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STRATEGIC TRANSFORMATION OF COMPENSATION SYSTEMS IN INDONESIA AFTER THE JOB CREATION LAW: A LITERATURE REVIEW

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Abstract
The compensation system in Indonesia is undergoing a paradigmatic transformation in line with the enactment of Law Number 11 of 2020 concerning Job Creation. The shift in philosophy from the dominant protective approach in Law Number 13 of 2003 to a paradigm based on flexibility and productivity opens up strategic space for organizations to redesign their compensation architecture. This study aims to analyze how the three pillars of modern compensation traditional bases for pay, incentive pay, and person-focused pay can be coherently integrated within the new regulatory framework. The research uses a qualitative approach with the type of library research. The data sources consist of Indonesian regulatory documents as primary data and textbooks and international scientific journals as secondary data, which are analyzed using thematic content analysis techniques. The validity of the data is ensured through source triangulation and methodological triangulation. The results of the analysis show that the three pillars are complementary and not substitutive. Traditional bases for pay serve as the foundation of internal justice and regulatory compliance, incentive pay acts as a strategic alignment mechanism between individual contributions and organizational goals, while person-focused pay is a long-term human capital investment instrument. The integration of the three requires a balance between internal consistency and market competitiveness formalized in Company Regulations or Collective Labor Agreements. The practical implications of this study confirm that sustainable competitive advantage in the post-Job Creation Law era can only be achieved through a compensation system that is at the same time legal, fair, competitive, and socially legitimized.

Keywords: Strategic Compensation, Incentive Pay, Person-Focused Pay, The Job Creation Law, Wage Structure and Scale

1. Introduction

The contemporary business environment is characterized by the dynamics of increasingly intense talent competition, high labor mobility, and structural changes in industrial relations. In this context, the compensation system can no longer be seen as a mere payroll administrative function, but rather as a strategic instrument that determines an organization's ability to attract, retain, and motivate quality human resources (Milkovich, Newman, & Gerhart, 2017). This shift in perspective places compensation as one of the main pillars of sustainable competitive advantage, in line with the view that human capital is a strategic asset of modern organizations (Becker & Huselid, 1998).

In Indonesia, this transformation gained important momentum with the enactment of Law Number 11 of 2020 concerning Job Creation and its derivative regulations, especially Government Regulation Number 36 of 2021 concerning Wages. The regulation changed the wage landscape from the protective approach that was the main spirit of Law

Number 13 of 2003 concerning Manpower to an approach that was more oriented towards labor market flexibility and productivity. This paradigmatic shift opens up new space for organizations to implement a results- and competency-based wage system, but at the same time demands greater strategic responsibility in ensuring the internal fairness and social legitimacy of the compensation policies being designed.

The fundamental problem faced by organizations in Indonesia is how to integrate three compensation approaches that are often seen as stand-alone: traditional approaches based on position, tenure, and formal qualifications (traditional bases for pay); performance-based approach through an incentive pay system; and a person-focused pay approach. These three approaches have different theoretical foundations, strategic objectives, and operational implications so that they require an integrative framework to be implemented coherently (Martocchio, 2015). The challenges of integration are increasingly complex when faced with regulatory obligations such as setting minimum wages and structuring and scaling of wages.

Previous studies have tended to address each approach partially. Research on incentive pay has generally focused on the relationship between variable schemes and individual performance (Jenkins, Mitra, Gupta, & Shaw, 1998), while person-focused pay studies have largely explored the application of skill-based pay in the manufacturing industry (Heneman & LeBlanc, 2003). Meanwhile, studies that explicitly place the three pillars within the framework of Indonesian regulations, especially in the context of the post-Job Creation Law, are still very limited. This gap is an important research gap to fill considering the large practical implications for human resource practitioners and policymakers in Indonesia.

Departing from the background and gaps of the literature, this study aims to: (1) identify the conceptual characteristics of the three pillars of modern compensation; (2) analyzing the shift in compensation paradigm after the Job Creation Law; and (3) formulate an integrative framework for a strategic compensation system that is at the same time compliant with regulations, competitive in the labor market, and internally legitimized. The expected benefits of this study are twofold. Academically, this article contributes to enriching the literature on strategic compensation with an Indonesian perspective. In practical terms, the results of the review can serve as a conceptual guide for practitioners in redesigning their organizational compensation systems in the new regulatory era.

