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Civil Servant Compensation System Reform in Indonesia

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Abstract. Analysis of Civil Servant compensation system attracts attention of many parties. There opinion going that low salary has contributed to bad performance and productivity. Moreover Civil Servant management causing social cost and high cost economy. It becomes an excuse for undisciplined behavior and triggers such “deviation” deed resulted inefficiency and ineffectiveness of bureaucracy and “threatens” to break down actualization of bureaucracy reform as a whole. Many attempts have been tried by Government such as “remuneration” policy in Central Government Agencies and performance “subsidy” in Local Government Agencies. However, instead of being solution, this acts cause another problems. The objectives of analysis in this paper are: giving description and remapping various problems connected to Compensation System and offering alternative design of it Compensation System in frame of civil service management. The results of the analysis end up in design scenario of Compensation System integrating the whole system inside. Solution to Performance Assistance in Bureaucracy Reform “package” will also formulated through asserting that it will given based on performance. Besides, legal aspects will straightened up to provide powerful legitimacy and simplification of various regulations, clarify and affirm components of compensation, including Pension and Retirement Subsidy System.

Keywords: salary, subsidy, civil servants (civil services), and bureaucracy reform

Abstrak. Analisis penggajian PNS menarik perhatian berbagai pihak. Pendapat PNS bergaji rendah berkontribusi pada kinerja dan produktivitas yang buruk. Di samping dalam manajemen PNS yang telah menimbulkan social cost dan high cost economy. Bahkan, menjadi excuse bagi PNS untuk melakukan tindakan indisipliner dan men-trigger untuk melakukan “penyimpangan” yang berdampak pada inefisiensi dan inefektivitas birokrasi serta “mengancam” gagalnya perwujudan reformasi birokrasi secara menyeluruh. Berbagai upaya telah dilakukan oleh Pemerintah dengan menerapkan kebijakan “remunerasi” pada Instansi Pemerintah Pusat dan pemberian tunjangan “kinerja” pada Instansi Pemerintah Daerah. Namun tidak merupakan solusi malah menimbulkan persoalan baru. Analisis dalam makalah ini bertujuan: mendeskripsikan dan memetakan ulang berbagai permasalahan terkait Sistem Penggajian, menawarkan desain alternatif Sistem Penggajian PNS dalam kerangka manajemen kepegawaian. Hasil analisis bermuara pada skenario design Sistem Penggajian, yang mengintegrasikan seluruh sistem di dalamnya. Solusi persoalan Tunjangan Kinerja dengan “kemasan” Reformasi Birokrasi juga diformulasikan, melalui penegasan agar pemberiannya berbasis pada kinerja. Selain itu, pembenahan dari aspek legal untuk memberikan legitimasi yang kuat dan penyederhanaan dari berbagai peraturan, memperjelas dan menegaskan komponen kompensasi PNS, termasuk Sistem Pensiun dan Tunjangan Hari Tua.

Kata Kunci: gaji, subsidi, pegawai negeri sipil (pns), dan reformasi birokrasi

INTRODUCTION

General opinion still popular today is that Civil Servants receive low salary. This signals and contributes to bad performances and productivity of Civil Servants, be it in individual or organizational level. Besides, some parties think of low salary of Civil Servants as the root of all problems in Civil Servant management causing high social and economic costs. This condition even becomes an excuse for Civil Servants to do various undisciplined conducts and triggers Civil Servants to do various “deviation” acts resulting in inefficiency and ineffectiveness of bureaucracy, also “threatens” to break down actualization of bureaucracy reform as a whole (Jannah, 2005).

Anticipating the phenomenon above, the government

has tried to find solutions by conducting various continuing adaptation, such as through annual adjustment instrument to Government Regulation No. 7 of 1997 on Civil Servant Salary Regulation, including implementation of “remuneration” policy in some Central Government Agencies and donation of “performance” assistance or sort in some Local Government Agencies. However, in reality those Government solutions are not clever solutions for fulfillment of Civil Servants and their families’ necessities of life and motivations for Civil Servants to fulfill the demand for high and professional performance.

On normative level, as mentioned in Law No. 43 of 1999 on Adjustment to Law No. 8 of 1974 on Basics of Civil Service that salary is compensation or reward for a Civil Servant’s performance. Further, Part Three on

Rights, precisely in Article 7 of the Law states that Every State Officer (Civil Servant, Military and Police force) deserves fair and proper salary suitable to the burden of his or her duties and responsibilities over his or her salary should boost productivity and insure welfare, besides that, fair and proper salary of State Officer is determined in Government Regulation.

Referring to Law No. 43 of 1999 above, it can be said that salary structure of Civil Servants that must be fulfilled is a fair and proper structure. Salary structure of Civil Servants can only be considered meet fair or equal principle if gap in welfare among Civil Servants themselves or between Civil Servants and Private Workers can be prevented or eliminated. Thus, it is important to concern about fairness in arranging Salary structure of civil servants, be it internal equity or external equity. As for properness, Salary structure of Civil Servant is said to be proper if with the salary accepted, Civil Servant can assure fulfillment of basic needs. Connected to this, one parameter to be referred to is Proper Necessities of Living (PNL). With fulfillment of Proper Necessities of Living, Civil Servants are expected to increase productivity and finally increase national productivity (Gray, 1979).

Considering the urgent and strategic role of salary, both to Civil Servants and Government organizations in wider scope, there is a need for reform on fair and proper Civil servant compensation system, both internally and externally. This way, it is expected that design of Civil Servants compensation system fulfilling fair and proper principles as mentioned in Law No. 43 of 1999 can be attained. In line with growing issues concerning Civil servant compensation system, these issues can be distributed into two categories, namely Classic and Contemporary Issues. This Classic Issue refers to the system implemented thus far is not in compliance with mandate of Article 7 Law No. 43 of 1999, particularly Paragraph (1) including: From proper aspect of Civil Servant salary, refers to data from the last five years (2006 to 2010), mean ratio of Basic Salary of Civil Servant from Lowest Level, I/a level (as cast in adjustment 8 to 12 Government Regulation No. 7 of 1977) to average Proper Necessities of Living per person (single) is 104% or capable of fulfilling Civil Servant individual needs. However, comparison to the results of research conducted by Center for Research and Development of State Personnel Administration Board (Simanungkalit, 2006) shows that Basic Salary of Civil Servant of I/a Group (working time = 0 year) is below Proper Necessities of Living of Single Civil Servant or Married Civil Servant with two children maximum, which is Rp 2,312,891.75 and Rp 2,581,200.11 respectively. Last analysis result is in compliance with comparison between income of

Civil Servants I/a Group (working time = 0 year) to cover living needs of his or her family (married with 2 children) and average monthly expending of Indonesian people, it actually only for 16 days or 54% of total monthly expending. Meaning, the rest 14 days or 46% of monthly expending should be covered from other source of income, beside formal salary as Civil Servant. Thus, basic salary plus family subsidy of Civil Servants cannot fulfill the needs of Civil Servants family, let alone if Civil Servant does not receive family subsidy. Besides that empiric fact, various studies conducted by various parties (individual or institution or organization) Tjiptoherjanto (2005) reveals that Civil Servant salary only sufficient for survival. This fact shows how small salary of Civil Servants has driven Civil Servants to seek other sources of income to secure sufficiency of income in shapes of "illegal" revenue stimulating corruption (Seldadyo, 2005). The effort of government in connection to Civil Servant salary reform to date is by increasing Civil Servant salary about 15 – 20% in average. This effort is considered unable to completely solve the issue of properness of Civil Servant salary. Issue on point a above (low salary of Civil Servant) has become excuse for every Government agency, both Central and Local, to try adding and creating various incentives and subsidies. As consequences, the accumulative number of those various incentives can be bigger component than basic salary. Whereas in private sector, Government through Law No. 13 of 2003 on Labor Force takes rigorous stance against it. The occurrence of various subsidies and incentives has made it hard for government to know and monitor how much fund spent by every Government Agency for real employee expenses each year, so it is hard to monitor and control Employee Cost/Expenses. It is shown in employee expenses data growth, especially Employee Expenses in Local Government, where for the last five years in average percentage of Local Employee Expenses is more than 40%. While, in Central Government since 2007 -2010, the average percentage of Central Employee Expenses is around 16.30% to 23.10%.

