

## Analysis of the Compensation System in Indonesia

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**Abstract.** *This article analyzes the wage system in Indonesia by examining its historical development, regulatory framework, and Islamic perspective. Wages are a fundamental right of workers that function not only as compensation but also carry social, economic, and legal dimensions. The history of wages in Indonesia reflects a long journey from the discriminatory practices of the colonial era to the introduction of minimum wage policies in the 1970s, which have since evolved under recent regulations such as Government Regulation No. 36 of 2021. This study employs a qualitative approach using library research from academic literature, legal frameworks, and expert opinions. The findings show that Indonesia applies various wage systems, including time-based, output-based, and contract-based systems, all of which emphasize fairness, certainty, and the protection of workers' rights. Factors influencing wage determination include labor supply and demand, productivity, living costs, labor unions, company capacity, and government regulation. Nevertheless, challenges remain, such as the wage gap between formal and informal sectors, weak enforcement of regulations, and the insufficiency of minimum wages to meet decent living standards. From an Islamic perspective, wages are seen as a moral obligation that must be delivered fairly, promptly, and with respect for workers' dignity. Therefore, a balance between government regulation, business capacity, and workers' rights is essential to create harmonious industrial relations and ensure shared prosperity.*

**Keywords:** *Wage System; Minimum Wage; Labor Regulation; Islam; Workers' Welfare.*

## INTRODUCTION

Wages and labor in economic theory are closely related to labor, which is one of the important factors of the four factors of production. Especially in the capitalist system, labor is more valued as a type of commodity or capital goods that will generate new value for the commodity products created. Based on this concept, the gap between the interests of the new and the wages given. To him, as well as the interests of entrepreneurs with their profit targets in production, are often triggers. The occurrence of labor problems often ends with time and conflicts. The mass mobilization actions carried out by the Labor Union on every Labor Day indicate that there is not enough room for negotiation or negotiation for workers, the mobilization of the time which is formatted in the form of demonstrations is held over a long period of time and is attended by workers (members of the Trade Union) in large numbers, as happened in 2014 and 2015 in Jakarta and other areas which often ended in clashes (Ghofur, 2020).

Every citizen basically has a desire to live and work. Properly in order to get a prosperous life. A prosperous life is a right for. Every citizen. Every right starts from an obligation, so every citizen has. The obligation to achieve a prosperous life. He explained that life is prosperous. It is achieved by fulfilling obligations as a workforce. This is also stated in the 1945 Constitution article 27 paragraph (2), that every citizen has the right to a decent job and livelihood (Gani, 2017).

The novelty of the research on "Analysis of the Compensation System in Indonesia" lies in its comprehensive examination of Indonesia's wage system, from its historical development

to its current challenges. The study offers a unique perspective by integrating Islamic views on wages, emphasizing the moral obligations of employers to provide fair compensation that respects workers' dignity. The research highlights the balance between government regulations, business capacity, and workers' rights, an area that has not been adequately addressed in previous studies. The study also explores how various wage systems, such as time-based, output-based, and contract-based models, impact workers' welfare, shedding light on the persistent wage gaps between formal and informal sectors. Its findings contribute to the ongoing discourse on fair labor practices, offering valuable insights for policymakers, employers, and labor unions to improve industrial relations and worker welfare in Indonesia.

## **MATERIALS AND METHOD**

This study used a qualitative approach with a literature study method. Data was obtained from various secondary sources such as books, scientific journals, laws and regulations, and literature related to wages and employment. Describe the basic concept of wages according to laws and regulations, the views of experts. such as Law No. 13 of 2003 concerning Manpower, Government Regulation No. 36 of 2021 concerning Wages, and other related policies. Describe the history of the development of the old order wage system, the new order, the reform era and the latest policies. This method was chosen because it is suitable for exploring concepts, regulations, and normative perspectives regarding wages.

This research is expected to be an input for policy makers, employers, and workers in creating a fair wage system, in accordance with the principles of justice, certainty, and protection of workers' rights. In addition, this research is expected to encourage a balance between government regulations, the capabilities of the business world, and the fulfillment of workers' rights so that harmonious industrial relations and common prosperity can be realized.

