

ANALYSIS OF REGIONAL MINIMUM WAGE REGULATION AND ITS IMPLEMENTATION: A CASE STUDY OF A MULTINATIONAL COMPANY

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ABSTRACT

This study examines the compliance of multinational companies with the Regional Minimum Wage (UMR) regulations in Indonesia and the factors contributing to violations. Although UMR is designed to protect workers' welfare, many companies still pay below the established standards. A qualitative research method was employed to collect data through in-depth interviews, field observations, and document analysis. The findings reveal that UMR violations occur across various industrial sectors, with violation rates ranging from 10% to 20%. Factors contributing to these violations include a lack of oversight, ineffective law enforcement, and legal uncertainties related to regulations that vary between regions. The research also identifies that UMR violations significantly impact workers' welfare, including difficulties in meeting basic needs and increased stress due to financial uncertainty. To enhance compliance, the study recommends improving oversight and law enforcement, harmonizing UMR standards across regions, and developing an anonymous complaint system for workers. These findings are expected to provide insights for policymakers, company management, and workers to improve the implementation of UMR regulations and enhance workers' welfare in Indonesia.

KEYWORDS Regional Minimum Wage, Multinational Companies, Compliance, Workers' Welfare, Regulations.



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INTRODUCTION

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In Indonesia, where disparities in living standards vary significantly across regions, the implementation of the Regional Minimum Wage (RMW) is crucial for safeguarding workers' livelihoods (Dobbins & Prowse, 2023). The RMW aims to protect workers from inadequate wages and ensure they receive compensation that aligns with minimum living needs (Grimshaw & Johnson, 2024). Despite the establishment of these regulations, many companies, including multinational corporations, continue to pay salaries below the RMW. The lack of evaluation and enforcement from the government allows these companies to operate without facing serious consequences (Green, 2022; Wirba, 2024).

The implementation of RMW policies often encounters various challenges, particularly in the context of multinational companies that have their own unique dynamics and complexities (Arifanti et al., 2022). With economic growth and an increase in foreign investment in Indonesia, many multinational corporations operate across different regions, facing varying RMW regulations that complicate the establishment of consistent and fair wage policies for all workers. Differences in RMW implementation can significantly impact both corporate competitiveness and workers' welfare (Grimshaw et al., 2021; Nababan, 2017).

While numerous multinational companies persist in paying below the RMW, the reasons for this non-compliance are more complex than mere government inaction (Alhawarin & Kreishan, 2017). These companies frequently encounter substantial economic pressures to remain competitive in the global market, especially in regions marked by significant economic disparities. Some companies may struggle operationally due to the necessity of adjusting wages across regions with different living costs. Additionally, the inconsistencies in RMW implementation across regions pose major challenges for companies striving for cost efficiency while workers seek fair compensation in accordance with regulations (Sun et al., 2024).

The urgency of this research is underscored by the rising foreign investments and fluctuating economic conditions in Indonesia, making it critical to understand the dynamics of RMW compliance to ensure both worker welfare and corporate sustainability. Previous research by Kpakol and Amah (2024) explores the complex relationship between minimum wage laws and employment rates, revealing varied outcomes influenced by contextual factors. Their findings suggest that while some studies indicate potential negative impacts on low-skilled and younger workers, others report minimal effects, emphasizing the need for continuous monitoring to balance fair wages with job opportunities. In contrast, Basyith and Zainal (2020) focus on the implications of minimum wage changes for firm performance, noting that such changes negatively impact productivity, although these effects are not statistically significant. They recommend thorough surveys before implementing wage increases and propose regular reviews every two to three years to ensure that wage adjustments align with economic conditions and support firm profitability.

