

# Analysis of Wage Structure at XYZ Ltd. (Pharmacy) in Guiding Principles of Wage Justice

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**Abstract:** *The purpose of this study is to examine the application of wage structure in the company associated with the principle of fairness, to examine the factors that affect the review of basic or main wages of workers / laborers, and to formulate and recommend alternatives in improving wage structure at XYZ Inc. The results showed that the wage structure at XYZ Inc. had not fully reflected the justice of both internally and externally. Furthermore, there were still some respondents who were not satisfied with the basic wages received. The biggest reason is that the basic wages received is only limited to the minimum wage. This study formulated and recommended the a proposed wage structure and scale at XYZ Inc. with linear and exponential methods as an effort that can be taken by the company so that the applied wage structure can be fair and can increase the satisfaction of workers / laborers.*

**Keywords:** pharmacy, wage justice, wage structure

## 1. Introduction

### 1.1 Background

The development of the manpower sector as part of the Human Resource development effort is an integral part of the national development. The Constitution of Indonesia (UUD 1945) of Article 27 paragraph 2 mandates that every citizen shall have the right to proper work and living for humanity.

On the side of the company, rewards are seen as the key to effectively managing human resources according to the company's and the employee's needs. Therefore, the company really needs to consider about the right reward policy. One form of reward is wage or salary. It is appropriate that the wage or salary earned by a person is based on his performance or achievement.

Payroll based on performance is one element in the performance management process in addition to other elements namely: goal and strategy; organizational restriction; targeting; training and directing; evaluation of performance; skills training; as well as training and development as an integrated process (Ma'arif and Kartika, 2012). A person who obtains a better performance appraisal deserves a higher percentage of pay raise or pay for performance. To apply this pay for performance, it is necessary to have administrative tools in the form of wage structure and scale that can be used as guidance in determining the amount of wage or salary and the movement of the basic wage review of each worker / laborer.

XYZ Ltd. is a company on medium scale business in pharmaceutical industry that has not applied wage structure and scale as ruled in Law no. 13 of 2003 on Employment Jo. Government Regulation no. 78 of 2015 on Wages. There is a gap between the current wage structure in the company and the expected condition. The expected condition is that XYZ Ltd. can apply the provisions on the wage structure and scale so that the wage structure built by the company has passed rational stages. However, XYZ Ltd. has not fully adopted the stages of wage structure and scale in order to

realize a fair wage in the company. The company has only performed the position analysis and has not fully understood that the output of the position analysis, namely position information, can be input in implementing the stages of preparation of wage structure and scale, namely the evaluation of position, wage survey (benchmark) and wage scale.

### 1.2 Problem Identification

Based on the background and the problem identification, it can be formulated that XYZ Ltd. has not implemented the rational stages in the preparation of wage structure as the preparation of wage structure and scale. In addition, the company has not fully considered the position factor in the preparation of wage structure in the company. With no consideration of this position factor, it is likely that the workers tend to compare the wage received to how much wage should the worker receive according to the value of his input. This can potentially lead to workers' dissatisfaction.

### 1.3 Purpose of Study

The purposes to be achieved in this study are as follows:

- 1) Study the implementation of wage structure at XYZ Ltd. related to justice principles, both internal and external.
- 2) Analyze factors affected the review of the basic or main wage of the workers at XYZ Ltd.
- 3) Formulate and recommend improvement alternative of wage structure at XYZ Ltd.

### 1.4 Benefit of Study

It is hoped that the study can give benefits:

- 1) For researchers, it can broaden science and understanding especially on the management of compensation.
- 2) For the company, it can be an input as well as consideration in improving its wage structure to fit justice principles.
- 3) For other companies, especially to similar companies or those running in the same business, it can be a reference in implementing wage structure and scale.

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### 1.5 Scope of Study

- 1) The study only analyzed the basic or main wage.
- 2) The study focused on wage structure analysis performed at XYZ Ltd. as well as the review of the basic or main wage.
- 3) Due to time limit, particular wage survey to similar companies or those running in the same business was not performed.

## 2. Literature Review

### 2.1 Principle and Phase of Compensation Management

In establishing compensation programs, Suwatno and Priansa (2011) have outlined that companies should base on important principles of Justice Principle and Principle of Eligibility and Fairness.

