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The Effect of Comparative Employee Compensation on Wage and Salary Payments

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Abstract: This research aims to determine the effect of compensation comparisons on non-financial sector companies in Indonesia listed on IDX. The population of this research is all non-financial sector companies consisting of the raw materials, manufacturing and services sectors registered on IDX for the 2019-2021 period. This study uses a quantitative approach. The data analysis technique uses panel data regression. The research results show that salary comparison has a positive and insignificant effect on company performance. The contribution of this research is to provide information about several factors that influence employee salaries. Also in a different population compared to before, you can find out the incentives given to company employees.

Keyword: Compare Compensation**;** Employee Compensation; Salary; Wage

INTRODUCTION

The mechanism by which companies set salaries is critical to hiring employees in China (Lu & Niu, 2022). Because of Confucianism's deep influence, Chinese culture values collectivism and the equitable distribution of income and wealth, (Li, T. et al., 2019). The State Council of China issued the "Opinions on Reforming the Wage Determination Mechanism for State-Owned Enterprises" in 2018. which stated "We should uphold the unified orientation of efficiency and safeguard fairness, and achieve an increase in labor wages simultaneously. As a result, when designing salary contracts, businesses should emphasize the relationship between employee salaries and enterprise operating efficiency, avoid comparing employee salaries, emphasize the role of salary incentives, and reconcile fairness and efficiency. Employees will perceive their income as lower and feel unfair when they see a significant increase in salary levels in member companies, according to fairness theory in psychology, which will affect the efficiency of their workforce. Companies have an incentive to raise employees' wages in order to alleviate their sense of injustice. The findings show that when the salary level of employees in a group member company rises significantly, the salary level of employees in other group member companies rises significantly the following year, indicating that companies compare employee salaries.

Peripheral benefits can be called pecuniary benefits. Fringe benefits are part of the incentives that are supposed to motivate managers and employees (Kwak, 2009). There is supporting evidence that pay is tied to employee output and serves as an incentive to improve employee performance. What increases salaries and benefits is the financial factor of motivation (Muralidharan & Sundararaman, 2009). In Indonesia, the wage system in Indonesia is generally based on three wage functions (Simanjuntak, 2000), namely: 1. Guaranteeing a decent life for workers and their families, 2. Reflecting rewards for the results of one's work and 3. Providing incentives to encourage increased work productivity. The importance of compensation comparison is to provide rewards to employees. With rewards, the performance given by employees will also increase. Performance is one of the most important aspects that must be taken into account when talking about a company's internal marketing, but not only that, achieving performance to the highest level is becoming more and more a challenge, considering. Sustainable company development and ever-increasing market standards (Vosloban, 2012). It is increasingly recognized that employee performance is a multi-dimensional construct, consisting of a collection of different behaviors that together influence the functioning of the organization as a whole (Fauth et al., 2008).

Pinto (2011) states that wages as an extrinsic phenomenon of individuals influence their motivation; that is, it is assumed that wages (extrinsic factors) can influence workers' motivation towards communication, work organization and rewards. Performance-related pay contracts are increasingly common, with most workers receiving an annual salary (Bryson et al., 2011). One component of the perceived adequacy of a pay system administration may be the extent to which pay is perceived to be based on performance (Heneman et al., 1988). The phenomenon we encounter is the comparison of employee salaries, this is proven by research on Chinese companies. The breakdown of the average distribution mechanism in state-owned enterprises gradually widened the salary gap between top managers and ordinary employees. And the incentive effect is gradually emerging (L & Chang, 2011). According to research (Lu & Niu, 2022), Employees are the main creators of company value and are also the main influencers in increasing company value.

To fill this knowledge gap, this research examines developing research, namely in Indonesia using a sample of public companies listed on the IDX in the non-financial sector throughout Indonesia from 2019 – 2021. Unlike previous research, this paper examines the relationship between salary gaps manager-employee and performance with data from listed Chinese companies. the results show that they have a significant positive relationship (L & Chang, 2011). Also unlike research, Exploring the effects of switching from match fees to salaries (Bryson et al., 2011)

LITERATURE REVIEW

According to Chen et al., (2015) shows that as a company's total profits increase, executive and employee pay levels rise, but employee wages increase less. (Xia & Dong, 2014) examined the impact of employee salaries on firms' growth capacity and found that compensating employees only in small listed firms can increase firm growth. The performance of a company is determined by the performance of all its employees. If the salary is supplemented with work facilities and leadership style, it will be able to improve performance (Bandono et al., 2022). In this case, the company's manager or director must be aware of how well the employee is performing at work. Employee performance can be used to determine whether or not a company's human resources have contributed to its success. To achieve the best results in a company, clear human resource management is obviously required through various company policies that can adjust the mutual interests of the company and employees, (Widodo & Yandi, 2022).

