COMPLIANCE CHECK: DO YOU HAVE A WAGE STRUCTURE AND SCALE IN PLACE IN INDONESIA?

Earlier this year, the Ministry of Manpower issued another important regulation regarding wage structures and scales with publication of the Minister of Manpower Regulation No. 1 of 2017 (Regulation 1/2017). Regulation 1/2017 revokes the previous regulation, Manpower Regulation No. Kep.49/MEN/2004, governing this issue.

What is a wage scale and structure?

All Indonesian companies are now required to produce a wage structure and scale which must contain basic salary rates for every position in the company. The wage structure and scale should be determined by considering the employment level, position, service period, education and competence (including knowledge, skills, and work ethic) of all the company's employees.

Regulation 1/2017 requires that a wage structure and scale must be decreed by the company and announced to all employees. The wage structure and scale is a mandatory document which must be presented to the relevant manpower office when the company registers (or varies) its company regulations or collective labour agreement.

The transitional provisions of Regulation 1/2017 also require companies who have not had a wage structure and scale, to produce one by no later than 23 October 2017. If the company already has a wage structure and scale in place, it will not be required to produce a new one but it will be required to announce the existing wage scale and structure to employees on or before 23 October 2017.

Penalties

Regulation 1/2017 provides administrative sanctions for companies who fail to prepare a wage structure and scale or who fail to announce a wage structure and scale to their employees. The administrative sanctions include written warnings, limitation to business activities, temporary suspension of all or part of production equipment or suspension of business activity.

Compliance

To ensure compliance:

1. Companies who have not had wage structure and scale in place must formulate and implement one by no later than 23 October 2017.

2. Companies should follow the guidance published as part of Regulation 1/2017 for formulating a wage scale and structure including the adoption of one of the various methods outlined namely: simple ranking method; the two-point method; the factor point method (for an existing company); and the factor point method (for newly established companies).

3. If the company already has wage structure and scale in place, it will not be required to produce a new one but it will be required to announce the existing wage scale and structure to employees on or before 23 October 2017.

Hiswara Bunjamin & Tandjung and Herbert Smith Freehills can assist you with achieving compliance. To discuss how, please contact Narendra Adiyasa at narendra.adiyasa@hbtlaw.com or Fatim Jumabhoy at fatim.jumabhoy@hsf.com.

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1 The previous regulation did not require the company to announce its wage structure and scale to employees.