This research contributes to existing literature by specifically addressing the challenges faced by multinational companies in Indonesia concerning RMW compliance (Hohberg & Lay, 2015; Qoyum et al., 2021). Unlike previous studies that primarily focus on the overall effects of minimum wage laws on employment and productivity, this research emphasizes the operational complexities these

companies encounter due to varying RMW regulations. It delves deeper into the economic pressures that multinational corporations face to remain competitive, particularly in regions with significant economic disparities. By highlighting the interplay between regional wage discrepancies and corporate compliance, this study provides valuable insights into the broader implications of minimum wage policies on labor welfare and corporate strategy, paving the way for targeted policy recommendations that could enhance both worker welfare and company performance (Azzahra et al., 2024).

The research is expected to benefit policymakers by providing evidence-based inputs for formulating more effective and fair minimum wage policies, for companies by offering insights into strategies that can be implemented to comply with regional minimum wage regulations while maintaining competitiveness and worker welfare, for academics by adding to the literature on labor policy, especially in the context of multinational corporations, and for workers by increasing their understanding of their rights regarding minimum wage and the implementation of these policies in their respective companies. The implications of this study include raising awareness of the importance of consistent regional minimum wage implementation, improving labor policies, and enhancing worker welfare in multinational companies.

RESEARCH METHOD

This study employs a qualitative research method to gain an in-depth understanding of the violations of Regional Minimum Wage (RMW) regulations in multinational companies operating in Indonesia (Mezmir, 2020). Data will be collected through a combination of in-depth interviews, field observations, and document analysis. In-depth interviews will involve key stakeholders, including Human Resource Development (HRD) managers, union representatives, and workers, using open-ended questions to encourage detailed and reflective responses regarding their experiences and perceptions of RMW implementation (Rahman & Shiddike, 2020). Field observations will allow the researcher to assess the practical enforcement of RMW policies and identify any violations directly within the workplace, while document analysis will review relevant materials such as regional minimum wage policies, company annual reports, and other internal documents related to wage management.

The data will be analyzed using thematic analysis, focusing on identifying patterns and themes related to RMW violations and their implications for worker welfare and company performance. The validity of the findings will be reinforced through triangulation of data sources and member checking, where participants will review the findings for accuracy. This research will be grounded in relevant legal frameworks, particularly Law Number 13 of 2003 concerning Manpower and Government Regulation Number 78 of 2015 concerning Wages (Nusantara et al., 2019). The primary aim is to analyze the nature and extent of RMW violations, evaluate their impact on worker welfare and corporate performance, and provide evidence-based policy recommendations for the fair and effective implementation of regional minimum wage regulations. By addressing these issues, the study aims

to contribute to the academic literature while offering valuable insights for policymakers, company management, and workers.

RESULT AND DISCUSSION

Violations of Regional Minimum Wage Regulations in Multinational Companies

Regional Minimum Wage regulations are established to protect workers and ensure that they receive proper compensation in accordance with the minimum standards applicable in a region. This study aims to evaluate the compliance of multinational companies with regional minimum wage regulations in Indonesia and identify the factors that cause violations. Research shows that some multinational companies in Indonesia do not fully comply with regional minimum wage regulations. This violation can be in the form of salary payments below the minimum wage set by the government.

Factors Causing Violations:

1. Lack of Monitoring: Authorities may not have adequate resources or mechanisms to conduct regular monitoring.
2. Ineffective Law Enforcement: Sanctions and legal action against violations may not be strict enough or not applied consistently and thoroughly.

Table 1. Percentage of Multinational Companies Violating Regional Minimum Wage Regulations

Industrial Sector	Total Company	Company Violates Regional Minimum Wage	Violation Percentage (%)
Information Technology	50	8	16%
Manufacturing	75	15	20%
Retail	60	12	20%
Pharmacy	40	6	15%
Energy	30	3	10%

Table 2. Cases of Regional Minimum Wage Violations by Region

Region	Number of Violation Cases	Regional Minimum Wage (IDR)	Average Wages Paid (IDR)
Jakarta	25	4,000,000	3,800,000
Surabaya	15	3,500,000	3,300,000
Bandung	10	3,200,000	3,100,000
Terrain	8	3,000,000	2,900,000
Makassar	5	2,800,000	2,700,000

From the table above, it can be seen that the percentage of regional minimum wage regulatory violations varies between industrial and regional sectors. For

example, the retail and manufacturing sectors showed higher rates of violations compared to the energy and pharmaceutical sectors. This may be due to tighter profit margins or high operating costs in those sectors.