In the compensation management, there are several stages. Werther and Davis (2003) introduced four stage phases ranging from job analysis, job evaluation, wage and salary surveys and pricing jobs. The point is that, through job evaluation, internal justice will be achieved, while external justice can be achieved through wage and salary surveys. It requires compliance between the results of job evaluation with the survey results in determining the wage of each position. Observing the four phases, it is very appropriate and in line with the stages ruled in the provisions on the wage structure and scale.

### 2.2 Wage Structure

Terms of legislation use the terms of wage structure and scale to describe the composition of the wage level from the lowest to the highest or from the highest to the lowest which contains the range of nominal wages from the smallest to the largest for each class of positions. Wage structure and scale serve as an administrative tool that maps the weight of the position to the based pay received. Meanwhile, from several foreign journals / references, the term of salary structure or pay structure is commonly used. Based on statements by Roses (2011) and Martocchio (2004) it can be concluded that the salary structure or pay structure has a strategic value indicating the difference of low salary level / minimum to high salary level / maximum for position or class of position. Thus, there is a harmony between the definitions of wage structure and scale of the provision with the understanding of some journals and others references.

### 2.3 Study of Previous Studies

The four studies conducted by Personal (2001), Mulyani (2002), Irmayanti (2004), and Effendie (2006) on the wage system have provided a comprehensive overview for the writers and became the reference in this study. Nevertheless, the writers see that there are other important things that seem to have not been covered / focused by the four writers and need to be complemented in further writing such as review

of foreign journals as references, and other alternative methods that can be used in the preparation of wage structures and scale, namely exponential method. In addition, with the establishment of wage structure and scale provision since 2003, studies on wage structure should refer to it. This all became the writers' focus in this study.

From several domestic journals, there are three studies conducted by Sukwadi and Gerald (2010), Sukwadi (2014), and Sukwadi and Okteваны (2016) that have strong relevance to this study, seen from their clear stages in the preparation of proposed improvements in terms of job analysis, job evaluation to the basic wage structure of workers / laborers.

A review of previous studies was also conducted on foreign journals. It is known that there was no study that completely describes the whole stages in the preparation of wage structure and scale ie job analysis, job evaluation, wage survey, to the determination of wage value. However, from these studies, a description and understanding could be obtained that can color and support the study conducted from the side of position analysis, job evaluation, wage survey, wage determination to the linkage between wage levels with performance improvement and workers' satisfaction.

In line with previous studies, this study is needed to study the application of wage structure at XYZ Ltd. and examine the factors that affect the review of the basic or main wage in the company, so it can recommend an alternative improvement of wage structure at XYZ Ltd. The study conducted has a different focus, that the study object is XYZ Ltd. The study will also provide other alternative methods in the preparation of wage structure and scale of exponential methods. While previous studies were more likely to recommend only to the linear trend method. In addition, this study also related to the provision related to wage structure and scale.

## 3. Method of Study

### 3.1 Location and Period of Study

The study was conducted at XYZ Ltd. The company is engaged in pharmaceutical industry and located in Jakarta. Data collection was conducted from March to May 2017.

### 3.2 Type and Source of Data

The type of data used in this study consisted of primary data and secondary data from all related parties. The types and sources of data and data collection techniques are shown in Table 1.

Table 1 The types and sources of data and data collection techniques

NO.	Type of Data	Source	Data Collection Technique
1.	<b>Primary Data</b>		
	- Assessment of the weight of criteria of position factors	Management Expert of XYZ Ltd.	Distribution of questionnaires
	- Workers' responses to the implementation of wage structure and review of basic wage or main wage at the company	Workers of XYZ Ltd.	Distribution of questionnaires
	- Wage structure	Management of XYZ Ltd.	Observation and Interview
	- Factors affecting the review of basic wage / main wage	Management of XYZ Ltd.	Observation and Interview
2.	<b>Secondary Data</b>		
	- Internal wage data	Management	Data review
	- Wage at similar companies or in those running the same business	Human Resource / wage consultant foundation	Data review
	- Determination of minimum wage and wage policy	Ministry of Manpower	Data and information review
	- Study of literature, references, related to wages especially the wage structure and scale	Literature study	Data review

### 3.3 Conceptual Framework

The conceptual framework is shown in figure 1.

