1	5.88
	>100-1000	11	64.71
Size of company	>1000	5	29.41
	Outsourcing employee		
	<100	2	11.76
	>100	15	88.24
Type of capital	<50 million	0	0
	>50-500 milliom	0	0
	>500 million-10 billion	3	17.65
	>10 billion	14	82.35
Type of capital	Domestic investment	1	5.88
	Foreign investment	16	94.12

Table 2: Profile of respondents (HR)

Demographic	Item	Frequency	%
Gender	Male	11	64.71
	Female	6	35.29
Position in organization	Manager	1	5.88
	HR	7	41.18
	HR supervisor	1	5.88
	HR assistant	1	5.88
	HR staff	3	17.65
	HR officer	1	5.88
	Officer	2	11.76
	Staff	1	5.88

HR: Human resources

The next non-financial compensation, the higher point are working facility, working positions according to competency, harmonious co-workers, and leadership quality. The lower point is housing facility, vehicle facility, and flexible working time all under 0.5. In addition, the other compensation like bonus if target achieve, additional compensation and reduction compensation if work beyond normal working hours or less than the normal working hours, and annual incentive if company obtain gain has been implemented by more than half of the sample firms. The remaining finalty if performance does not match the target, incentive from effectiveness of the work and an incentive in the form of stock ownership, only applied to a small portion of the company. Even for incentives in the form of shares applied by one company only.

Generally, the company has implemented almost all of the wage system for administration employee. Only a few small parts that have not been applied (i.e., incentive in based on the effectiveness of the work, incentive in the form of stock, and financial incentive form education allowance for children). The third incentive is an incentive to maintain long-term employee loyalty, if applied properly will greatly help improve the performance of the company

Table 3: Profile of respondents (adminsitration staff)

Demographic	Item	Frequency	%
Gender	Male	5	29.41
	Female	15	88.24
Position in organization	Project manager	1	5.88
	Accounting and tax	2	11.76
	HR officer	2	11.76
	Staff	6	35.29
	Clerk	4	23.53
	Supervisor	1	5.88
	Logistic	1	5.88
	QA/QC	2	11.76
IT staff	1	5.88	

Table 4: Profile of respondents (production staff)

Demographic	Item	Frequency	%
Gender	Male	9	52.94
	Female	8	47.06
Position in organization	Technisi	2	11.76
	Operator	6	35.29
	Leader production	4	23.53
	Superintendent production	1	5.88
	Weloer	1	5.88
	Ship mark and stamp	1	5.88
	Assistant supervisor	1	5.88
Manufacturing engineer	1	5.88	

in the long-term. Administration employee have expectations to get meal allowance, attendance allowance, annual bonus, functional allowance, and maternity leave. These allowance are expectation administration employee from some company.

4.3. Wages System of Production Employee

Results of wages system of production employee disclosure in Table 5. The first financial compensation, fixed salary, transfertation allowance, pension, health insurance, insurance for accident and death, and holiday allowance have point close to 1 (one), it is mean many company used this system for production employee. The same with wages system for administration employee, the smallest point is education allowance for children, that are almost all company does not apply this system. The second, for non-financial compensation, the higher point are working facility, working positions according to competency, harmonious co-workers, and leadership quality. The middle point are traning and education for employee, and recreation. And then, the lower point is housing facility, vehicle facility, and flexible working time all under 0.5. In addition, the other compensation like bonus if target achieve, additional compensation and reduction compensation if work beyond normal working hours or less than the normal working hours has been implemented by more than half of the company. And then, remaining finalty if performance does not match the target, incentive from effectiveness of the work, obtain incentives based on the number of units per group and an incentive in the form of stock ownership, only applied to a small portion of the company. More than 50% company implemented minimum wages base minimum wage without concern the target. Finally, also more than half company used minimum wage as basic to determine salary.