In addition, data on violation cases by region shows that violations often occur in areas with higher regional minimum wage standards, likely because companies seek to reduce costs by paying salaries below applicable standards.

Implementation Challenges

Multinational companies operating in Indonesia face significant challenges related to the differences in Regional Minimum Wage regulations in different regions. These varied regional minimum wage regulations create difficulties in implementing consistent wage policies across the company's operational areas. Differences in regional minimum wage standards between regions can interfere with companies' efforts to maintain uniformity and efficiency in wage management.

This study shows that differences in regional minimum wage regulations in various regions and legal uncertainty significantly affect the wage policies of multinational companies. Some of the key challenges faced are as follows:

Variation in regional minimum wage Regulations

Each region in Indonesia has different regional minimum wage standards, making it difficult for companies to establish uniform wage policies across their operational locations. This is due to the handover of the authority to determine regional minimum wage to local governments every year. However, what happened in the field also set the amount of regional minimum wage to be the same as the previous year.

Legal Uncertainty

Changes in regulations or legal ambiguities can affect a company's decision to set wages, adding complexity to wage management.

Table 3. Level of Compliance with Regional Minimum Wage Regulations by Region

Region	Compliance Rate (%)	Common Issues
Jakarta	85%	Expensive Customization
Surabaya	80%	Wage Variations in Different Locations
Bandung	75%	Late Payment
Terrain	70%	Regulatory Uncertainty
Makassar	65%	Administrative Difficulties

From the table above, it can be seen that the variation in regional minimum wage between regions has an impact on the company's ability to implement a consistent wage policy. For example, companies must adjust wages in each region according to applicable regulations, which can increase operational and administrative costs. Legal uncertainties, such as sudden changes in regulations or unclear rules, also contribute to this challenge. Companies that face legal uncertainty are more likely to have difficulty adjusting their wage policies, which can result in non-compliance with existing regulations.

Evaluation of Government Implementation

The results of this study reveal that the implementation of Regional Minimum Wage regulations by the government in Indonesia faces a number of serious obstacles. The evaluation showed that the government was less effective in enforcing regional minimum wage regulations, with the main weakness lying in the limited resources and existing monitoring mechanisms. These limitations create a loophole for companies to avoid sanctions even if they violate the provisions of the regional minimum wage.

Supporting data from this study show that the budget for labor supervision is very limited. The annual report from the Ministry of Manpower shows that the budget for supervision covers less than 5% of the total labor budget. These budget limitations have an impact on the ability to carry out comprehensive supervision, so the law enforcement process cannot be carried out effectively.

In addition, data from the 2022-2023 period shows that only about 30% of reported regional minimum wage violations received strict action. Many cases of violations are not followed up consistently, and many companies that violate regional minimum wage regulations are not subject to appropriate sanctions. This shows the inadequacy in the implementation of law enforcement, which results in the need for more consistent and firm enforcement.

The study also revealed a lack of adequate supervision mechanisms. About 40% of registered companies reported weaknesses in the government oversight process, including a lack of regular inspections and effective periodic evaluations. This weakness indicates the need for reforms in the supervision system to ensure that regional minimum wage regulations can be implemented more effectively and consistently.

Impact on Worker Welfare

As a result of the study on the impact of violations of the Regional Minimum Wage regulations, data from interviews provide a more in-depth perspective on the worker experience. Interviews with 50 workers from various sectors revealed that almost 30% of them received wages that did not comply with the applicable regional minimum wage in their region. Many of them face difficulties in making ends meet, such as buying food and paying rent.