Government effort to give addition to Civil Servant salary is conducted among others by giving subsidies to Civil Servants, namely General Subsidy and Structural Job Subsidy. General Subsidy is given based on Presidential Decree No. 12 of 2006 on General Subsidy for Civil Servants, namely Civil Servants Group I to IV, in composition: (1) Civil Servants Group I, II, III, and IV respectively Rp 175,000,-; Rp 180,000,-; Rp 185,000,-; and Rp 190,000,-. While Structural Job Subsidy is given based on Presidential Decree No. 26 of 2007 on Structural Job Subsidy for Civil Servants holding Structural Job, in Echelon Officer composition: (1) I A Rp 5,500,000,-

; (2) I B Rp 4,375,000,-; (3) II A Rp 3,250,000,-; (4) II B Rp 2,025,000,-; (5) III A Rp 1,260,000,-; (6) III B Rp 980,000,-; (7) IV B Rp 540,000,-; (8) IV A Rp 490,000,-; and (9) V A Rp 360,000,-. Besides subsidies mentioned above, Government also gives honorarium to Civil Servants in various numbers among structural and non structural jobs. Based on data investigation, it is acquired that honorarium number for Civil Servants of Echelon I Structural Officer is far higher compared to other Civil Servants, namely get 67.22% of total allocation of honorarium budget for all Civil Servants. Pay close attention to data of subsidy accepted by Civil Servants, particularly subsidy and honorarium accepted by Civil Servants, which sometimes without noticing burden of duties and responsibilities, it is far bigger than basic salary accepted by Civil Servants. While, terminology-philosophically subsidy should be "supplement" for basic salary with number not bigger than basic salary of Civil Servants. This inequity is fundamentally divided into Internal Inequity and External Equity. Internal inequity is divided into Vertical Internal Equity and Horizontal Internal Equity. Vertical Internal Equity in compliance to List of Basic Salary of Civil Servants as several time adjustments of Government Regulation No. 7 of 1977 on Civil Servants Salary Regulations can be detected from ratio between salary of Lowest Group Civil Servants (I/a, with 0 year of working time) and salary of Highest Group Civil Servants (IV/e, with 32 years of working time). In 1948 to 1967, the ratio mentioned is around 1:17 to 1:25. Then in 1967 to 1997, the ration mentioned is around 1:5 to 1:8. Inequity condition becomes clearer since 2003 to present (2010), where ratio between salary of Lowest Group Civil Servants and salary of Highest Group Civil Servants is consistently at maximum 1:3. Referring to scope of responsibility, authority, and competency demanded on level of job, it is surely unfair. Proper to the assumption, if measurement is made utilizing whichever job burden measurement method, the difference in job burden usually proclaimed in scores or points can surely ascertain that "Job Burden" of a Civil Servant of Highest Job Group (for example Head of Bureau, Director General, or Deputy jobs) is about 20 times the weight of Civil Servants of Lowest Group, while compensation outside salary (including agency's house and car – actually work facilities) is only about 10 times of Lowest Group. Horizontal Internal Inequity can be perceived from saying and phenomenon "PGPS (*Pinter Goblok, di Pantai atau di Gunung, Penggajian Sama – Smart Fool, at Beach or at Mountain, Same Salary*)" and statement often heard around Civil Servants: "Why should my salary be the same to John Doe's when my job burden and responsibility are heavier?" This phenomenon

reflects inequity and imbalance in allocation of duty and responsibility among jobs happened to be at the same level. One reason for this unfairness lies in system of determining "Rank and Group of Civil Servant" whereas Rank and Group are conferred upon Civil Servant according to highest formal diploma they have, not upon their jobs or positions. In other words, Government (as employer) confers Rank and Group to Civil Servants on basis of diploma they possess, only afterwards gives them jobs and positions expected to suit them. It implicates two issues often be found, first, Government is "forced" to pay a Civil Servant based on diploma he or she possesses, not on actual contribution he or she gives to his or her working unit. Second, since appointment of Rank and Group is based on education, employees try any way to acquire higher diploma and then demand adjustment to their group.

The issue of horizontal inequity led up in implementation of Civil Servant Ranking and Grouping System also grows with Regular Rank Increment Policy for Civil Servant averaging once every 4 years according to mandate of Government Regulation No. 12 of 2002 on Adjustment To Government Regulation No. 99 of 2000 on Rank Increment for Civil Servant. Meaning, salary system implemented to Civil Servant has not yet based on Burden of Work and Responsibility or Importance of Rank and Competency and Performance of Civil Servant (still PGPS). External inequity is shown in Mandate of Law No. 43 of 1999 Article 7 Paragraph (3) emphasizing "Arrangement of fair Civil Servant salary is meant to avoid imbalance in welfare, both among Civil Servants or between Civil Servants and private workers." In reality, there is big gap between salary and subsidy of Civil Servants and of private sector workers. Comparison of Blue-Collar jobs, that is between Civil Servants Group I/a (working time 0 year, single) and average Regional Minimum Wages in the last five years (from 2006 to 2010) shows that Civil Servants salary is higher than private workers wages, whereas according to previous explanation the ratio of Salary of Civil Servants Group I/a and Proper Necessities of Living is 104%, while workers of private sector can only cover Proper Necessities of Living about 87%, with average education of Senior High School. The results of analysis by Towers Watson (2010) shows that salary of Civil Servants is below wages of private workers, whereas the sharper imbalance start to show in White-Collar job level, which is Officer level (Grade 6 to 8) to Management level and higher (for Civil Servant on Echelon III, II, and I level).

Sharp imbalance also occurred when reviewed from formal education level, namely start from Civil Servants with formal education level of University Graduate and

higher that can be categorized as professional group. Fellow Civil Servants in private sector who perhaps came from the same alma mater becoming private companies' executives will acquire much higher monthly income than theirs. This imbalance in Civil Servants salary and private sector wages, particularly on Management level will be the same in comparison between salaries of Civil Servants and of State Companies workers, where compensation for a State Company's Director in average about 10 times the compensation for Civil Servant of Echelon I job (for example Deputy Minister of State Companies supervising the Director). Current Compensation system implemented for Civil Servants does not have positive impact in motivating Civil Servants. Policy, system, and structure of Civil Servant compensation implemented today do not function as reward system for civil servant to generate good performance at certain period. In consequence, many civil servants willing to work hard to attain good performance always think twice before conducting duties optimally, let alone outside their "Job Description", since they understand that there will be no formal reward, except probably good impression on their direct superiors. The emergence of "PGPS" saying reflects the feeling. It will be a different situation when the civil servants are appointed at particular projects or activities presenting them incentives or other admission such as honorarium.