As a conclusion, similarly with wages system for administration employee almost all of the wage system for production employee

Table 5: Wages system of production employee

Statements	Average
Financial compensation	
Fixed salary	1.00
Residence allowance	0.35
Transportation allowance	0.76
Communication allowance	0.12
Family allowance	0.18
Education allowance for children	0.06
Healthy allowance	0.06
Health insurance	0.94
Insurance for accident and death	0.94
Pension or retirement	0.82
Holiday allowance	0.94
Non-financial compensation	
Training and education for employee	0.65
Recreation	0.59
Fleksibel working time	0.18
Working positions according to competency	0.76
Working facility	0.88
Leadership quality	0.94
Harmonious co-workers	0.94
Housing facility	0.24
Vehicle facility	0.12
Receive an incentive or bonus if the target achieved	0.65
Receive finality if performance does not match the target	0.41
Receive additional compensation if work beyond normal working hours	0.94
Get a reduction in compensation if working less than the normal working hours	0.65
Obtain incentives based on the effectiveness of the work (not wasteful use of materials, equipment and use proper procedures)	0.29
Obtain monthly salary of minimum wage if his work did not reach the target	0.59
Obtain monthly salary of minimum wage if the results of its work to achieve the target	0.56
Obtain monthly incentive based production unit if the results of his work over the target	0.12
Obtain incentive bonuses based on working time saved	0.12
Obtain incentives based on the number of units/time bonus of labor saved by considering the quality of his work	0.35
Obtain incentives based on the effectiveness of the work (not wasteful use of materials, equipment and use proper procedures)	0.24
Receive an incentive in the form of stock ownership If the company makes a profit	0.06
Obtain incentives based on the number of units per group	0.12
The company applies the minimum wage as the basis for determining the base salary without regard to performance	0.76
The company applies the determination of the basic salary plus performance incentives, to provide minimum wage	0.53
The amount of base salary and employee incentives to production of higher minimum wages set by the government	0.71

in Table 6 has implemented. Only a few small parts that have not been applied (i.e. incentive in based on the effectiveness of the work, incentive in the form of stock, incentive based the number units per group and financial incentive form education allowance for children). Under on open question about expectations, production employee have expectations to get meal allowance, attendance allowance, and functional allowance. These allowance are expectation administration employee from some company.

Table 6: Wages system of administration employee

Statements	Average
Financial compensation	
Fixed salary	1.00
Residence allowance	0.59
Transportation allowance	0.76
Communication allowance	0.47
Family allowance	0.24
Education allowance for children	0.00
Healty allowance	0.59
Health insurance	1.00
Insurance for accident and death	1.00
Pension or retirement	0.88
Holiday allowance	1.00
Non-financial compensation	
Training and education for employee	0.65
Recreation	0.59
Fleksibel working time	0.41
Working positions according to competency	0.88
Working facility	0.94
Leadership quality	0.88
Harmonious co-workers	0.94
Housing facility	0.35
Vehicle facility	0.41
Receive an incentive or bonus if the target achieved	0.53
Receive finality if performance does not match the target	0.29
Receive additional compensation if work beyond normal working hours	0.59
Get a reduction in compensation if working less than the normal working hours	0.59
Obtain incentives based on the effectiveness of the work (not wasteful use of materials, equipment and use proper procedures)	0.12
Receive an annual cash incentive if the company makes a profit	0.65
Receive an incentive in the form of stock ownership if the company makes a profit	0.06

4.4. Factors Affecting the Establishment and Amendment Wage System

Table 5 show of factors affecting the determining and amandement wage system. The dominant factor is cost of living, followed by seniority, work experience, and education, employee performance, company financial, government regulations, inflation rate, market rate, type of work, union companies, and demand and supply of labor. In contrast, individual performance and group performance, as well as condition of the economy a country does not important consideration to determinant wage system.

Living cost, employee performance, ability of financial company, seniority, work experience, government regulations, and inflation rate are dominan determine factor to setting wage system. Point for government regulation approximately 76% show that government have important role to wage system in a company. Thus, government should understand how about compensation/ wage system is implemented.