## **RESULTS AND DISCUSSION**

### **Definition of Wages**

Salary, in the context of work in Indonesia, is considered a fundamental right for workers that is given in exchange for services received by employers. This means that salary is not just a number, but a right that exists in a legal employment relationship, and must be paid clearly and regularly. The main source of this concept can be found in the Employment Law No. 13 of 2003 as well as additional explanations in the labor law literature in the country (Indonesia, 2018). Generally, salaries are determined and awarded in accordance with employment contracts, collective agreements, or applicable laws. This rule provides certainty for employees about the amount, method, and timing of salary payments, so that employees' financial rights are protected through a clear legal system. This focus on how agreements and regulations are made is also often a topic in salary comparison research in Indonesia (Fajriati, 2021).

Salary not only includes basic salary, but also financial support offered to help the welfare of employees and their families. Different salary elements, including basic salaries as well as a variety of fixed and variable benefits, are created to describe workers' levels of employment, additional hours, and living needs. In-depth analysis of the types of salaries and benefits is abundant in academic studies and employment practices at the national level (Akbar & Ismatiah, 2024).

Wages are an important concept in employment relationships that have been defined by

various figures and experts with several complementary perspectives. According to Sadono Sukirno, wages are payments to manual workers whose jobs move around as well as rewards for physical and mental labor services provided to employers. In addition, Hj. Afzalur Rahman defines wages as the price of labor paid for services in production, while Hendrie Anto views wages as compensation given to workers in return for their services (Sukirno, 1994).

Furthermore, according to H. Hasibuan, wages are remuneration for services that are paid periodically to permanent employees who have guarantees and certainty (Hasibuan, 2012). Meanwhile, Rocky defines wages as acceptance from employers to workers in return for work determined based on agreements or laws and regulations. Hadi Poernomo explained that wages are the total amount paid in lieu of labor services in a certain period of time (Poernomo, 2019). The National Wage Research Council states that wages are rewards given as a guarantee of humanitarily viable survival and production, usually in the form of money and under employment agreements (Kadarisman, 2012).

### **History of Wages**

The concept of wages in return for work began to develop significantly during the Industrial Revolution in the 19th century when there were major changes in the world of work. Industrial developments cause workers to be exploited with low wages and poor working conditions. In response to this injustice, trade unions were first formed in England in 1812 as a forum for the struggle for workers' rights. One of the early achievements of this movement was the establishment of 8 hours per day by the International Labour Organization (ILO) in 1919, which was later adopted globally (Khaeron, 2025).

Workers' protection demands continue on the issue of minimum wages in several countries that were first implemented in New Zealand in 1894. Australia followed in the early 20th century, followed by Britain in 1909, and the United States with the passage of the Fair Labour Standards Act in 1938 which introduced the official minimum wage as part of major social reforms. After World War II, the concept of a minimum wage became more widely accepted thanks to the ILO's push to promote the setting of a minimum wage based on the needs of a decent living and the economic conditions of each country (Riansyah, 2025).

The history of wages in Indonesia began in the colonial period with low and unwritten wages, continuing to the period of independence with the recognition of labor rights, the establishment of an initial minimum wage in the 1950s (Riansyah, 2025). Although formal regulations had not been created at that time. The determination of the minimum wage began to be enforced on a limited basis in the early 1970s through a decree of the Minister of Manpower of the Republic of Indonesia involving the National and Regional Wage Book Council. The implementation of the minimum wage as a policy has gone through important discussions and workshops in the mid-1970s that have been the basis of the concept of the minimum wage until now (Ghofur, 2020).

Minimum wage policies continue to change, including the decentralization of wage setting and formulas that take into account inflation and economic growth (Zaenal, 2025). After the 1998 Reform, the wage setting system became more transparent and democratic through the Wage Council which was attended by representatives of the government, employers, and trade unions. In 2003, the government passed Law No. 13 of 2003 concerning Manpower which regulates in detail the minimum wage, namely the Provincial Minimum Wage (UMP) and the

Regency/City Minimum Wage (UMK) as a development of the previous UMR (Riansyah, 2025).