As with motivation, compensation system implemented for Civil Servant thus far has no positive impact on productivity of Civil Servants. This is proven from low productivity of Civil Servants measured from every aspect. Of course, it should be admitted that low productivity of Civil Servants is also affected by various factors, including working system and procedures employed. Besides, "special salary raise" that can be conferred upon Civil Servants having "very good" appraisal in Daftar Penilaian Pelaksanaan Pekerjaan (DP3 - List of Work Executing Scoring) so he or she can be an example as mandated in Article 14 Paragraph (1) Government Regulation No. 7 of 1977 on Arrangement of Civil Servants Salary, does not show close relation to productivity of Civil Servants. Implication of compensation system for Civil Servant currently implemented is in Civil Servant Pension System aggravating in every aspect. Pension System referring to Compensation System currently implemented for Civil Servant causes complains and concerns of Civil Servants on the scale of pension money they will receive when they retire since it is based on the very small basic salary. Similar thing is felt by government who feel that pension system currently implemented causes heavy financial burden for the state (Subianto, 2006).

Contemporary issue in this matter is issue emerging

since 2004, when state decided to implement different system and policy of "remuneration" for heads of KPK (Corruption Exterminating Committee), positions categorized as State Officer and eventually with the bestowing of "remuneration" (Performance Subsidy) to Civil Servants of Ministry of Finance followed by Civil Servants from Badan Pemeriksa Keuangan (BPK – Financial Examining Body), Mahkamah Agung (MA – Supreme Court), and some other government agencies. The decision at first intended as "reward" for success in executing what is called as "Bureaucracy Reform" has on the contrary caused new problems in managing the already complex enough Civil Servant compensation.

Problems having and will be emerged are among others: Conferring of "performance subsidy" for Civil Servants in some Government Agencies (Central and Local) has not yet concretely, distinctly, and explicitly been based on performance (working performance) of Civil Servants. Most of it are still based on "absence level" and other very immeasurable values and behaviours. It has negative effects on morality and motivation of Civil Servants working in other Government Agencies, both in Ministry and Non Ministry Government Institution level, who have not got their turn at Performance Subsidy (Prasojo, 2009). Examples of cynical comments from some Civil Servants in other departments are as follows: "Please compare, how many hundred trillions is contribution of our ministry to APBN (States Budget) than contribution from Taxes and Customs?", "Are those Ministry and Bodies only meritorious to this country?" and other expressions of "irritated" feeling. Those utterances are not (boldly) expressed openly, but becomes talking topic in closed environments. Eventually, as expected, many agencies flock in line to get "stamped" of being success in executing "Bureaucracy Reform" and deserve Performance Subsidy. If the government keeps bestowing Performance Subsidy related to success of agencies in executing Bureaucracy Reform in the next five years, it will have big effect on State Budget. Currently, Cost of Employee Expenses has reached 33% more of total State Budget and 40% of Local Budget in average. If in five years half of all Civil Servants in Indonesia have received Performance Subsidy, it is expected that total Cost of Employee Expenses can reach more than 50% of Total State Budget.

The problems analyzed above should be responded to and searched for their solutions comprehensively so as to solve and overcome negative indications on performance and productivity of Civil Servants accused to have caused by incompatible Civil Servants compensation system. Basic objective of this paper is: (1) Inventorize and remap issues concerning Civil Servants Compensation

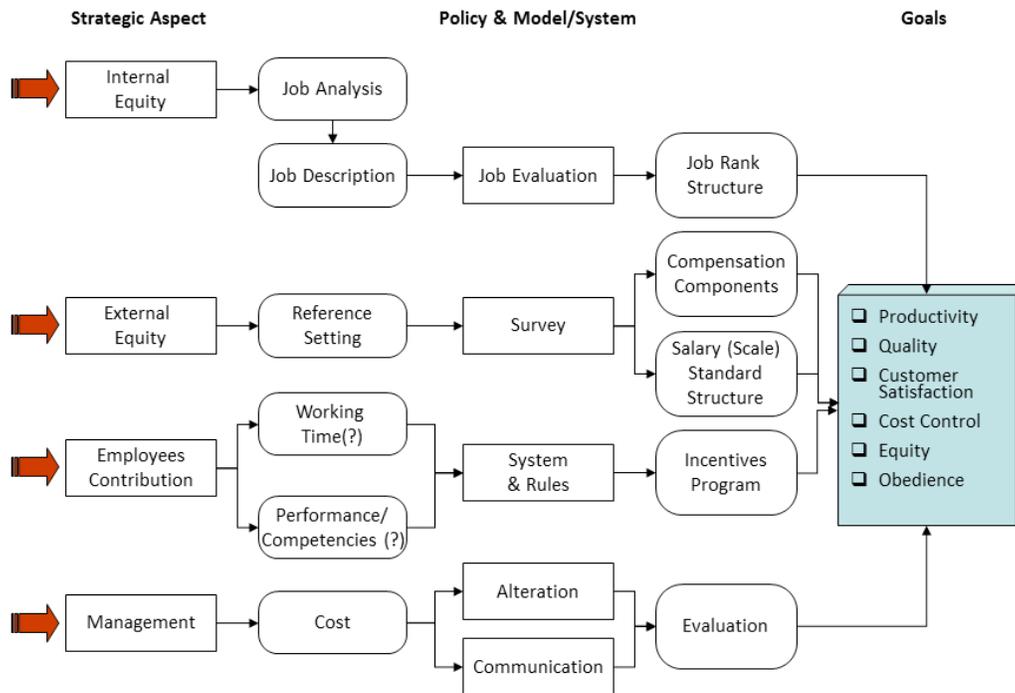


Figure 1. Compensation Management and Strategy after Milkovich & Newman's Pay Model

Source: Milkovich and Newman

System thus far and analyse them comprehensively in compliance with the efforts of actualizing bureaucracy reform specifically in context of civil service reform; and (2) Conduct re-designing of Civil Servants Salary System to be more compatible with necessities and demands also dynamics of latest internal and external environments of Civil Servants in frame of Civil Servants management.

The term compensation or reward recently known as remuneration by Government Agencies has actually been used for long by ILO (International Labor Organization). ILO Convention Number 100 mentions: "Equal remuneration for job of equal value", interpreted as "Similar/equal remuneration should be paid to jobs possessing similar/equal weighs/values)." The meaning of remuneration in that convention is : "(basic) wages/salary or minimum wages and every added emolument directly or indirectly paid in form of money or goods by employer to employee in connection to employment relations."

Many text books and organization documents (government and private) in the US commonly use the term Compensation and Benefit (Com-Ben). Compensation (which more or less has the same meaning with remuneration) is everything employees/workers receive as reward for their labor (McKenna, 2006). Meanwhile, Benefit can be interpreted as and Welfare

is element of remuneration given in various forms of payment, some are also given in non-remuneration form.