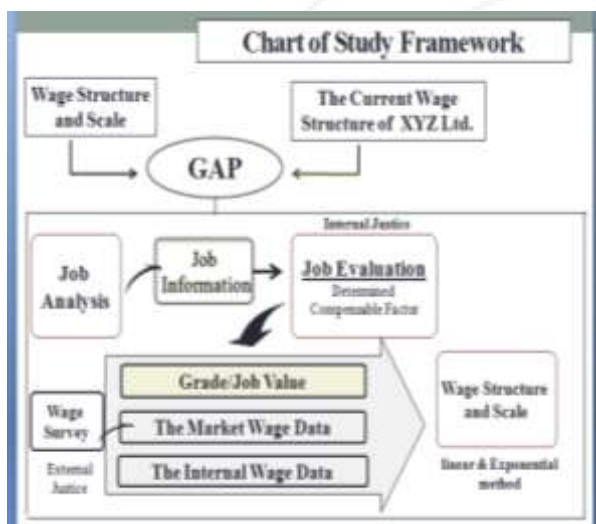


Figure 1: Chart of study framework

## 4. Result and Discussion

### 4.1 Responses from workers of XYZ Ltd. about Implementation of Wage Structure

According to result of the survey of workers / laborers' response to the implementation of wage structure in XYZ Ltd., it is known that there were still some respondents (31.43%) who were not satisfied with the basic wage received for several reasons: the basic wage received was as much as regional minimum wage, there was no difference in the amount of basic wage between experienced workers with new workers, and the basic wage received was perceived not sufficient. There were also complaints and protests from workers / laborers on wage structure of the company. Overall, 19 respondents (54.29%) of both operators and staff

claimed that workers / laborers complained about the wage structure and 37.14% of respondents stated that there were frequent complaints about the wage structure. Most respondents and staff (60%) stated that there were protests from workers regarding the wage structure, 31.43% of respondents stated that it often happened and only 3 people (8.57%) of respondents thought that there were rarely any protests. This condition reflects that the determination of wages at XYZ Ltd. has not fully based on the principle of justice. This condition is not in accordance with the theory by Suwatno and Priasa (2011) that a company must principally base on the important principles like principle of justice and the principle of feasibility and fairness in determine the compensation program. Therefore, it needs real steps from the company to evaluate and review the current wage structure in order to provide a sense of justice for all workers / laborers.

### 4.2 Review of Basic Wages or Main Wages at the Company

With regard to the review of basic wages or main wages of workers / laborers at XYZ Ltd., a description obtained from some respondents of workers / laborers (51.43%) that the consideration factor used by the company in conducting the wage review was the result of performance evaluation of workers / laborers and year of service. This is in line with the results of interview with the management related to consideration factors used by the company. Considering that only a few of respondents understood this, it is important for company to socialize better the parameters used by the company to all workers so that they can understand better the essence and purpose of the parameters used in the review of basic wages in the company. Thus, the implementation of performance management in the company actually has not run optimally considering the elements in the process of performance management have not been an integrated process as Ma'arif and Kartika (2012) which essentially suggested that elements in the process of performance



management such as goals and strategy; performance based learning; evaluation of performance; training and direction; as well as other elements must work as an integrated process.

#### 4.3 Formulation and Recommendation of Alternative Improvement of Wage Structure at XYZ Ltd.

To achieve the third goal of this thesis study, which is to formulate and recommend an alternative improvement of wage structure at XYZ Ltd., the position evaluation was conducted by the method of point factor or point system. For this purpose, several stages were initiated by weighting each position factor. One method of weighting that can be used is the Eckenrode Method (Ma'arif and Tanjung, 2003).

From the calculation using Eckenrode method, 20 respondents who are management expert saw among the 10 indicators or criteria of position factors, operational responsibility had the greatest value (0.16) for the evaluation of position at XYZ Ltd.

The next step in implementing the point system method is to determine the degree of determinants of the work weight and to define each degree. The degrees determined to each position factor indicate the degree of difference related to particular factors. For skill construction, it consists of indicators of education (4 degrees), work experience (4 degrees), and accuracy (3 degrees). For responsibility

construction, it includes indicators of policy responsibility (5 degrees), financial responsibility (4 degrees), and operational responsibility (5 degrees). While for the effort construction, it includes indicators of physical effort (5 degrees) and mental effort (5 degrees) and for work environment construction, it consists of working condition (3 degrees) and work risk (5 degrees). Each level was determined by the relative figures in the term of assessment guidance matrix as guidance in evaluating the positions together with the Position Evaluation Team of XYZ Ltd. Position evaluation was conducted on 42 sample positions at the company from staff to managers. Position evaluation resulted in the highest total score of 706.8 for the Internal Audit Manager and the lowest total score of 149.5 for Office Boy.