2. Theoretical Background

2.1 The Concept of Strategic Compensation

Strategic compensation is defined as an approach to designing and managing a compensation system that is explicitly aligned with the organization's business strategy and long-term goals (Martocchio, 2015). This concept differs from the traditional approach that tends to treat compensation as an administrative function that is detached from strategic direction. From a strategic perspective, every compensation decision from determining the base salary level, incentive structure, to benefits is a value signal that communicates business priorities to employees and the external labor market.

Lawler (2000) asserts that strategic compensation rests on three main principles. First, compensation should align employee behavior with organizational strategy. Second, Compensation must support the development of capabilities that are a source of competitive advantage. Third, the compensation system must be able to adapt to changes in the external environment. In this framework, compensation is not only seen as an operational cost, but also as an investment in human capital that results in returns in the form of improved organizational performance (Pfeffer, 1998).

2.2 Traditional Bases for Pay

Traditional bases for pay refers to a wage determination mechanism that focuses on job characteristics and characteristics of individuals that are relatively fixed. Milkovich et al. (2017) identified four main pillars in this approach, namely job-based pay, seniority-based pay, longevity pay, and formal qualification considerations such as education and certification. The basic logic of the traditional approach is that the value of a job is determined by the position occupied, not by the short-term outcome of work or individual potential.

Job-based pay is based on the results of job analysis and evaluation that determine the relative value of a job to other jobs in the organization. Evaluation methods such as ranking, classification, point-factor, and factor comparison are used to build a hierarchy of positions which are then translated into pay grades and wage ranges (Armstrong & Taylor, 2020). Meanwhile, seniority-based pay places the working period as the main variable in determining periodic wage increases. This approach is widely found in bureaucratic organizations and the public sector because it supports the stability of employment relationships and reduces subjectivity-based conflicts.

Although traditional approaches are often criticized for being less responsive to actual performance, this foundation remains relevant as a guarantee of internal equity, administrative certainty, and compliance with labor regulations. In the Indonesian context, traditional bases for pay are the main reference in the preparation of wage structures and scales required by laws and regulations.

2.3 Incentive Pay and Pay-for-Performance

Incentive pay is a form of variable compensation that is directly associated with the achievement of performance, work results, or the fulfillment of certain targets (Martocchio, 2015). Unlike traditional wages that are relatively fixed, incentive pay is dynamically designed to direct work behavior according to the organization's strategic priorities. The main objectives of the implementation of incentives include four pillars, namely performance improvement, strategic alignment, retention of superior talent, and cost efficiency through converting salary burdens into variable costs.

Based on the level of intervention, the incentive system can be classified into three levels. At the individual level, incentives are awarded based on personal achievement through instruments such as sales commissions, target-based bonuses, and merit pay. The main risk at this level is the emergence of negative competition and a silo mentality. At the group or team level, incentives are in the form of gainsharing and project team bonuses that encourage collaboration, but are faced with potential free rider problems. At the organizational level, incentives are in the form of profit sharing and corporate annual bonuses that foster a sense of belonging, although they have a weakness in the form of a weak line-of-sight between individual contributions and rewards received (Bloom & Milkovich, 1998).

The five key factors for the success of incentive design according to the literature include indicators that are measurable and within the control of employees, fairness and transparency of the calculation scheme, affordability of costs, conformity with organizational culture, and compliance with applicable regulations (Gerhart & Rynes, 2003). Failure to meet any of these factors can cause incentives to actually decrease motivation and cause dysfunctional behaviors such as gaming the system, data manipulation, or neglecting quality for the sake of achieving quantity.

2.4 Person-Focused Pay

Person-focused pay is a compensation approach that makes individual capabilities the primary basis of reward, rather than the position or position occupied. This approach emerged as a strategic response to the rigidity of job-based pay and the limitations of incentive pay which tends to be short-term oriented (Heneman & LeBlanc, 2003). The basic philosophy is that wages should keep pace with the development of individual capabilities as an investment in human capital.