Basically, conferring of compensation by organizations/companies to employees has the objective of: Getting the right Human Resources (qualified, competent, and professional) or having potency for development; Keeping existing (trained and developed) employees (qualified, competent, and professional) so as not be tempted to move to other organization, particularly rivals; Assuring equity, both internal (vertical and horizontal) and external equity or consistency; Able to motivate employees to keep high achievement, to support effort to attain high level of productivity; Appreciating wanted behavior, namely good work achievement, experience, loyalty, new responsibility, and other behaviors appreciated through effective design of compensation; Able to keep employees and their families in prime condition physically and mentally to feel satisfied and have high working spirit; Helping organization get and keep its Human Resources at proper level of expenses; Obeying regulations (legal) on other aspects of Human Resources management, design of compensation against legal limitations.

"Direct" compensation is every components of compensation directly received by employees at particular time (periodically) or after each work done. Components of compensation included in "direct" group are: (1) Basic

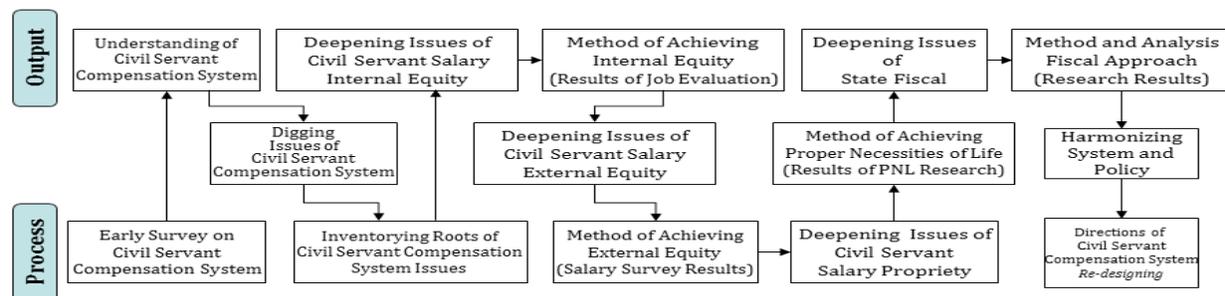


Figure 2. Data Analysis Stages

Salary; (2) Routine Cash Subsidy as supplement to salary, fixed or non fixed (variable); (3) Religious Day Subsidy; (4) Incentives in connection to output; (5) Bonus, given annually or every 6 (six) months in connection to individual and/or organization/company performance; and (6) Presentation of ration ("in kind"/"in natura"), such as food, housing facility, transport, and others enjoyed continually/routinely/periodically (Mondy, 1995).

Compensation classified as indirect is every expending by organization/company on employee indirectly received or enjoyed by employee. This expending or enjoyment can be received by employee after retirement or resignation, when employee/worker takes time off, when employee or his or her family member passes away, and others. Components of Indirect Compensation in Indonesia includes, among others: (1) Salary/wages during time off, national holiday, and paid permit; (2) Health keeping (employee and family member); (3) Assistance and aid over accident; (4) Insurance premium paid by organization/company; (5) Pension Fund Fee paid by organization/company; and (6) Assistance for free education expenses, and so on.

Management and strategy of compensation are closely related in compensation system. Following Total Compensation Strategy way or model of thinking by (Milkovich, 2005). It includes and explains following principles: (1) objective expected to be attained by an organization through salary management; (2) policies regulate how to attain that objective; and (3) techniques of carrying out salary setting and arranging; plus (4) how all program of compensation will be coordinated and administrated. Since compensation management is Sub-system of Human Resources Management System (HRMS), then strategy of salary must be in compliance with and support HRMS strategy. On the contrary, HRMS should refer to organization Strategic Plan in Human Resources. In short, management and strategy of employee salary can be schematically clarified through diagram in Figure 1.

To achieve the objective of conferring compensation

as has been discussed before, an organization must set a series of "Policy" in managing salary. Policy in context of compensation management basically is answer to questions that may occur and can be guidance and reference for all level of leaderships. Therefore, compensation policy will usually set: (1) Main Base for setting Amount of Salary for Every Job and Every Person; (2) Components of Compensation System; (3) Basis for "Increase/Improvement" of Employee Individual Salary; (4) Incentives (Reward) Given for Good Performance Accomplishment; and (5) Reference in Setting of Salary Level by Organization.

RESEARCH METHODS

The type of analysis employed in this paper is descriptive-analytic (Bailey, 1994) of various issues concerning system and policy of Civil Servants compensation. Due to its nature, this paper attempts to: (1) giving description of current situation concerning Civil servant compensation system; (2) identifying issues concerning implementation of existing Civil servant compensation system; and (3) formulating design of Civil servant compensation system in the future (Faisal, 2003).

As outline, data utilized in this study comprised of primary and secondary data. Both data were collected by following data collecting techniques, namely: (1) Primary Data, gathered through field research in direct communication or interview technique with key informant directly connected to analysis substances; and (2) Secondary Data, gathered through study on policy documents, library research, and various references, such as reports, text books, papers, journals, reviews or other writings relevant to focus of analysis.

After acquired, data was then collected to be processed systematically. In short, phases of data analysis done is briefly presented in Figure 2.

As presented in data analysis scheme in Figure 1 that Results of Job Evaluation utilized in order to achieve internal fairness in Civil servant compensation system are

based on Job Evaluation Method employing FES (Factor Evaluation System) Method, adopted from FES Method employed by Office of Personnel Management (OPM), United States. Since 2008, in attempt of improving Civil servant compensation system, State Ministry for the Supervision of the State Apparatus and Bureaucracy Reform in collaboration with State Personnel Agency (BKN) has conducted job evaluation of almost all jobs in all Central and Local Government Agencies using FES Method.

RESULT AND DISCUSSION

Civil servant compensation system in Indonesia has been around since Pre Independence Era, divided into Dutch Colonialism Era and Japan Colonialism Era, to Post Independence Era at present (Maryanti, 1988). In Dutch Colonialism Era, politic of compensation was executed based on "unificatie" thought embodying the principle that for same jobs, there was no difference in salary of European, Inlander, and *Vreemde Oosterlingen*" (Ichsan, 1981). This politic of compensation was known as "*horizontale overgang*" stelsel or "working hours" (horizontal) stelsel and combination between horizontal and block system in rank adjustment, where diploma played vital role and practically became absolute requirement to hold an job.

In Dutch Indies Era compensation system, employees were classified into three job groups (*schaal*), A, B, and C, based on living standard and citizen class occupying each group of job. Group A was job-position paid according to standard living of Bangsa Indonesia and supplied specially for native Indonesian. Further, Group B was job-position usually held by citizen class with higher living standard and occupied by small citizen class and usually supplied for Indo group. Then, Group C was job-positions supplied for imported workers considered as experts, with salary far above citizen class holding jobs in Group A and Group B.

In Japan Colonialism Era, compensation system of Dutch Indies Era was totally exterminated and replaced by regulation stated in Kengpo stipulating compensation system for non Japanese employees. Dissimilar to Dutch Colonialism Era, in this era, working hours was not directly determined salary setting. In term of rank adjustment, employee only be given salary closely above old one.