Equity Theory

According to equity theory, people calculate the ratio of their own input (e.g., effort, skill) to their own output (e.g., income) and then compare it to others (i.e., those they believe should have equivalent input/output ratios), (Downes & Choi, 2014). When these input/output ratios are disproportionate, people usually change their own inputs or seek out different outputs to make the two ratios more equitable. As wage disparities widen, some people may feel exploited, which will have a detrimental influence on motivation and happiness. (Kepes et al., 2009). The implication of this perspective, From the standpoint of pay distribution, this viewpoint implies that pay systems should be as compressed as feasible in order to avoid the negative impact of perceived injustice between employees, (Bloom, 1999). Although equity theory proposes positive outcomes when pay is perceived as fair, this "motivational" mechanism is generally not considered in pay dispersion research.

Tournament Theory

Tournament theory also advocates greater pay differentials, which are thought to result in greater motivation (Trevor & Wazeter, 2006). In this theoretical paradigm, a larger reward (larger increase) for winning (getting a promotion) increases the amount of effort each competitor (employee) puts in to achieve the promotion. This theory also identifies that individuals who win tournaments have opportunities in tournaments that occur at higher levels, whereas those who lose tournaments are not given such opportunities. This competitive motivation to achieve rewards is argued to incentivize higher levels of motivation and attract higher performing players (who may be able to earn more by entering tournaments with larger prizes) (Downes & Choi, 2014).

Expectancy Theory

Expectancy theory, in contrast, suggests that pay differentials are motivating if employees (a) value outcomes, such as high pay levels (valence), (b) believe that increased effort leads to increased performance (expectancy), and (c) perceive that higher levels of performance higher levels are associated with higher levels of outcomes such as salary (Downes & Choi, 2014).

H1 : The more opportunities for salary compensation given, the salary received by employees will increase.

Based on hypothesis development, the research framework is as follows (Figure 1).

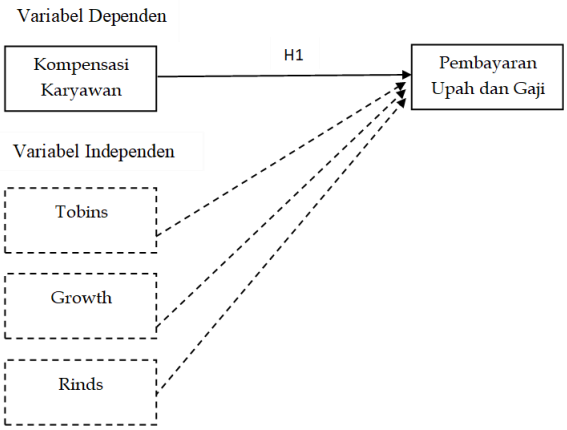

Figure 1. Research Framework

METHOD

This research examines salary comparisons carried out by companies that salary increases that occur in the non-financial sector are not necessarily caused by increased

performance, but may be due to comparisons between companies, and this comparison behavior makes it difficult for employees to be motivated. This research uses a quantitative approach with a positive paradigm. This type of research is explanatory research with causal objectives. The population is non-financial sector companies listed on the Indonesia Stock Exchange, this sector was chosen because the balance sheet profit and loss report is definitely different. Assets and passives are also definitely different. Starting from receivables, bank debt (it is impossible for banks to make debts to other banks, they will definitely receive direct input from BI). Because the structure of financial reports in the non-financial sector is different from (other) financial sectors.

During 2019-2021, this year was chosen because this year Covid-19 was in full swing, the author wanted to know whether companies used a compensation comparison system for their employees due to the Covid-19 disaster. The sampling technique used was purposive sampling with judgment sampling type. The sample criteria used include: Taken in that year, whether the data experienced slot ups, slot downs or fluctuations (year trend). Taken in that year, whether the data experienced slot ups, slot downs or fluctuations (year trend).

1) Non-financial sector companies listed on the Indonesia Stock Exchange during 2019-2020 which contain audited financial reports after deducting the list of company websites that cannot be opened and incomplete annual reports

2) Companies that use the rupiah currency in financial reports.

Based on these criteria, 350 companies were obtained as research samples with 898 observations over 3 years (2019-2021).