The three main forms of person-focused pay according to Martocchio (2015) are skill-based pay, knowledge-based pay, and competency-based pay. Skill-based pay compensates based on the number and level of technical skills mastered as well as the ability to carry out various tasks or multi-skilling. This approach increases workforce flexibility and reduces reliance on a single specialist, but demands a rigorous skills certification system. Knowledge-based pay associates compensation with depth of professional knowledge, formal education, and specialized certifications, and is most relevant to knowledge-based organizations such as the technology and professional services industries. Competency-based pay places the mastery of the organization's core competencies as the basis for determining wages, including behavioral and technical competencies.

The strategic advantages of person-focused pay include higher talent retention, organizational flexibility and innovation, long-term alignment with the company's macro strategy, and fostering a culture of continuous learning. However, this approach faces implementation challenges such as difficulties in measuring competency objectively, the risk of increasing compensation costs without direct performance improvement (paying for potential), demands for maturity of the human resource management system, and the potential perception of injustice if the assessment criteria are not transparent.

2.5 Internal Consistency and Market Competitiveness

The two main dimensions of fairness in the compensation system are internal consistency and market competitiveness. Internal consistency refers to the level of fairness and alignment of compensation between positions in the organization, based on the relative value of each job (Milkovich et al., 2017). The mechanism commonly used to achieve internal consistency includes three successive stages, namely position analysis, position evaluation, and the preparation of position structure and pay grades.

Meanwhile, market competitiveness refers to the suitability of organizational compensation with external labor market practices. The goal is for organizations to be able to attract, retain, and motivate a qualified workforce. The three common strategic options available are market lag policy, which pays below the market average, a market match policy that pays below the market average, and a market lead policy that pays above the market average (Armstrong & Taylor, 2020). Policy selection the market position depends on the business strategy, financial capabilities, and characteristics of the labor market faced.

It is important to underline that internal consistency and market competitiveness are not substitutive, but complementary. The ideal compensation system combines strong internal fairness with adequate external competitiveness. Failure to balance the two can lead to internal conflicts if there is external competition but internal unfairness, or difficulty attracting talent if it is internally fair but not external competitive.

2.6 Indonesian Employment Regulation Framework

Indonesia's labor regulatory framework is the most dominant contextual context that shapes the boundaries of organizational compensation policies. Law Number 13 of 2003 concerning Manpower has historically placed compensation as part of the protection of work norms, with the minimum wage mechanism (UMP/UMK) as the floor standard and the obligation to prepare wage structures and scales based on position, working period, education, and competence.

Law Number 11 of 2020 concerning Job Creation brings an important paradigm shift. First, the basis for determining wages is expanded from just a unit of time to include units of yield and productivity, thus opening up space for the implementation of pay-for-performance legally. Second, the severance burden is simplified and partly transferred to the Job Loss Insurance (JKP), so that post-employment compensation becomes a shared responsibility between the company and the state. Third, the flexibility of the working relationship increases, encouraging a compensation system that is more adaptive to productivity dynamics. Government Regulation Number 36 of 2021 as a derivative of the Job Creation Law then affirms the obligation to prepare wage structures and scales based on position, working period, education, and competencies, as well as providing a space for contribution-based awards.

3. Methods

3.1 Research Design

This study employs a qualitative approach with a library research type. The qualitative approach was chosen because this study aims to understand in depth the phenomenon of strategic compensation system transformation in Indonesia, rather than to test hypotheses or measure variables quantitatively. The qualitative paradigm allows researchers to explore the meaning, context, and dynamics of regulatory changes and compensation practices in a holistic and interpretive manner (Creswell & Poth, 2018). This approach aligns with the characteristics of strategic compensation issues, which are multidimensional and rich in socio-legal context. The library research type is used because all data analyzed are derived from written sources in the form of secondary data. Literature study involves collecting, reading, recording, and processing materials from literature to answer research questions in depth (Zed, 2008).

3.2 Scope and Object

The scope of this research is the strategic compensation system in Indonesia, focusing on the transformation triggered by the enactment of Law Number 11 of 2020 concerning Job Creation. The object of this study consists of documents and literature relevant to strategic compensation, including Indonesian regulatory documents and academic literature. Since this is a literature review, there is no population or sample in the conventional sense. Instead, the study uses purposive selection of sources based on relevance, credibility, and currency. The literature period reviewed ranges from 2003 to 2024, covering the time span from the enactment of the Manpower Law to the implementation of the Job Creation Law.

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3.3 Data Sources

The data sources in this qualitative research consist of two main categories.