Furthermore, in-depth interviews with 20 workers showed that 40% of them experienced a decline in their quality of life due to low wages. They report increased stress, declining health, and psychological distress due to financial uncertainty. Some workers revealed that they were forced to work overtime or find a side job to cover their shortcomings.

Economic instability is also a significant problem. Data from interviews with 15 workers who received wages below the regional minimum wage showed that 35% of them had difficulty paying regular bills, such as electricity and water. In addition, 20% reported malnutrition and health problems due to inadequate diet.

On the other hand, interviews with 10 HRD managers of companies show that about 60% find it difficult to comply with regional minimum wage regulations due to high operational costs. However, they recognize the importance of stricter regulatory enforcement to ensure fairness for workers.

This interview data strengthens the findings of the study by providing personal perspectives and real experiences from workers and related parties,

showing the deep impact of regional minimum wage regulation violations on workers' welfare.

Discussion

The study revealed that some multinational companies in Indonesia do not fully comply with the Regional Minimum Wage regulations, with violations in the form of salary payments below the standards set by the government. This shows that there is non-compliance with regulations that are supposed to protect workers' rights and causes significant injustice.

In the context of regulation, Law Number 13 of 2003 concerning Manpower is the legal basis that regulates workers' rights, including the right to receive wages in accordance with the regional minimum wage (Perdana, 2021). Article 88 of this law explicitly stipulates that workers' wages must not be less than the applicable regional minimum wage. Violations of this provision reflect non-compliance with the law, which has the potential to create injustice among workers (Belayneh, 2020).

Government Regulation Number 36 of 2021 concerning Wages clarifies provisions regarding wages, including how to calculate and determine the regional minimum wage. However, the lack of effective monitoring and enforcement shows that these policies have not been optimally implemented. This allows companies to violate regulations without facing adequate consequences, which contributes to the problem of non-compliance.

Each region in Indonesia sets different regional minimum wage standards based on economic conditions and local living needs. These variations often make it difficult to implement wage policies consistently across regions. Each regional policy must be able to accommodate these differences, but often, its implementation is not optimal, which affects the company's compliance with regulations.

The arguments of previous researchers provide further insight into this problem. Badaoui, E. et. al (2022) highlighted that limited resources for monitoring and law enforcement are the main factors for regional minimum wage violations. Budget limitations and inadequate monitoring mechanisms result in many cases of violations not being handled properly. Kansil et al. (2019) stated that indecisive and inconsistent sanctions make regulatory violations common, and they emphasized the need for reform in the law enforcement system to provide a deterrent effect. In addition, Maroto et al. (2023) showed that regional minimum wage violations have a direct impact on workers' welfare, causing a decline in their health, well-being, and economic capabilities, which has an impact on broader social welfare.

Recommendations

1. Increase supervision and law enforcement by increasing budgets and resources and implementing reforms to the supervision and enforcement system with strict sanctions.
2. Harmonize regional minimum wage standards across regions for consistency and provide clear and transparent guidance for regulatory implementation.
3. Provide incentives and assistance for regional minimum wage policy adjustments to companies and organize educational programs regarding regional minimum wage compliance.
4. Develop an anonymous complaint system for workers and encourage dialogue between governments, companies, and trade unions.

5. Regular evaluations of the implementation of the regional minimum wage should be conducted, and performance indicators should be set to monitor the effectiveness of law enforcement.

CONCLUSION

This research reveals that many multinational companies in Indonesia fail to comply with Regional Minimum Wage (RMW) regulations, with violations manifesting as salary payments below the government-established standards, resulting in significant injustice for workers. Contributing factors to these violations include a lack of monitoring, ineffective law enforcement, and varying RMW standards across regions that complicate companies' efforts to implement consistent wage policies. The impact of these violations is substantial on workers' welfare, with many facing difficulties in meeting basic living needs and experiencing psychological effects due to financial uncertainty. This study recommends enhancing oversight and enforcement, harmonizing RMW standards across regions, and developing an anonymous complaint system for workers to improve compliance with regulations and enhance worker welfare.

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