Definisi Operasional Variabel
Operational Definition of Variables

$$Ln\_epay_{it} = \beta_0\beta_1 + \sum Control_{it} + \varepsilon_{it}$$

Table. 1 Operational Definition of Variables

Variable	Definition
Ln_epay_{it}	Natural logarithm of wage and salary payments
$\beta_0\beta_1 Compare_{it}$	When the compensation of employees of another company in the same group as company i increases by more than 10% in the previous year and the proportion of assets of this company exceeds 25% of the total assets of the group, the value is 1, and otherwise it is 0
$\sum Control_{it}$	$Tobin_{it}$, $Growth_{it}$, $Rind_{it}$
ε_{it}	Residual error of company-i year t

Dependent Variable

$$Ln\_epay_{it} = \frac{Salary\ Costs\ from\ Operating\ Cash\ Outflows}{Total\ Directors'\ Salaries}\ x\ Total\ of\ Employees$$

For employee compensation, this paper refers to the literature (Chen et al., 2015)(Shen et al., 2017), by subtracting the total current salaries of company executives from "Cash Paid to Employees" in the cash flow statement. Divide the year by the number of employees and use the natural logarithm to calculate the employee's salary (Ln_epay). Employee compensation is a common type of salary that includes social salaries, bonuses, various allowances and subsidies paid to employees, social insurance funds, additional contribution insurance, commercial insurance money, housing accumulation funds, housing hardship subsidies, and various welfare costs calculated from cash flow statement data, (Shen et al., 2019).

Independent Variable

$$\beta\ \mathbf{0}\ \beta\ \mathbf{1}\ Compare_{it} = \frac{Employee\ Benefits}{Asset}$$

For comparison of employee salaries (Compare), we follow the literature (Li, T. et al., 2019) by taking the steps outlined below. First, in year t, this research is measured using a dummy variable for company i. If the employee compensation of other companies in the group containing company i increased by more than 10% in the previous year and the proportion of assets exceeds 25% of the group's total assets,5 company i has a comparison value of 1; otherwise, it has a value of 0. If the comparison coefficient is significantly positive based on the results of the regression model (1), then there is a comparison of employee salaries. Another method is used in the robustness test section to compare employee salaries.

$$Tobin_{it} = \frac{Market\ Value + Liabilities}{Asset}$$

The use of this control variable in research contributes to the comparison of market value with assets and liabilities and also illustrates the extent to which market players assess the company's fundamentals.

$$Growth_{it} = \frac{Sales\ Revenue_t - Sales\ Revenue_{t-1}}{Sales\ revenue_{t-1}}$$

The use of this control variable in research contributes to the higher the sales, the higher the salary the employees will receive

$$Rind_{it} = \frac{Total\ of\ independent\ directors}{Total\ of\ board\ of\ directors}$$

The use of the rind variable here contributes to determining employee salaries in Epay changes

Analysis Techniques

The data analysis technique used to analyze data and test hypotheses is by using panel data regression model analysis using Eviews version 10 software. The Eviews program uses three methods, namely the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). We use panel data regression estimation to determine the most appropriate technique from several tests to be carried out. First, the Chow test is used to select the best model between the Common Effect Model (CEM) or Fixed Effect Model (FEM) methods. The second uses the Hausman test to select the best model between Fixed Effect Model (FEM) or Random Effect Model (REM). The third uses the Lagrange Multiplier (LM) test to select the best method between the Fix Effect Model (FEM) and the Random Effect Model (REM). From the results obtained, interpretation can be carried out using the F Test (Simultaneous), Partial T-Test and Determinant Coefficient (Adjusted R Square).

RESULTS AND DISCUSSION

Descriptive statistical analysis shows the characteristics of data distribution, such as minimum value, maximum value, mean, and standard deviation.

Table 2. Descriptive Statistics

	Ln_epay	Compare	Growth	Tobins	Rind
Mean	14.24230	0.027840	0.152386	-0.000321	0.092000
Maximum	27.33275	1.000000	57.42750	0.001359	1.000000
Minimum	-2.340079	0.000000	-1.000000	-0.291574	0.000000
Std. Dev.	5.830555	0.164605	2.778811	0.009730	0.148212

Number of observations: 898

Table 1 shows that in our sample, the highest value of compare is 1 because we use dummies, namely 1 and 0. On average, there are only 0.02 or 2% who conclude that only 2% of the company average as many as 350 and observations for 3 years amounting to 898, only 2% of companies implement comparative compensation.
In the control variable, growth has the highest value of 57.42750 or 5.742% while the lowest value is -1.000000 or 100%. On average, this growth (increase in sales) is 0.152386 or 15%, which can be concluded that sales growth is only 15% per year.
In the Tobins control variable, there is a highest value of 0.001359 while the lowest value is -0.291574. On average, there is -0.000321. Which concludes that the tobins in this company are relatively low. The company value is far below asset capitalization
In the control variable Rind uses a dummy with the highest and lowest values 1 and 0. On average there is 0.092000 or only around 9.2%, which concludes that the proportion of directors is still smaller.