In addition, wage regulations are further strengthened by Government Regulation No. 36 of 2021 as part of the Job Creation Law, which encourages minimum wage adjustments based on inflation, the need for a decent living, and economic growth. The government also regulates a periodic wage review mechanism and involves tripartite to maintain a balance between the needs of workers and the capabilities of the business world (Riansyah, 2025).

### **Various Wage Systems**

The wage system in Indonesia is regulated by law and aims to provide a decent wage for workers to meet the needs of life, with the main legal basis of Government Regulation No. 36 of 2021 concerning Wages. There are various wage systems such as time units (monthly, daily), revenue units, and wholesale, which are required to comply with the regional/provincial minimum wage (UMP/UMK) and the principle of justice without discrimination. In addition, the government and employers are required to ensure that workers receive wages according to the agreement, should not be detained, and should not be paid under the provisions of the law (Alvian, 2023).

In Indonesia, there are various wage systems that are implemented, but the most commonly used include:

a. **Time-Based Wage System**

Wages are determined based on the duration of work, such as hourly, per day, per week, or per month. This system is usually used when work performance is difficult to measure in units of output. Therefore, the amount of wages is only calculated based on the length of work carried out.

b. **Output-Based Wage System** This system provides wages calculated based on the number of units of product produced by workers, for example per piece, meter, liter, or kilogram. Thus, the amount of workers' income is based on the volume or number of work that has been made.

c. **Wholesale Wage System**

In this system, wages are calculated based on the total volume of work and pre-agreed work time. The amount of wages is directly linked to the amount of production produced. The accuracy of the calculation of wholesale costs is an important factor in determining the amount of wages received (Ghofur, 2020).

From these various factors and wage systems, it can be seen that the wage mechanism is carried out based on the results of work (output) in a certain period of time, and the nominal amount of wages received is determined by the results and how well the work performance obtained by the worker (Ghofur, 2020).

In addition, there are variations of other systems such as bonus wages for outstanding employees and wage scale systems. The bonus wage system is a method of remuneration that is only applied at certain times, for example when an employee successfully achieves a predetermined target during a certain period or when an employee achieves performance in the annual performance appraisal. Due to these conditions, the company gives bonuses as rewards to employees who meet these criteria. In this system, not all employees get the same amount of bonus at a certain time or condition. In fact, there are employees who do not get bonuses at

all if they do not meet the requirements set by the company (Lathifa, 2022).

In the changing wage scale system, there is a direct relationship between the amount of wages and the selling price of the company's products. This method of wage is usually applied to companies whose prices are largely dependent on the international market. Thus, the amount of wages received by workers will fluctuate according to the fluctuations in the selling price of the company's products (Gani, 2017).

The main principle in the wage system includes the implementation of payments that must be in accordance with the agreement between workers and employers and comply with the provisions of applicable law. Wages must be done fairly without discrimination against anyone, and ensure that workers with work of equal value receive equal wages. Wage payments must be made in the country's official currency, namely Rupiah, with certainty of payment timing. In addition, wage deductions are only allowed if they are in accordance with applicable regulations. The rights of workers who are on leave must also be guaranteed by providing decent wages. All of these principles are designed to protect workers' rights while creating justice in industrial relations (Kholqiana, 2024).

Factors that affect the determination of the wage rate:

- a. Labor supply and demand  
Wages are high if jobs require scarce skills, and low if labor supply is plentiful.
- b. Labor organizations  
Strong trade unions increase workers' bargaining positions so that they can raise wages.
- c. Company capabilities  
The company is only able to provide wages according to its financial capabilities so as not to lose money.
- d. Employee productivity  
The higher the performance of the worker, the greater the wages received.
- e. Cost of living  
Wages are adjusted to the cost of living in the area, especially in expensive big cities.
- f. Government  
Through regulations, the government determines the minimum wage limit that must be paid.
- g. Internal and external consistency  
The wage system is fair if it considers fairness within the company and with other similar companies (Ghofur, 2020).

For 2025, the government has set an average minimum wage increase of 6.5 percent nationally. This increase is designed to maintain the purchasing power of workers while still paying attention to the competitiveness of the business world. The calculation of the minimum wage increase is based on a combination of factors of inflation, economic growth, and the contribution of labor to the economy by taking into account the balance between the interests of the company and the workers. The latest regulation also regulates the calculation formula that must be followed in determining the provincial and district/city minimum wage (DA, 2024).