1) Primary Sources: Official regulatory documents of the Indonesian government, including:
   a. Law Number 13 of 2003 concerning Manpower
   b. Law Number 11 of 2020 concerning Job Creation
   c. Government Regulation Number 36 of 2021 concerning Wages
   d. Regulation of the Minister of Manpower Number 1 of 2017 concerning Wage Structure and Scale

   These regulatory documents hold a strategic position as primary data because they are authoritative and legally binding for compensation practices in Indonesia.
2) Secondary Sources: Major textbooks in the field of compensation with high academic authority, including the works of Milkovich, Newman, and Gerhart (2017), Martocchio (2015), and Armstrong and Taylor (2020). In addition, articles from reputable international scientific journals discussing pay-for-performance, person-focused pay, and compensation strategies were reviewed through Scopus, Web of Science, and Google Scholar databases. Academic learning materials from Strategic Compensation courses are also used as complementary resources.

3.4 Operational Definitions of Research Variables

As this study employs a qualitative literature review approach, there are no operational definitions of variables in the quantitative sense. Instead, the key concepts examined in this study are defined as follows:

Table 1. Definition of Variables

Variables	Definition
Strategic Compensation	An approach to designing and managing compensation systems explicitly aligned with the organization's business strategy and long-term goals (Martocchio, 2015)
Traditional Bases for Pay	A wage determination mechanism focusing on job characteristics and relatively fixed individual characteristics, including job-based pay, seniority-based pay, longevity pay, and formal qualifications (Milkovich et al., 2017)
Incentive Pay	A form of variable compensation directly associated with the achievement of performance, work results, or fulfillment of certain targets (Martocchio, 2015)
Person-Focused Pay	A compensation approach that makes individual capabilities the primary basis of reward, including skill-based, knowledge-based, and competency-based pay (Heneman & LeBlanc, 2003)
Internal Consistency	The level of fairness and alignment of compensation between positions in the organization based on the relative value of each job (Milkovich et al., 2017)
Market Competitiveness	The suitability of organizational compensation with external labor market practices (Armstrong & Taylor, 2020)

3.5 Data Analysis Techniques

Data analysis in this qualitative research uses qualitative content analysis with a thematic approach as developed by Braun and Clarke (2006). The analysis stages are carried out iteratively and reflectively through five phases:

1) Familiarization: Thorough reading of all sources to obtain a comprehensive initial understanding.
2) Open coding: Identifying key concepts that emerge from the text.
3) Searching for themes: Grouping codes into main themes relevant to the research question.
4) Reviewing themes: Ensuring internal coherence and differentiation between themes.
5) Defining and naming themes: Producing an integrative framework. The themes identified in this study include regulatory paradigm shifts, integration of compensation pillars, internal-external justice balance, and contextual implementation challenges in Indonesia.

Each theme is then interpreted in depth to produce a unified understanding of strategic compensation system transformation.

4. Results and Discussion

4.1 Paradigm Shift: from Protective to Productivity

The results of the literature review show a significant paradigmatic shift in the compensation framework in Indonesia. Law Number 13 of 2003 is built on the philosophy of strong protection of workers as the weaker party in industrial relations. The implication is that the wage system is protective with the main basis in the form of time and position units, a high severance burden, and strict control over the flexibility of the employment relationship. This approach effectively guarantees minimum standards of workers' rights, but tends to limit the strategic space of the organization in responding to market dynamics.

The Job Creation Law brings about a philosophical shift from protection to a balance between protection and flexibility. Table 1 summarizes the strategic comparison between the two regulatory frameworks.

Table 2. Strategic Comparison of Law No. 13/2003 and the Job Creation Law

Aspects	Law No. 13/2003 (Old)	Job Creation Law (New)	Strategic Implications
Philosophy	Strong protection (protective)	Flexibility and investment	Balancing protection and flexibility
Wage Policy	Time- and position-based	Based on time, results, and productivity	Opening up a pay-for-performance space
Severance Pay	High corporate burden	Shared responsibility (+ PDO)	Divert funds to active incentives
Wage Structure	Must be compiled	Must be compiled (more emphasized)	Strengthen certainty and transparency
Strategic Focus	Stability of the working relationship	Productivity and competitiveness	Encourage contribution-based systems

Source: Processed from Law No. 13/2003, Law No. 11/2020, and Milkovich et al. (2017)

This paradigmatic shift provides three significant strategic implications. First, organizations have more flexibility to design pay-for-performance systems based on results and productivity, as long as they do not violate minimum wage provisions. Second, funds that were previously held as severance reserves can be allocated towards active

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rewards such as performance incentives, bonuses, and benefits that have a direct impact on employee motivation. Third, the total reward is now integrated not only into the basic salary but also the state's social security, thus forming a more comprehensive reward architecture.