After proclamation of Republic of Indonesia independence, three years later, precisely at 1 May 1948, Employee Salary Regulation known as ESR 48 was born, adopted working hours or horizontal stelsel of Dutch Colonialism Era (BBL 1925). Some changes in politic of

salary based on ESR 48 were group/room of employee salary was divided into six groups (I to IV) in compliance with real needs and presentation of subsidies, such as financial responsibility subsidy, representativeness subsidy, expensive subsidy, job subsidy, dangerous job subsidy, and other subsidies given for extraordinary conditions or legitimate reasons.

Government attempt at improving compensation system of Civil Servants kept continuing, through declaration of NESR 1961 since 1 January 1961 employing Single Scale and Double Scale Salary Systems, whereas in utilizing Double Scale was by adding one course of education. Then, next improvement attempt was through declaration of SESR 1968 as replacement of NESR 1961.

Other government attempt at improving Civil servant compensation system was replacing SESR 1968 with SESR 1977, precisely on 1 March 1977. Declaration of SESR 1977 was follow-up or operating implementation of Law No. 8 of 1974 on Civil Service Basics, in particular Article 7, namely "Every Civil Servant deserves proper salary suitable to his or her job and responsibility."

Civil servant compensation system regulated in this Law was intended to push desire of Civil Servants in doing their jobs to achieve optimum working merit. The basic thought was that every Civil Servant and his or her family should be able to live properly from salary, so as to be able to focus his or her attention and activities to executing the tasks entrusted to him or her.

The next improvement attempt done in Civil servant compensation system very much influenced by reform wave of 1998. Post the first wave of reform, there was adjustment to Law No. 8 of 1974 into Law No. 43 of 1999 on Adjustment to Law No. 8 of 1974 on Basics of Civil Service.

As mandated in Article 7 Paragraph (2) Law No. 43 of 1999 on Basics of Civil Service that: "Salary received by Civil Servants should be able to boost productivity and insure welfare." It is clear that the main objective of government through salary is productivity besides insurance of Civil Servants' welfare. Here it seems that Government does not have worries about its capability to draw and keep workers with high quality and competency needed by state. In reality, every time admittance of Civil Servant candidates is opened, the number of applicants always exceeds the needed number and it is suspicious that many candidates are willing to pay up to tens of million rupiahs to be accepted as Civil Servant Candidates. On the contrary, almost no Civil Servant resigns as Civil Servant prior to retirement except being sentenced for committing crime, such as corruption.

Then, in Law No. 43 of 1999 there are no continuation articles regulating the form of system that will boost

productivity. In such manner, Government Regulations stipulating implementation of the Law also do not contain such regulation.

In reality today, Civil Servant Salary Structure is very complex, so it is hard to be turned into measurement for a Civil Servant's performance. According to Government Regulations No. 7 of 1977 on Civil Servant Salary Regulations, Civil Servant Salary Structure is consisted of: Basic Salary, determined by Government Regulation, which determination based on Rank and Group/Room of Salary and Working Time possessed by Civil Servants. There are some exceptions in this determination, for example, Judges Salary which is stipulated specially with Government Regulation. Regular Salary Adjustment (RSA), arranged in number suitable to group and working time. As the name shows it, this system is carried out regularly and presented after achievement of group working time settled and evaluation of job execution is "adequate" in average. Special Salary Adjustment, is given as a reward to Civil Servant for "very good" category of working performance. This Special Salary is only given to employees clearly become model for other employees in their work environment. This is determined (for example, with Decree) by Head of Agencies/Institution. Subsidy received by Civil Servants is stipulated in Government Regulation, consisted of Family Subsidy (Wife/Husband and Children), Food/Rice Subsidy, Structural Job Subsidy, Functional Job Subsidy, Expensive Subsidy, Job Risk Adjustment Subsidy, Price Index Adjustment Subsidy, and Income Improvement Subsidy (now no longer in effect). All regulation on those subsidies are stipulated separately, both in Government Regulations, Presidential Decree, or other forms of law. Honorarium usually be received by Civil Servant through implementation of Program and Activities in each Agencies/Institution, which scale is suited to stipulation of existing law.

Commonly, salary system in Indonesia in general uses basic salary based on rank and working time. Rank usually is based on level of education and experience. In other words, basic salary settlement is generally based on principles of Human Capital Theory, which is that one's salary is given in proportion to level of education and training that he or she takes (Simanjuntak, 1985).

In Civil Servant context, as states in Law No. 43 of 1999, precisely in Article 7 Paragraph (1), every Civil Servant deserves fair salary proper to burden of work and responsibility. Further, it is stated in Paragraph (2) that salary received by Civil Servant should be able to boost productivity and insure his or her welfare.

The analysis above emphasizes that fair and proper salary able to boost productivity of Civil Servant is

mandate of Law. Whatever attempt at improving Civil Servant salary should be executed by arranging a clear system.

Up to now, Civil servant compensation system in Indonesia follows 3 (three) systems. The three salary system is as explained below (Law No. 43 of 1999 and Manuhuruk (1988): Mono scale System, a salary system bestowing same salary to employees at the same rank. This system does not or less care for characteristics of the job and not concern of the weight of responsibility in executing the duties of Civil Servant. Multi scale System, a salary system giving scale of salary based on characteristics of the job and the weight of responsibility in executing the duties. In other words, although rank and working time and the number of dependant are similar, but for characteristics of the job, achievements, and different weight of responsibility, salary will be different. Multi Scale Salary System can only be undertaken well after analysis and evaluation of the job. Combine Scale Salary System, a combination of Single Scale and Double Scale Salary System. In this system, basic salary is settled similar for every employee in the same rank and working time. Besides basic salary, subsidies are given to employees enduring heavier responsibility, needing constant attention and labor, or taking personal risk.

In its development up to this day, Government implements Combined Scale Salary System in Civil servant compensation system. With this system, Civil Servant salary is based on Rank and Subsidies given to employees having bigger responsibility or executing high risk duties.

Reform effort in Civil servant compensation system is strategic, so it has to be settled cross sectors – synergetic, in compliance with National Bureaucracy Reform Program. In this effort, some things at the foundation of the need to reform Civil servant compensation system in the future are as discussed below.

Civil servant compensation system is directed to achieve objectives, namely (1) Able to motivate Civil Servant to continuously have high performance to support attempts to achieve high level of productivity; (2) Able to keep Civil Servants and their families having prime physical ability and mental condition to get satisfaction and high working spirit; (3) Able to control employee expenses, so every expending always be in balance with gain in form of wanted productivity.

The most crucial policy to be re-formulated and re-clarified includes following aspects: Internal Equity is Equity appropriate to mandate of Law No. 43 of 1999 Article 7 Paragraph (1) that: "Every Civil Servant deserves fair and proper salary suitable to the burden of job and responsibility." What must be underlined and

agreed is that the definition of fair is suitable to statement of ILO Convention Number 100, namely: "Equal Remuneration for Jobs of Equal Value." If this policy is implemented consistently, the issue of "vertical" and "horizontal" internal inequity can be dismissed. External Inequity (Competitiveness) There should be boldness to adjust Salary Scale Structure currently used. Adjustment is made to Salary Scale Structure for "managerial and professional" jobs (Echelon I and II and Expert Functional Jobs) to always aim at compensation common market. Salary as Achievement Motivator Law No. 43 of 1999 Article 7 Paragraph (2) clearly and affirmatively states that: "Salary received by Civil Servants should be able to boost productivity and insure welfare." This policy is universal, both Governmental sector and Private sector organizations implement the same policy. Therefore, this policy is still relevant and should be preserved. Outside Salary Income Components Policy of presenting outside salary income components to Civil Servants can be varied for each sector, group, and echelon in organization structure. For example, should government still provide agency's house and car to Civil Servant from Echelon II and I? Why do not just change them with House Subsidies and Vehicle Subsidies and let Civil Servant buy their own houses and cars? Here, Government can also refer to practice conducted by Private Sector that has left the habit in 1980s due to high cost of providing and maintenance of house and vehicle. Not to mention that these two activities can become the place of "deviation". Corruption Exterminator Committee (COC) is one institution implementing this policy.

