

EMPLOYEES AS SERVICE PROVIDERS: COMPENSATION ANALYSIS BASED ON EMPLOYMENT AGREEMENTS

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Abstract

This study examines the relationship between the type of employment contract and the compensation received by employees as service providers, as well as the implications of such compensation on employee performance. The method used is a literature review with a normative legal approach, which analyses various literature, labour regulations, and previous research findings related to compensation and employment contracts. The findings indicate that compensation is significantly influenced by the type of employment contract, with employees under an Indefinite-Term Employment Contract (PKWTT) tending to receive more stable compensation and benefits compared to those under a Fixed-Term Employment Contract (PKWT). Fair and transparent compensation positively impacts motivation, loyalty, and the quality of services provided, thereby enhancing employee performance and the sustainability of service organisations. This study underscores the importance of aligning compensation practices with regulations and the dynamic needs of the workforce to foster employee well-being and corporate competitiveness.

Keywords: Employee compensation, Employment contract, Service provider, PKWT, PKWTT, Employee performance, Literature review, Human resource management

Introduction

Employees play a vital role as service providers in various types of organisations, especially in the service sector, which heavily relies on direct interaction between employees and customers. This role makes employees the frontline in creating satisfying service experiences and delivering high-quality service. One crucial aspect that influences employee performance and motivation is the compensation they receive. Compensation not only serves as a reward for work done but also as a key tool in maintaining employee loyalty and productivity (Kouki, 2024).

Compensation plays a much broader role than simply being a form of reward for employees' work contributions. Fair and transparent compensation creates a sense of security and appreciation for each individual within the organisation. Through appropriate compensation, employees feel recognised and valued for the effort and dedication they have put into performing their duties. In addition to being a form of appreciation, compensation is also an important instrument in maintaining employee loyalty (Privy.id, 2024). When employees feel that the compensation they receive is commensurate with the responsibilities they bear, job satisfaction will increase and the tendency to seek opportunities outside the company can be minimised.

This ultimately supports the creation of optimal and sustainable work productivity in the long term (Ul-Haq, 2024). In the context of industrial relations, employment agreements are the legal basis that governs the rights and obligations between employees and companies. Employment agreements serve as a formal legal basis that defines the framework of the employment relationship between employees and companies.

In this agreement, both parties clearly state the terms and conditions of the employment relationship, including job responsibilities, duration of employment, working hours, and, importantly, compensation arrangements. The clarity provided by this agreement ensures that each party understands their rights and obligations from the outset, thereby helping to minimise disputes and misunderstandings during the employment period (Becker, 2020).

Compensation is a crucial element of an employment contract because it not only outlines the amount and form of payment but also the method and schedule of disbursement, as well as any additional benefits or incentives that may be provided. By formally documenting these aspects in the contract, both the employer and the employee establish a shared understanding that supports fairness and transparency. This arrangement also ensures that matters related to compensation are governed by law, providing protection for both parties and serving as a reference in the event of future disputes or negotiations (Qin, 2022).

The most common types of employment agreements include Fixed-Term Employment Agreements (PKWT) and Indefinite-Term Employment Agreements (PKWTT). These two types of agreements have different characteristics and implications for employee rights, including compensation. Fair and appropriate compensation based on the type of employment contract is crucial for motivating employees to provide high-quality services and maintaining workforce stability (Veld, 2022). However, compensation management in the service sector faces various challenges, particularly due to the nature of work that heavily relies on direct interaction and customer satisfaction, requiring a sensitive approach to employee needs.

In practice, there are still issues related to the mismatch between compensation and workload or contract duration in service companies, which can potentially reduce employee morale and service quality. Adequate compensation plays a major role in increasing productivity and job satisfaction among employees as service providers, which can affect the reputation and sustainability of the company (Kim, 2023). Clarity in employment agreements is another factor influencing employees' perceptions of compensation fairness. Ambiguity or uncertainty can lead to dissatisfaction and conflicts that are detrimental to both parties. To understand this phenomenon in depth, a literature review is an appropriate method to examine various theories and previous research findings on compensation and employment agreements, including their application in the service sector (Sisodia, 2023).

This study aims to examine the differences in compensation received by employees based on the type of employment contract they have and the implications of such compensation on their performance in providing services. The primary objective of this study is to provide a clear picture of the relationship between employment contracts and the compensation received, as well as how this affects employees as service providers.

Research Method

The research method used in this study is a literature review with a normative legal approach, which systematically examines various literature, regulations, and theories regarding compensation and employment agreements. This method involves the collection and analysis of secondary data from primary sources such as laws, regulations, and secondary sources such as books, scientific articles, and relevant previous studies. This approach aims to gain a deep understanding of the relationship between types of employment contracts and compensation, as well as their legal implications for employees as service providers, without conducting direct primary data collection in the field (Elijah & Aslan, 2025); (Levy & Ellis, 2006).

Results and Discussion

Employee Compensation Based on Type of Employment Agreement

The compensation received by employees is greatly influenced by the type of employment agreement that forms the basis of their relationship with the company. Two common types of employment agreements are Fixed-Term Employment Agreements (PKWT) and Indefinite-Term Employment Agreements (PKWTT). Each has different implications in terms of the amount, components, and guarantees of compensation (Alsabbah, 2021).