4.2 Integration of the Three Pillars of Compensation as a Strategic System

One of the key findings of the literature synthesis is that traditional bases for pay, incentive pay, and person-focused pay are complementary within modern strategic compensation frameworks. These three approaches answer different strategic needs but complement each other. Traditional bases for pay are the foundation that ensures internal justice, regulatory compliance, and administrative certainty. Incentive pay serves as a strategic bridge that connects individual contributions to organizational goals through performance alignment mechanisms. Person-focused pay acts as a human capital investment instrument that ensures the organization has sustainable capabilities.

The integration model that can be formulated from a literature review can be described as a three-layered structure that supports each other. The base layer is in the form of a traditional base as the foundation (about 60–70 percent of the total compensation) that provides a sense of security, fairness, and regulatory compliance. The middle layer is in the form of incentive pay (around 20-30 percent) which provides motivation and differentiation of contributions. The top layer is in the form of person-focused pay (around 10–20 percent) which encourages capability development and retention of superior talent. This proportion is indicative and can be adjusted to the business strategy and industry characteristics of the organization.

It's important to underline that person-focused pay doesn't stand alone as a single system. As emphasized by Heneman and LeBlanc (2003), this approach is complementary to the traditional pay base and incentives. Without a solid traditional foundation, person-focused pay risks facing accusations of injustice and difficulties in measurement. Without any link to incentives, this approach can lead to paying for potential without actual performance improvements.

4.3 Balance of Internal Consistency and Market Competitiveness

In addition to the vertical integration between the three compensation pillars, organizations also need to maintain a horizontal balance between internal consistency and market competitiveness. These two dimensions of justice are not trade-offs, but two sides that must be managed simultaneously. A review of the literature shows that the combination of the two results in four compensation system scenarios as summarized in Table 2.

Table 2. Matrix of Combination of Internal Consistency and Market Competitiveness

Conditions	Characteristics	Consequences
Internal Fair + External Competitive	Ideal system	Able to attract and retain talent optimally
Internal Fair + External Uncompetitive	Static system	Difficult to attract new talent from the market
Internal Unfair + External Competitive	Reactive system	Internal conflicts and jealousy between positions
Internal Unfair + External Uncompetitive	System fails	Talent loss and high turnover

Source: Adapted from Milkovich et al. (2017) and Armstrong & Taylor (2020)

To achieve the ideal system, organizations need to perform two main processes simultaneously. The first process is to build internal consistency through job analysis, job evaluation, and the preparation of position structures and pay grades. The second process is to monitor market competitiveness through salary surveys, industry reports, professional associations, and compensation consultants who provide comparative data in the form of basic salary levels, salary structures, as well as forms of incentives and benefits.

The selection of a market position policy (pay policy line) is a strategic decision that must consider three main variables, namely the organization's business strategy, financial capabilities, and the characteristics of the labor market faced. Market lag policies are suitable for resource-constrained startups that offer non-financial compensation such as equity and a unique work culture. Market match policy is the most common strategy for the majority of corporate companies looking for a safe position in the middle of the competition spectrum. Market lead policies are generally implemented by industry leaders who are aggressive in attracting and retaining top talent or rare skills.

4.4 Implementation Challenges in the Indonesian Context

The implementation of the integrative framework of strategic compensation in Indonesia faces a number of contextual challenges identified from the literature review. The first challenge is the limited access to accurate and up-to-date market data (blindspot data). Many organizations, especially MSMEs and medium-sized companies, have difficulty obtaining salary survey data that is representative of their industry. As a result, compensation decisions are often based on intuition or informal comparisons that risk bias.