Analysis on strategy is similar to analysis on "How to" aspect, in this regard strategy for Civil servant compensation system reform. To fulfill this, "How to" aspect to be taken on in order to reform Civil servant compensation system in the future should do a series of changes as discussed in the explanation below.

Strategy for internal equity or compatibility sequentially is achieved by the results of Job Analysis, followed by Job Description Setting, to further conduct Job Evaluation. By executing Job Evaluation on all Government Agencies, there is a consequence of changes to method of setting Room Type currently utilized as stipulated in Government Regulation No. 98 of 2000 on Civil Servant Procuring (adjusted in Government Regulation No. 11 of 2002). This decision is appropriate to mandate of Article 7 Paragraph (1) Law No. 43 of 1999 and in compliance with Merit System. To alter the base of Job Rank Structure (Room Type) setting would take Job Evaluation activity.

The next step is Setting "Job Price", conducted after completion of Job Class Structure. "Job Price" in this

context is list of standard salary "scale" or standard for every Job Class. All employees and officials implementing it should be prepared to bear the consequences.

Implementation of merit based Salary System should be simultaneous with some radical changes. After changes in setting Room and Rank Type to Job Grade based on job quality, the form or model of Salary Scale Structure should also be changed. Selected of changes to do are as follow: Incremental model, which is the model used all along, providing option of regular (periodic) adjustment in connection with working time, can still be used on Civil Servant of General Function (Executor/Staff) level or Echelon IV Official downward. For Echelon III Official upward, in general consisted of professional and managerial workers, it is still suggested to use symmetric strain model. Raise of salary for Civil Servant of this Job group must be wholly connected to performance of Civil Servant. New shape to be used should be able to push Civil Servants in increasing their performances and competencies, but will not be heavy financial burden for government in long term. The form or model to choose is Symmetric Strain Form. Implementation of "Variable Pay" concept, whereas the amounts or scales of compensation (can) change, based on certain factors. These certain factors mainly are established performance, both by employees or by organization/institution. This is the right moment for Government to implement this system through alteration of Performance Subsidy (Incentive) characteristics from fixed into variable. The Scale of Performance Subsidy, should it be continued, should be variable. As the name suggested, subsidy currently enjoyed by Civil Servants in some Government Agencies should not be fixed, but variable depend on achieved performance. In that regard, one vital thing asserted to Agencies/Institution proposing idea of Bureaucracy Reform is that they suggest a number of Main Work Indicator (MWI) quantitatively measurable. Thus, if in a year the targets of MWI are not attained, the scale of Performance Subsidy should be lessened. Transition period, when gradually part of Performance Subsidy inserted into part of Basic Salary, while the other part will still be variable compensation. Transferring of 50% Performance Subsidy into Basic Salary should be executed gradually, for instance in 10 year period so as not to be heavy burden to State Budget. Thus, part of Performance Subsidy transferred into Basic Salary is no more than 5% annually. By conducting this transfer, Civil Servants receiving this transfer will not be given raise of General Salary that will still be enjoyed by other Civil Servants having not received Performance Subsidy.

Strategy for external equity achievement is taken by adapting to market price, especially for Professional and

Managerial Job Group (Echelon IV and III upwards). Strategy for External Equity achievement can be executed by conducting Comparison Census on salary received by Civil Servant (public sector) and Private (Market Price). If salary received by Civil Servant (public sector) is lower (underpaid) or higher (overpaid) than Private Sector, Government can ask for budget to do some adjustments. This practice is implemented in Japan by the National Personnel Authority (NPA). While in South Korea, salary of Civil Servant reaches about 85% to 90% of salary of Private Workers of the same level.

Eligibility aspect in Civil servant compensation system is based on Standard of Proper Necessities of Living of Civil Servants and their families. Study conducted by BKN in 2006 showed that Proper Necessities of Living for Civil Servants per Group (I to IV) quite varied, with the ratio between Group IV and Groups I and II respectively about 21% and 14%. Meanwhile ration of Proper Necessities of Living between Group IV and Group III is about 3%. Further, the study shows that ratio between Civil Servants married with two children and Civil Servant who is single is about 12%. Information on Proper Necessities of Living can be put into consideration in conducting adjustment for Proper Necessities of Living of Civil Servants each year. However, Proper Necessities of Living of Civil Servants should be updated every year for every region (Provinces, Regencies, and Towns).

In various exercises or formulations of Civil servant compensation system, the aspect of state budget availability has become main obstacle. However sophisticated the design of Civil servant compensation system is formulated, if employee expense budget "pot" is limited, then the sophisticated design will be meaningless.

Study conducted by World Bank (2010) on impact of remuneration policy in Ministry of Finance, State Audit Bureau, and Supreme court has increased utilization of employee expenses budget 250%, 130%, and 110% respectively in 2008. Implementation of remuneration policy through actualization of Bureaucracy Reform in all Central and Local Government Agencies from 2011 to 2014 will "suck" State Budget to pay for remuneration (wage bills) as big as 51% of Total State Budget and 9.3% of total GDP (World Bank, 2010).

The policy aspect here is Policy of Central and Local Government and its connection with the attempt to actualize bureaucracy reform. Emphasize of policy aspect between Central and Local Government is the necessity of synchronization in implementation of Civil servant compensation system. Policy of remuneration implemented by Central Government through presentation of Performance Subsidy to Central Civil Servant is also followed by Local Government by the

name Local Performance Subsidy. Implementation of policy of remuneration in Central and Local Government Agencies provides the scale of Performance Subsidy for Civil Servant in each agency.

To anticipate "jealousy" between Civil Servants in each Government Agency, there should be synchronization of policy in presenting Performance Subsidy to Central and Local Government Agencies. The main thing of concern in harmonization of this policy is to prevent nation disintegration, but on the other hand, still provide "discretion" for Local to create and compete in catching quality Human Resources to be recruited as Civil Servants in order to increase Regional Competitiveness.

Macro strategy of Civil servant compensation system reform analyzed previously can be implemented through these scenarios: Scenario 1: Implementation of Civil Servant Compensation System based on Merit through Implementation of FES with Conversion Method to Nation becoming Best Practice of FES Utilization, United States This conversion method is utilized to measure Total Personal Income (TPI) of Indonesia and America. The results of conversion in 2009 condition shows ratio between US Civil Servants and US Citizen is 0.6%, while ratio between Indonesian Civil Servants and Indonesian Citizen is 1.93%. The difference between the two is 1.33%, so if Indonesia wishes to use this salary conversion, then Indonesia must decrease the number of Civil Servants as big as 1.33% of citizen number or about 3,125,089 personnel to reach ratio 0.6%. Surely, this is not the right solution since it will be hard to be implemented. Therefore, in connection with this method, the next step to do is adjusting FES conversion with the ratio of Civil Servants compared to citizens.