Because the number of positions at the company is relatively large and the distance between positions are relatively close, seen from the total points obtained, the classification of positions was conducted based on the total point interval. Positions at XYZ Ltd. that relatively have the same weight / position value were grouped into one position class. The management set out to be organized into 8 classifications. The 42 positions were mapped into 8 position classes with interval of 70, ranging from class 1 as the lowest rank at the company to class 8 as the highest group at the company. Classification of position at XYZ Ltd. is shown in Table 2.

**Table 2:** Classification of position at XYZ Ltd.

Job Value	Level	Position
149.5	219.5	1 Office boy, Gardener, R&D Administrator, QA Administrator, Storage Administrator, Technical Administrator, QC Administrator, Evaluator Batch Record, Phone/fax Operator, and Consignee of HUKI.
219.6	289.6	2 Sampling official, Storage Operator, Security Guard, and Utility Operator.
289.7	359.7	3 Production Operator, Validation Inspector, Formulator, Storage Weighing, Admin payroll, Group leader, and IPC accounting.
359.8	429.8	4 Recruitment, QA Supervisor, Production Administrator, and Technician.
429.9	499.9	5 Analyst, Analyst Coordinator, SPV R&D, Production Supervisor, and Storage Supervisor.
500	570	6 Budget control manager, IT manager, and Accounting & Finance manager.
570.1	640.1	7 Purchasing manager, Production manager, HR manager, Technical manager, Ware House manager, QC manager, and QA manager.
640.2	710.2	8 R&D manager and Internal audit manager.

#### 4.4 Formulation of Wage Structure and Scale of XYZ Ltd.

Formulation of wage structure and scale begins with setting a wage policy at XYZ Ltd. To make the wage policy, in addition to the results of position evaluation, it is also necessary to have market wage so that the company can map the current internal wage data compared to the market wage and decide on which level the wage of XYZ Ltd. can compete in maintaining and recruiting qualified workers / laborers. Comparing the current wages at XYZ Ltd., in the production and non-production (back office) section of 2017, to the market wage data, it is known that the current wages at XYZ Ltd. from the lowest level, supervisor, to the management level are still far below the market wage level in 2016. It is predicted that the wage gap will be more obvious if assumed market wage increases in 2017.

Accordingly, in determining wage policy, the company needs to adjust the wage level to be paid at the lowest or in the lowest level and the highest or wage in the highest level. Considering the company's current paying capacity, XYZ Ltd. has not been able to set the wage equivalent to the market wage. The policy pursued is keeping raising the wage rates from the current wage rates. In addition to this, the company needs to adjust the spread of wages because it has not fully described the increasing percentage from the lowest level to the highest level. The following is the formulation of wage structure and scale by using Linear and Exponential method.

#### 4.5 Formulation of Wage Structure and Scale of XYZ Ltd. with linear method

The result of wage scale calculation by linear method formed the structure chart and wage scale of XYZ Ltd. The wage structure and scale of XYZ Ltd. with linear method is shown in Table 3.

**Table 3:** Wage structure and scale of XYZ Ltd. with linear method

Level	Min (Rp)	Midpoint (Rp)	Max (Rp)	Spread (%)
1	3.500.000	4.025.000	4.550.000	30%
2	5.285.714	6.078.571	6.871.429	30%
3	7.071.429	8.485.714	9.900.000	40%
4	8.857.143	10.628.571	12.400.000	40%
5	10.642.857	13.303.571	15.964.286	50%
6	12.428.571	16.157.143	19.885.714	60%
7	14.214.286	19.900.000	25.585.714	80%
8	16.000.000	22.400.000	28.800.000	80%

The wage structure and scale by linear method resulted in overlap wage scales from the 4th level to the 8th level and a consistent improvement between one position level and the upper position levels. The company can more easily make the determination or review of wages of workers / laborers based on performance or for promotional purpose. The linear method obtained the same wage distance between position levels at the minimum wage.

Based on the description above, the simulation result, and the discussion with wage consultant from Sumber Daya Mandiri Inc. (HRD), it was known that the linear method has advantages and disadvantages. The advantages of linear method are as follows:

1. Simple and easy to explain; and
2. Better in minimizing the occurrence of main wage gap among the position classes.

The disadvantages of linear method are as follows:

1. Wages of mid level to top level are less competitive; and
2. A larger budget allocation is needed than if the company uses exponential method.