4.5. Employee Satisfaction

Perceptions on the employee satisfaction in Tables 7 and 8. Table 7 result of perceptions on the administration employee satisfaction. And Table 8 show of perceptions on the production employee satisfaction. On average 5 shows that nearly all respondents

satisfied with these systems. Conversely, if the average close to 0, it means that only a small portion of respondents does not

Table 7: Factors affecting the establishment and amendment wage system

Statements	Average
Determination of compensation notice of demand and supply of labor	0.53
Determination of compensation depending on the condition of the country's economy	0.29
Determination of compensation is affected by the strength of the union companies	0.56
Determination of compensation is affected by the ability of the company's financial	0.79
Determination of compensation the company's compensation policy attention as the leader of pay, pay-follower, and market rate	0.74
Compensation pay attention to the production and/or employee performance	0.82
Cost of living affect the determination of compensation	0.91
Determination of compensation is affected by government regulations such as minimum wage laws	0.76
If the company has set pay increases at a certain percentage, the company will adjust salaries to changes in the inflation rate	0.74
Seniority, work experience and education affect the determination of individual employee compensation	0.85
This type of work (such as operational or administrative or managerial) influence the determination of individual employee compensation	0.65
Individual performance and group performance into consideration in providing incentives	0.47

Table 8: Perceptions on the employee satisfaction (administration employee)

Statements	Average
Employees are satisfied with financial compensation system applied by the company	2.36
Employees are satisfied with the non-financial compensation system applied by the company	2.79
The system of financial compensation the company has provided justice for employees	2.71
Financial compensation applied have increased employee motivation	2.71
Applied to non-financial compensation have increased employee motivation	2.79
Compensation is based on the amount of production will increase employee motivation	3.21
Compensation is based on labor time savings will increase employee motivation	2.57
Compensation is based on the quality of work will improve employee motivation	3.79
Compensation is based on the effectiveness of the work will increase employee motivation	3.71
Compensation in the form of fixed allowances will increase employee motivation	4.00
Take home pay of minimum wage consists of basic salary plus incentives of the number of units of production or excess hours of work will increase employee motivation	4.00
If the basic salary equal to the minimum wage will increase employee motivation	2.93

satisfied with these wage system. The bigger satisfaction for administration employee are compensation in the form of fixed allowance and incentive base the number of unit of production or excess hours work. Only, financial compensation system applied by the company have score under average that is 2.36.

The bigger satisfaction for production employee in Table 8 are compensation in the form of fixed allowance and incentive base the number of unit of production or excess hours work. All perceptions production employee satisfaction have score upper average that is 2.5. It is means that production employee satisfied with wage system is implemented (Table 9).

5. CONCLUSION AND SUGGESTIONS

This papers investigate wages system in manufacturing company for administration employee and production employee. Survey conduct to obtain information about wage system is implemented to HRs, administration employee, and production employee. Semi open questioner intended for obtain wages system from company and development expectations wage system from employee and company. In addition, obtained information about the factors to determine and exchange a wage system, and factors influence employee satisfaction.

The result of this study provides information that wage system such as financial compensation, non-financial compensation, insentive based performance, and wage under minimum wage according government regulation has implemented by company average more than half of the company. Several wage system

Table 9: Perceptions on the employee satisfaction (production employee)

Statements	Average
Employees are satisfied with financial compensation system applied by the company	2.88
Employees are satisfied with the non-financial compensation system applied by the company	2.94
The system of financial compensation the company has provided justice for employees	2.88
Financial compensation applied have increased employee motivation	3.12
Applied to non-financial compensation have increased employee motivation	2.76
Compensation is based on the amount of production will increase employee motivation	3.41
Compensation is based on labor time savings will increase employee motivation	3.06
Compensation is based on the quality of work will improve employee motivation	3.47
Compensation is based on the effectiveness of the work will increase employee motivation	3.41
Compensation in the form of fixed allowances will increase employee motivation	4.00
Take home pay of minimum wage consists of basic salary plus incentives of the number of units of production or excess hours of work will increase employee motivation	3.65
If the basic salary equal to the minimum wage will increase employee motivation	2.94

that has not been popularly applied as such incentive the form stock, education for children allowance, and incentive base group, should be developed for this system will ensure employee loyalty. In addition, government regulation factors is determinant factor to set wage system. Thus, government should used this research to make policy minimum wage in the city or region. Employee satisfaction for administration employee lower than production employee. This is may be due to administrative employees only get a fixed salary and are not paid based on the unit's performance. However, result the research may be do not detail about wage system in a company. So, possibility to develop this research using other methodology like ethnographic field study to obtain real data from the company.

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