Further analysis of the results of the conversion, with reference to data of average increase in expenses of Indonesian citizen monthly of 16%, shows that average expenses of Indonesian citizens monthly is about Rp 1,670,000,-. Then, it is also known that the lowest salary is about Rp 2,426,895,- which is bigger than average expenses of Indonesian citizen monthly. Therefore, the scale of salary relatively can cover the needs of Civil Servant family. This result is also above mean scores of Proper Necessities of Living in Indonesia according to BKN study mentioned above.

Synchronization with Civil servant compensation system implemented thus far (using 17 Grade) is by conducting inter grade multiplication of 1.12 and inter step multiplication of 1.03. This can also be applied to overcome imbalance of Civil Servant and Private Sector Workers salaries, particularly at Top White Collar Worker level. In Civil servant compensation system in Scenario 1, Working Time element on old Salary Structure can

Table 1. Conversion of Adjustment Results of Conversion of Indonesia and USA 17 Grade Civil Servant Salary.

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
1/I.a	2.426.895	2.507.976	2.588.642	2.669.031	2.749.697	2.797.156	2.876.853	2.957.242	2.960.425	3.036.248
2/I.b	2.728.666	2.793.558	2.883.771	2.960.425	2.993.494	3.081.493	3.169.492	3.257.491	3.345.490	3.433.489
3/I.c	2.977.167	3.076.373	3.175.580	3.274.787	3.373.993	3.473.200	3.572.406	3.671.613	3.770.820	3.870.026
4/I.d	3.342.308	3.453.691	3.565.073	3.676.456	3.787.838	3.899.221	4.010.603	4.121.986	4.233.369	4.344.751
5/II.a	3.739.411	3.864.077	3.988.742	4.113.408	4.238.073	4.362.738	4.487.404	4.612.069	4.736.735	4.861.400
6/II.b	4.168.199	4.307.116	4.446.033	4.584.950	4.723.867	4.862.784	5.001.701	5.140.618	5.279.535	5.418.452
7/II.c	4.631.994	4.786.407	4.940.821	5.095.235	5.249.648	5.404.062	5.558.476	5.712.889	5.867.303	6.021.716
8/II.d	5.129.826	5.300.843	5.471.860	5.642.877	5.813.895	5.984.912	6.155.929	6.326.946	6.497.964	6.668.981
9/III.a	5.665.846	5.854.712	6.043.578	6.232.444	6.421.310	6.610.176	6.799.042	6.987.909	7.176.775	7.365.641
10/ III.b	6.239.501	6.447.461	6.655.421	6.863.381	7.071.342	7.279.302	7.487.262	7.695.223	7.903.183	8.111.143
11/ III.c	6.855.080	7.083.518	7.311.956	7.540.394	7.768.832	7.997.270	8.225.708	8.454.146	8.682.584	8.911.022
12/ III.d	8.216.438	8.490.259	8.764.080	9.037.902	9.311.723	9.585.544	9.859.366	10.133.187	10.407.008	10.680.829
13/IV.a	9.770.536	10.096.244	10.421.951	10.747.659	11.073.367	11.399.074	11.724.782	12.050.489	12.376.197	12.701.905
14/ IV.b	11.545.740	11.930.667	12.315.594	12.700.521	13.085.448	13.470.375	13.855.303	14.240.230	14.625.157	15.010.084
15/IV.c	11.545.740	11.930.667	12.315.594	12.700.521	13.085.448	13.470.375	13.855.303	14.240.230	14.625.157	15.010.084
14/ IV.d	15.210.949	15.718.001	16.225.054	16.732.106	17.239.158	17.746.210	18.253.263	18.760.315	19.267.367	19.774.420
15/IV.e	17.036.263	17.604.161	18.172.060	18.739.959	19.307.857	19.875.756	20.443.654	21.011.553	21.579.451	22.147.350

be replaced with step element as part of FES elements. Step element is step in each grade measured from Civil Servant achievement in performance. The better Civil Servant performance achievement, the faster step and grade increase can be attained. Use of step element can boost Civil Servant performance and very connected to Employee Performance Target. Besides, Room Type System is no longer in practice, since it has been replaced with Grade per Job System.

This Civil servant compensation system is based on Return on Education Investment (ROEI). ROEI approach is implemented with the assumption that Education Qualification is a necessity as part of Competency Job Requirement synchronous to each Job Value, prior to calculation of education investment standard of Civil Servant Candidates to recruited as Civil Servants. Calculation is also executed with assumption of Working Time as Civil Servant to be basis for setting of Basic Salary of Civil Servant per month.

Further, Civil Servant monthly Basic Salary is supplemented with PNL of Civil Servant per month as Fundamental Salary per Month (Basic Salary + PNL). This scenario still employs Performance Subsidy System based on Job Value and Grade and Job Price with FES Method. It can be applied to different level of education suitable to each Score of ROEI, PNL, and Performance

Subsidy. Room Type System is not being used in this scenario, since it has been replaced with Grade per Job system appropriate to FES Method utilized in presenting Performance Subsidy. With this scenario of Civil servant compensation system, Civil Servant Salary components are comprised only of Salary (Fixed + PNL) and Performance (Variable) based Subsidy. Priority of attention in connection to scenario of Civil servant compensation system is linking Performance Subsidy with Civil Servant Performance. As is the case with Civil servant compensation system, thus far there is no significant connection between presentations of Civil Servant Performance Subsidy with Performance of Civil Servant at all level, structurally (leaders) and functionally (particular and general/staff). Salary System, including policy of presenting Performance Subsidy to Civil Servant, generally has no connection to effort of increasing performance (no pay-performance link). Some study findings reveal that the reason of not being paid enough caused bad performance of Civil Servants and various undisciplined acts. This is aggravated by lenient penalty given, particularly to Civil Servants with low performance quality. Appropriate to the demand of bureaucracy reform, Civil Servant performance improvement is no longer an option, but a necessity so that performance and quality of public service keep increasing. Anticipative

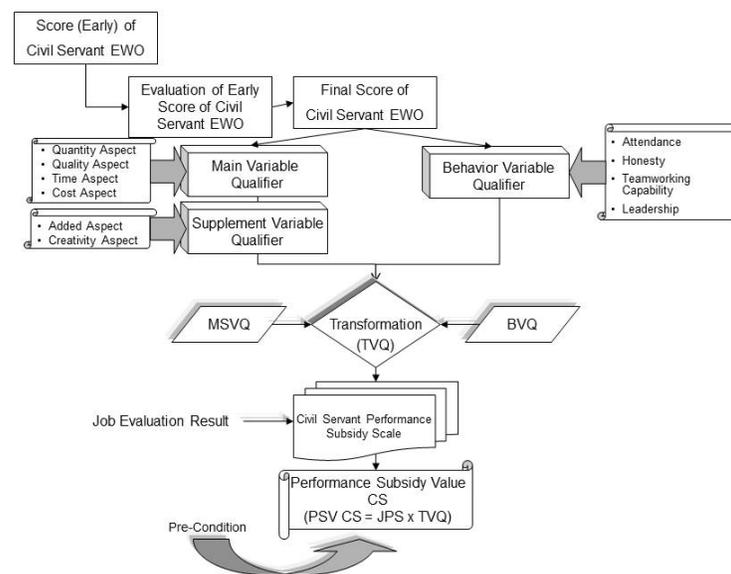


Figure 3. Design Scheme of System of Conferring CS Performance Subsidy Based on PSV CS.

efforts against developing phenomenon in connection to policy of Civil Servant “performance” subsidy should be executed by Government. For that, Government needs to and must re-arrange all Civil Servant compensation systems comprehensively and integrally. The efforts, among others, can be conducted by re-arranging of performance subsidy system, connecting it directly to performance of individual Civil Servant.