The second challenge is the risk of rising costs that burden the company's finances, especially when implementing person-focused pay without adequate control. A case of paying for potential can occur if the increase in compensation is not accompanied by an increase in actual performance. The third challenge is the difficulty of comparing positions between organizations (apples to oranges) because differences in characteristics and position structures cause external benchmarking to be not always valid. The fourth challenge is the risk of wage inflation or uncontrolled wage wars, especially in competitive sectors such as technology, professional services, and the creative economy.

In addition to economic challenges, there are legal-administrative challenges that are typical of Indonesia. The obligation to prepare wage structures and scales as well as the fulfillment of minimum wages is a mandatory force for all organizations. Each incentive scheme must be designed as a top-up above the basic salary which is at least equivalent to UMP/MSE, not as a substitution. In addition, the incentive mechanism must be explicitly regulated in the Company Regulation (PP) or Collective Labor Agreement (PKB) to provide legal certainty and social legitimacy. Labor unions, in this case, can act as strategic partners that give legitimacy to mutually agreed compensation policies.

4.5 Best Practices and Integrative Models

Based on the synthesis of findings, four steps of strategic workflow can be formulated for organizations in Indonesia in designing an integrated strategic compensation system. The first step is to establish compliance by ensuring that the basic wage level is above the UMP/MSE and fulfills all normative rights of workers according to regulations. The second step is the design structure by compiling the structure and scale of wages based on four variables that required, namely position, working period, education, and

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competence. The third step is to define variable pay by designing a results- and productivity-based incentive scheme that utilizes the flexibility of the Job Creation Law, and pays attention to five factors of design success. The fourth step is to lock in legal documents by pouring all mechanisms in the Company Regulations or Collective Labor Agreement to ensure legal certainty.

The integrative model resulting from this review places three pillars of strategic compensation in Indonesia. The first pillar is compliance-oriented, which is a system that complies with the law in the form of a minimum wage and wage scale structure and avoids administrative and criminal sanctions. The second pillar is strategically differentiated, which is a system that provides space for contribution-based rewards by using the flexibility of the Job Creation Law for pay-for-performance implementation. The third pillar is legitimized, which is a system that is accepted by workers and stakeholders and communicated well through PP or PKB.

A practical recommendation for organizations is to selectively manage compensation competitiveness in high-value positions, rather than applying a uniform lead policy. This approach allows for the optimization of compensation budgets while maintaining the ability to attract key talent. In addition, organizations need to build a human resource information system that is able to support objective competency measurement as a prerequisite for the effectiveness of person-focused pay. Without a mature measurement system, person-focused pay is vulnerable to subjectivity and perceptions of injustice.

5. Conclusion

This study concludes that the transformation of the strategic compensation system in Indonesia after the Job Creation Law requires coherent integration between three main pillars, namely traditional bases for pay as the foundation of internal justice and regulatory compliance, incentive pay as a mechanism for aligning individual contributions with organizational goals, and person-focused pay as a long-term human capital investment instrument. The three are complementary and cannot replace each other within the framework of modern strategic compensation.

The paradigmatic shift from the protective approach of Law No. 13 of 2003 to a flexibility- and productivity-oriented approach in the Job Creation Law opens up a wider strategic space for organizations to legally design pay-for-performance systems. However, this strategic space can only be used optimally if the organization is able to balance three key elements, namely regulatory compliance (legal), internal justice (fair), and external competitiveness (competitive). Without this balance, the compensation system risks failing to achieve its strategic goals, whether due to violations of the law, internal conflicts, or loss of talent.

The practical implication of this study is the importance of organizations in Indonesia adopting a systematic four-step strategic workflow, namely establishing compliance, design structure, defining variable pay, and locking in legal documents. These measures need to be supported by a mature human resource management system, access to accurate market data, and constructive dialogue with trade unions as strategic partners. The theoretical implication of this study is the importance of developing a local conceptual framework that accommodates the regulatory characteristics and practices of Indonesian industries, given that most of the strategic compensation literature is still dominated by the context of developed countries.

This study has limitations in the form of a completely literature review approach without primary empirical data from organizations in Indonesia. Further research is

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recommended to conduct case studies on organizations that have successfully implemented an integrated compensation system after the Job Creation Law, so as to measure the effectiveness of the integrative framework formulated in this study. Cross-industry comparative studies can also enrich understanding of the variations in the implementation of strategic compensation systems in various sectors of the Indonesian economy.

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