Results for Panel Data Models

Table 2. CEM Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.00875	0.230394	60.80347	0.0000
Compensation Comparison	-1.025540	1.176369	-0.871784	0.3836
Growth	9.88E-07	3.70E-07	2.667401	0.0078
Rind	2.561945	1.307678	1.959157	0.0504
Tobins	38.06714	19.88921	1.913960	0.0559

Source: Primary Data has been processed by Eviews 10

Table 3. FEM Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.12073	0.089958	156.9696	0.0000
Compensation Comparison	0.873922	0.690775	1.265133	0.2064
Growth	5.25E-07	1.14E-07	4.623011	0.0000
Rind	0.832728	0.794605	1.047976	0.2951
Tobins	-0.286901	6.039400	-0.047505	0.9621

Source: Primary Data has been processed by Eviews 10

Table 4. **REM Estimation Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.25642	0.312810	45.57539	0.0000
Compensation Comparison	0.671630	0.656760	1.022641	0.3068
Growth	5.41E-07	1.13E-07	4.786958	0.0000
Rind	1.015964	0.746394	1.361163	0.1738
Tobins	0.951842	6.007343	0.158446	0.8741

Source: Primary Data has been processed by Eviews 10

Model Analysis and Hypotheses

A. Selection Model Estimation

Several tests are run through the Eviews program, including the CEM test, FEM test, and REM test. The Chow test was then used to determine which of the FEM and CEM models provided the best estimation method. The best model is determined by looking at the FEM output with the lowest F probability value. Table 5 shows that the F Probability Value of 0.0000 is less than a (5%), indicating that the best temporary model estimate is FEM.

Table 5. Chow Test

Effect Test	Statistic	d.f	Prob.
Cross-section Chi-square	2948.445987	349	0.0000

Source: Primary Data has been processed by Eviews 10

Table 6. Hausman Test

Test Summary	Shi-Sq Statistic	Chi-Sq. d.f	Prob.
Cross-section random	6.783809	4	0.1478

Source: Primary Data has been processed by Eviews 10

After carrying out the Chow Test, a Hausman test is carried out. In this test, the probability is seen if it is <0.05 then it is taken using the FEM estimation model, while if it is >0.05 then the REM estimation model is used. It can be seen from the Hausman test that the REM estimate is obtained because the probability value is 0.1478.

Table 7. Breush and Pagan LM Test

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	674.7071 (0.0000)	1.100812 (0.2941)	675.8079 (0.0000)

Source: Primary Data has been processed by Eviews 10

Based on the LM test results, the obtained prob > chibar2 value is 0.0000, which means the value is less than α=0.05. Thus it can be concluded that the Random Effect Model is more suitable than the Common Effect Model.

A. F-Test, T-Test, Determinantion Coefficient

F-Test

Table 8. F – Statistic

Number of Observation	**898**
F-Statistic	6.369446
Prob > F	0.000047

Source: Primary Data has been processed by Eviews 10

All independent variables in this research, namely Compare Compensation, Growth, Rind, Tobins, simultaneously have a significant positive influence on the dependent variable, namely Ln-Epay.

T-Test

Table 9. T-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.25642	0.312810	45.57539	0.0000
Compensation Comparison	0.671630	0.656760	1.022641	0.3068
Growth	0.002741	0.022614	0.121209	0.9036
Rind	1.015964	0.746394	1.361163	0.1738
Tobins	0.951842	6.007343	0.158446	0.8741

Source: Primary Data has been processed by Eviews 10

That partially compare compensation has a positive and insignificant influence on ln_epay. Growth partially has a positive and significant influence on ln_epay. Rind has a positive and insignificant effect on ln_epay. Tobins has a positive and insignificant influence on ln_epay.

In table x explaining the results of the partial test or T-statistical test, it can be concluded that the compensation comparison variable has a significant positive effect with a probability of 0.3068 or 30.68%. The coefficient value of 1.022641 (102%) shows that when the amount of salary given to employees increases, on average the compensation provided by the company will increase.

The control growth variable (sales growth) has a significant positive effect with a probability value of 0.9036. The coefficient value of 0.121209 (12%) shows that when sales increase, the average employee salary given by the company increases.

The control variable rind has a positive effect with a probability value of 0.1738. The coefficient value of 1.361163 (136%) shows that when independent directors increase, on average the company's employee salaries increase.