Based on equity approach, employee’s motivation for high performance is decided by how far concerned employee perceives received performance subsidy as output in balance to efforts and power poured into it (input). If a Civil Servant perceives that other Civil Servant (working partner) is paid more with the similar efforts and power, negative reaction will emerge as respond to inequity felt by him. In general, employee including Civil Servant will demand high compensation as consequence of performance they achieve. Some study show that the scale of basic salary is not considered very important by employee. Employees want management capable to appreciate the efforts they do for the advance of the organization. Therefore, an instrument to employ is giving performance subsidy, without ignoring other factors, particularly non-money. The consequence is the necessity to differ compensation for Civil Servants who have good performance, ordinary performance, and less. Starting from the perspective above, prototype of design of Civil Servant Performance Subsidy presentation system based on Employee Work Objective (EWO) of Civil Servant can be analysis as follow: Main Variable Qualifier (MV): (1) Quantity Aspect (Output target); (2) Quality Aspect (Quality Target); (3) Time Aspect (Time

Target); and (4) Cost Aspect (Cost Target), Supplemental Variable Qualifier (SV): (1) Supplemental task; and (2) Creativity, Behavior Variable Qualifier (BV): (1) Absence (Arrive and Leave and attendance at working place/job during working hours); (2) honesty in submitting data and information; (3) ability to cooperate in a working team; and (4) Leadership.

Operating of Valuation Elements: Setting of Initial Value of SKP PNS Achievement, Evaluation of SKP PNS Achievement, Transformation: Main and Supplement Variable Quality (MSVQ) is addition of Main Variable Quality and Supplement Variable Quality about 70%, Behavior Variable Quality (BVQ) is fixed at 30%, Total Variable Quality (TVQ) = MSVQ + BVQ, TVQ = Performance per Individual Civil Servant Quality/Value.

Setting of Performance Subsidy Scale based on Job Grading can be called Job Performance Subsidy (JPS). Value of JPS is gathered based on each job rank acquired from result of Job Evaluation according to each method employed (FES, Hay System, and so on).

Setting of Performance Subsidy Value (PSV) of Civil Servant (CS) is based on calculation utilizing formulation below: $PSV\ CS = JPS \times TVQ$. Design of performance subsidy presentation system of Civil Servant based on EWO CS as has been discussed above can be seen in Figure 3.

Pre-condition required to actualize design of performance subsidy presentation system of CS based on PSV CS is as follow: In every government agency job title and job standard have been set so as to include everything in job evaluation process. This is done so all CS at each government agency, both in structural and functional job,

especially for general functional job also included in job evaluation process conducted. So, job evaluation is not only for structural job group. For particular functional job group, process of job qualifying can be equalized with existing job level with rational consideration. Setting of performance contract every budget year agreed on by all CS per Organization or Working Unit. Technique of implementing sanction/consequences for achieving performance score per performance variable can be arranged separately according to each agency condition and situation.

CONCLUSION

Some points of general conclusion taken from this analysis is that Civil Servant Compensation System implemented thus far in reality has raised some issues and is not really compatible with the mandate of Law No. 43 of 1999 Article 7, which is that salary received by Civil Servant has not yet fulfilled principles of fairness and proper in compliance with job burden and responsibility and is not capable of boost productivity and insure welfare of CS and family. Then, Reform through serious and consistent transformation on Civil Servant Compensation System in the future is a must, from system based on education, rank, and working time into system based on merit bringing up performance of Civil Servant. Through Civil Servant Compensation System based on merit, it is expected that Civil Servant can do professional job, ultimately increasing quality of service to society and bureaucracy reform will be actualized. Besides, existence of Civil Servant Performance Subsidy Presentation Policy often defined by term “remuneration” implemented thus far is considered by many parties as not reflecting real performance of each individual Civil Servant. This policy has raised new issue and misleading in Civil Servant Compensation management and has implication on emergence of a phenomenon whereas Government Agencies “race” to get performance subsidy as “symbol” of having do the reform. Then, Emphasizing on Scenario of Civil Servant Compensation System Reform in Scenario 1 and Scenario 2 in analysis of this paper focusing on Civil Servant Compensation System based on merit, bringing up performance aspect with regards to Equity Principle (Internal and External) and Proper as mandated by Law No. 43 of 1999 Article 7. The main core of Scenario of Civil Servant Compensation System Reform proposed in this analysis is on Civil Servant Performance Subsidy. Positive aspect of implementation of Civil Servant performance subsidy presentation policy by separating basic salary and performance subsidy (variable income/incentive based) is providing flexibility for government to give reward adequate for Civil Servant

who achieve top performer.

Some recommendation need to be considered in order to reform Civil Servant Compensation System in the future is, among others: Both Scenario 1 and 2 in this analysis require pre-condition for Arrangement (Perfection) of Civil Service System as a whole as milestone in compliance with strategy of bureaucracy reform on the motion, integrating all sub-systems inside it in compliance with what has been designed in this study, following are steps to do. Special in facing Performance Subsidy issue in Bureaucracy Reform “package” applied by Government brings about dilemmatic consequence that Government need to anticipate, namely very big effect on State Budget (according to analysis of World Bank and Ministry of Finance, 2010). For that, Performance Subsidy presenting attempts need to be applied gradually in compliance with balance between Budget Burden and State Source of Income, followed by Arrangement (Perfection) of Civil Service System as a whole. Related to presentation of Performance Subsidy currently implemented some restorative steps should be done, whereas every presentation (payment) connected to “performance” hence the term “Performance Subsidy” should really be linked to performance. To link Performance Subsidy (incentive) with individual Civil Servant performance, can be executed by utilizing PSV, relatively more objective, measured, accountable, participative, and transparent, so as to actualize establishment of Civil Servant according to performance and career system as mandated in Law No. 43 of 1999 (Articles 12 and 20) and Government Regulation No. 53 of 2010 on Civil Servant Disciplinary precisely on Article 3 point 12 (every Civil Servant obliged to “achieve set employee work target”). Setting on Civil Servant Compensation System in the future needs to be prioritized more comprehensively, including arrangement on Compensation System (remuneration) of other State Jobs (outside Civil Servant). Besides, there is a necessity to regulate and clarify and affirm components of Civil Servant Compensation as a whole, from salary, performance subsidy, and other kinds of compensation in fulfilling Civil Servant welfare fairly and properly, with standard based on Competency, Professionalism, Responsibility, and Job Burden and Proper Living Need Standard for Civil Servant and family. The mentioned setting is compiled integrally with other welfare attempts, especially Pension and Retirement Days Subsidy (RDS), considering that Pension and Retirement Subsidy System tend to follow Compensation System.

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