### **Hadith About Wages**

The hadith of the Prophet (peace and blessings of Allaah be upon him) about wages narrated by Abu Dzar that the Prophet s.a.w said (Caniago & Ganesha, 2018):

"They (your slaves and servants) are under your brother, Allah places them under your master; so that whoever has a brother in his care should be fed as he eats (himself) and what clothes he wears (himself); and do not burden them with a very heavy task, and if you burden them with such a task, then help (to do it)." (HR. Muslim).

This hadith emphasizes that the wages given in the life of the world must reflect the guarantee of meeting the basic needs of workers, especially in terms of food and clothing. The statement "he must be fed what he eats (himself) and what clothes he wears (himself)" means that the wages received by an employee are not just a financial reward, but must be sufficient to ensure the fulfillment of his basic needs, namely proper food and adequate clothing according to a healthy and dignified standard of living. Thus, wages are not only a nominal matter, but must also reflect the aspects of honor and welfare of workers, so that they can live a decent and economically stable life (Caniago & Ganesha, 2018).

If the wages given are not able to guarantee these needs, then this is contrary to the principle of justice recommended in the teachings of Islam, as mentioned in this hadith. Thus, wage providers are obliged to pay attention to the aspects of the sufficiency and security of workers' lives so that their rights are fulfilled comprehensively, not just numbers on paper. This concept is also relevant in the setting of the minimum wage so that workers can meet their basic needs without having to live in conditions of economic scarcity or uncertainty (Caniago & Ganesha, 2018).

In another hadith, narrated from Mustawrid bin Shadad, the Prophet s.a.w said (Caniago & Ganesha, 2018): "He who is ready to be a worker for us, let him find a wife (for him); A servant if he does not have it, let him find it for his servant. If he has no place to live, he should find a place to live. Abu Bakr said: It was reported to me that the Prophet Muhammad (peace be upon him) said: "Whoever takes a different attitude, then he is an outrageous or a thief." (HR. Abu Daud).

This hadith emphasizes that the need for housing or board is a basic need that must be met for every employee. Not only that, the employer's responsibility in Islam also extends to the personal and social aspects of employees, including assisting in marriage matters for single employees. This is strengthened by the view of Dr. Abdul Wahab Abdul Aziz As-Syaisyani in his work *Huququl Insan Wa Hurriyyatul Asasiyah Fin Nidzomil Islami Wa Nudzumil Ma'siroti*, who states that employers are obliged to help employees in finding a life partner. This statement is based on the understanding that having a wife is not only a social need, but an essential basic need for employees to be able to build a harmonious and balanced family life (Caniago & Ganesha, 2018).

Thus, the employer's responsibilities in the context of sharia are not only limited to providing wages or meeting material needs such as food and clothing, but also include meeting the social and emotional needs of employees related to family stability and home life. This shows that in the Islamic concept, the welfare of workers is measured comprehensively including physical, psychological, and social aspects to ensure that workers can live a dignified life and have their rights comprehensively fulfilled. Employers who fulfill this obligation not only support employees individually, but also contribute to the stability and harmony of society more broadly (Caniago & Ganesha, 2018).

## CONCLUSIONS

Indonesia's wage system has progressed from colonial-era discrimination to contemporary regulations like Law No. 13 of 2003 and Government Regulation No. 36 of 2021, which promote time-based, results-oriented, and wholesale pay structures grounded in justice and worker protection. Key determinants include labor supply, productivity, living costs, and government welfare support, yet challenges persist, such as wage disparities between formal and informal sectors, inadequate enforcement, and minimum wages falling short of decent living standards. From an Islamic viewpoint, wages constitute a moral duty to be fair, timely, and sufficient for workers' basic needs, as per prophetic hadith, necessitating equilibrium among government rules, business capacities, and workers' rights for balanced industrial relations and collective prosperity. Future research could empirically assess the integration of Islamic wage principles into Indonesia's labor policies through comparative case studies of provinces with strong religious adherence, evaluating impacts on wage equity and worker welfare.

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