The Tobins control variable has a positive effect with a probability value of 0.8741. The coefficient value of 0.158446 (15%) shows that when the market value increases, on average the company's employee salaries increase.

Determinant Coefficient

Tabel 10. Determinant Coefficient

R-squared	0.027739
Adjusted R-squared	0.023384

Source: Primary Data has been processed by Eviews 10

Based on the results of table 10, the modeling contribution in this research model is concluded with a fairly low adjusted R-squared value, namely 0.023384 (2.3%). The predictor model used was unable to explain the variation in dependent changes (ln_epay) of 2.3%. Where 98.7% of the remaining values are variables that are not used in this research.

Discussion

The research results show that the independent variable compensation comparison proxied by ln-epay is rejected or Hypothesis 1 is rejected. This is inversely proportional to research (Lu & Niu, 2022), who discovered that if employee compensation in one company increased dramatically, employee compensation in that company increased dramatically the following year. If the salary is supplemented with work facilities and leadership style, it will be able to improve performance (Bandono et al., 2022). Different from (Xia & Dong, 2014) examined the impact of employee salaries on firms' growth capacity and found that compensating employees only in small listed firms can increase firm growth. In the results, only a small number of companies responded to the impact on Ln-Epay (payment of wages and salaries).

In the company we studied, the proportion of directors' salaries is 1 compared to 2. When the salary is 1, the directors' salary is 2, meaning there is a minus in the Ln-Epay reduction. This shows that the salaries given are greater to directors than to employees. According to previous research, employees in non-labor-intensive companies typically have a higher skill level, greater mobility, and a greater ability to create value for the company than employees in labor-intensive companies. (Zhou & Liu, 2012). Equity theory holds that individuals calculate the ratio of their own input (e.g., effort, skill) to their own output (e.g., salary) and then compare that ratio with that of others (i.e., individuals they think should have the same input/output). comparable ratio). This is also supported by the statement that reward and work motivation are very important for an organization, because this can be used to direct staff towards achieving organizational goals. (Asaari et al., 2019).

In Indonesia, the Omnibus Law on Job Creation states that the minimum wage is only the Provincial Minimum Wage (UMP). This means that the Regency/City Minimum Wage (UMK) and Sectoral Minimum Wage (UMSK) are no longer used. Meanwhile, the wage policy was changed to seven policies, including: 1) minimum wage, 2) wage structure and scale, 3) overtime pay, and 4) wages for not coming to work and/or not working for certain reasons. 5) Form and method of payment of wages 6) Additional factors that can be taken into account with wages 7) Wages as a basis for calculating and paying other rights and obligations. According to (Lestari & Cahyono, 2017), Compared to other countries in Asia, Indonesian labor wages are the cheapest. The government uses this condition to invite investment from foreign countries to enter the country.

Existing regulations in Indonesia are contained in the Omnibus Law on Job Creation which states the minimum wage. When compared with China, which has implemented a compensation system for employees. This is in line with why the results are not significant because Indonesia has not implemented this. This affects the company's performance. (Pinto, 2011) states that wages as an extrinsic phenomenon of individuals influence their motivation.

However, companies in Indonesia only have a small percentage of research results that apply this.

CONCLUSION

This research aims to examine the effect of wage and salary payments on the comparison of employee compensation in companies on IDX in 2019-2021. Testing was carried out using the positive paradigm quantitative method. This type of research is explanatory research with causal objectives. The test was carried out using the panel test regression method. The findings concluded that payroll did not have a significant effect on compensation comparisons, this caused the company's performance not to increase in 2019-2021 in the non-financial sector at IDX.

In general, many companies do not implement compensation, the more there is compensation, the more it is considered normal. Because salaries in Indonesia are smaller than abroad. It is critical to promote the healthy development of business groups through thoughtful salary design. According to our findings, employee salary increases may be due to salary comparisons, which do not play an incentive role. Therefore, in future salary reforms, the link between salaries and benefits needs to be improved as well as providing institutional support to increase the efficiency of production and company operations.

This research is limited to the Indonesian context and the non-financial sector consisting of raw material, manufacturing and service companies. There is also some data that lists company websites that cannot be opened and annual reports that are incomplete. There was a selection of variables that were unable to explain variations in dependent changes (wage and salary payments).

Based on the limitations of the research that has been explained, several suggestions that can be given include the suggestion that in future research look for a wider range of control variables so that the variables used are not able to explain variations in dependent changes (wages and salary payments). The second suggestion is that future researchers can increase the year period, so they can find out company trends on a larger scale. Researchers hope for similar research, further optimize or look for alternative research methods to provide updates in similar research.

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