#### 4.6 Formulation of Wage Structure and Scale of XYZ Ltd. with exponential method

The calculation result of wage scale with exponential method build wage structure and scale chart of XYZ Ltd. The wage structure and scale of XYZ Ltd. with exponential method is shown in Table 4.

**Table 4:** Wage structure and scale of XYZ Ltd. with exponential method

Level	Min (Rp)	Midpoint (Rp)	Max (Rp)	Spread (%)
1	3.500.000	4.025.000	4.550.000	30%
2	4.348.717	5.001.025	5.653.333	30%
3	5.403.241	6.483.889	7.564.537	40%
4	6.713.476	8.056.171	9.398.867	40%
5	8.341.431	10.426.789	12.512.147	50%
6	10.364.151	13.473.396	16.582.641	60%
7	12.877.360	18.028.304	23.179.249	80%
8	16.000.000	22.400.000	28.800.000	80%

The wage structure and scale with the exponential method resulted in overlap wage scales for all position levels and the

consistent improvement between one position level and the upper position levels. The company can more easily make the determination or review of wages of workers / laborers based on performance or for promotional purpose.

If the linear method is used, then wage distances among levels are same. But it does not work for exponential method. Using exponential method, the wage rates for each position can be set proportionally according to the size of the work weight as it was expressed by Henderson (2000). In line with this, Bachrun (2011) stated that the exponential form will reflect wages in the higher positions will rise higher so that it will be more competitive in the market.

Based on the description above, the simulation result, and the discussion with wage consultant from Sumber Daya Mandiri Inc. (HRD), it was known that the exponential method has also advantages and disadvantages. The advantages of the exponential method are as follows:

- 1) Commonly used by companies;
- 2) The higher the position level, the higher the wage, as a form of appreciation considering the higher the position level, the heavier the workload;
- 3) The wage structure of low positions (bottom) tends to be flat while that of high positions (top) tends to be steep, then the exponential structure can accommodate both of them in one structure; and,
- 4) Allocation for wage budget is lower than if the company uses linear method.

The disadvantage of the exponential method is the wages in the low positions have a relatively close wage distance to the upper positions.

#### 4.7 Managerial Implications

XYZ Ltd. needs to review the current wage structure and also adjust the workers' wages for strategic reasons that can not be avoided. XYZ Ltd. can choose from both proposal of wage structure and scale presented as an alternative for the company. The company has to look at its capabilities and availability of the budget when it comes to enacting one of the models. An increase in wage cost as a consequence of the application of the new wage structure at XYZ Ltd. should be interpreted as a form of long-term investment for the company. It is necessary to do the position evaluation thoroughly so that the position levels of each worker / laborer can be known. Therefore, the position of wages for each worker / laborer can be known, whether it is under, within or above the wage scale.

That workers' wages are above the wage structure and scale indicates that they are overpaid compared to their position weight. On the other hand, that workers' wages are under the wage structure and scale indicates that they are too underpaid. In this case, the company needs to adopt policies to respond to them.

## 5. Conclusions and Recommendations

### 5.1 Conclusion

Based on the result of study on the structure of wages at XYZ Ltd. in guiding the principle of justice, some conclusions are obtained as follows:

1. Wage structure at XYZ Ltd. has not fully reflected the principle of justice, both internal and external justice. XYZ Ltd. has not conducted a position evaluation and wage survey (benchmark) in determining the basic wage structure at the company. There are still a number of respondents who are not satisfied with the basic wage received with the biggest reason is that the basic wage received is only as much as the minimum wage.
2. XYZ Ltd. constantly reviews the basic wages or main wages of its workers / laborers on a regular basis annually using two factors of consideration, namely the years of service and the worker / laborer's performance. A number of labors as respondents stated that the achievement of work performance is not comparable with appreciation in the company, in the form of wage increase.
3. Recommendations submitted to the company in the form of wage structure and scale proposal at XYZ Ltd. with linear and exponential methods were done as an effort that can be taken by the company so that the applied wage structure can be fair and can increase workers' / labors' satisfaction.

### 5.2 Recommendations

1. XYZ Ltd. needs to continue the position evaluation on the positions that have not been evaluated so that the comprehensive picture of all positions in the company will be achieved related to the work weight and the levels of each position.
2. The company should gradually make adjustments to internal wage policies to close the market wages.
3. In reviewing wage, the company also needs to pay attention to the inflation factor as mandated in the legislation.
4. XYZ Ltd. may choose one of the two alternative wage structure and scale and wage scales recommended while taking into account the company's capabilities, needs and strategies.

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