Under a PKWT agreement, employees are hired for a specific period of time according to the company's needs, such as for projects or seasonal work. The compensation received is often fixed during the contract period and does not always include additional benefits such as health insurance or annual bonuses. This differs from PKWTT employees, who have more continuous job security and generally enjoy more comprehensive compensation benefits (Magda, 2021).

The main factor distinguishing compensation between PKWT and PKWTT is the aspect of job security and contract duration. PKWTT employees benefit from stability and certainty in receiving compensation on a regular basis over an indefinite period, including salary increases, family allowances, and access to pension programmes (Mahuwi, 2020).

On the other hand, employees with PKWT status are more vulnerable to sudden termination of employment (PHK), which results in the sudden loss of compensation without severance pay as received by PKWTT employees. As a result, PKWT employees

generally demand higher compensation as compensation for this uncertainty (Sheehan, 2023). Labour regulations also play a crucial role in determining compensation schemes. Laws in various countries, including Malaysia and Indonesia, impose limits and provide special protections for employees under all types of employment contracts. For example, there are rules regarding minimum wages, employers' obligations to pay severance pay, and rights to annual leave and other benefits (Baran, 2023).

In practice, the determination of compensation amounts is also influenced by an employee's position or role within the company. Employees in strategic positions or with greater responsibilities tend to receive higher compensation, whether through base salary, position-based allowances, or productivity bonuses. Other factors that play a role include the duration and flexibility of working hours. PKWT employees often work in flexible or part-time systems, so the compensation provided is calculated proportionally according to the hours worked (Ichsan, 2024).

Service companies often implement unique compensation schemes for PKWT and PKWTT employees, particularly to maintain motivation and service quality. PKWTT employees tend to receive ongoing training and long-term performance incentives, while PKWT employees are more frequently given short-term or project-based incentives (Hakiki, 2024).

Compensation may also be provided in non-financial forms, such as career development opportunities or experience working on challenging projects. This often serves as a major attraction for PKWT employees, particularly younger generations who prioritise experience over long-term job stability (Simons, 2021).

However, the inequality in compensation between the two types of contracts is also a source of dissatisfaction among employees. PKWT employees often feel undervalued for their contributions compared to their PKWTT counterparts, leading to higher turnover rates. To address this issue, companies need to implement a fair and transparent compensation system. Benchmarking or external salary surveys can be used as a reference to ensure that the compensation offered remains competitive and in line with industry standards.

Flexibility in providing additional incentives, such as performance-based bonuses or health benefits even for contract employees, can also increase the loyalty of PKWT employees. This also serves as an attraction for companies in recruiting the best talent in the labour market (Jones, 2025).

Objective performance appraisals are also important in determining whether employees deserve a salary increase or bonus. Performance-based evaluations encourage a productive and competitive work culture among all employees, regardless of their employment status (Werner, 2025).

In addition, effective communication about the compensation scheme to employees is essential to foster a sense of fairness and trust in management. Employees

who understand the reasons behind compensation differences will be more accepting of Company policies (Gajigesu, 2025).

In a legal context, compensation based on the type of employment agreement must always comply with applicable regulations. Transparency of employment agreement documents and fulfilment of all employees' normative rights must be a top priority to avoid disputes in the future.

Finally, adjusting compensation schemes to be dynamic and adaptive to changes in workforce needs is the key to successful human resource management. Companies that are able to respond to regulatory changes and labour market dynamics will be better able to compete and retain quality employees.

Therefore, compensation analysis based on the type of employment contract is not only important for maintaining internal balance within the company but also for ensuring fairness, motivation, and productivity among employees as providers of excellent services.

The Implications of Compensation on Employee Performance as Service Providers

Compensation has significant implications for employee performance, especially for those who work as service providers. The relationship between compensation and performance is not only linear, but also influenced by various mediating factors such as job satisfaction, motivation, loyalty, and even organisational culture. Fairly designed compensation can be a major driver of high motivation among employees. Not only basic salary, but bonuses, incentives, and health benefits also play a significant role in shaping employees' perceptions of the value of their contribution to the company (Cahyadi, 2021).

In the service industry, employees who feel that their compensation is fair tend to demonstrate higher quality work.

They are more enthusiastic about creating a good service experience for customers—something that greatly influences the reputation and sustainability of the service business itself (Wang, 2023). Research shows that performance-based compensation systems contribute to significant increases in individual and team productivity. With incentives clearly linked to the achievement of specific targets or service standards, employees are motivated to achieve their best results.

Job satisfaction is also an important element in the compensation and performance chain. When employees are satisfied with their compensation package, their loyalty and commitment to the company increase, thereby reducing turnover and maintaining service stability (De Cuyper, 2023). However, it cannot be denied that compensation is not the only factor that determines performance. Work culture, effective management, and clarity of work objectives also determine whether compensation truly impacts the performance of service employees (Saini, 2022).

In several outsourcing case studies, it was found that compensation does play a role in retaining skilled workers, but its effect on work results is not always significant if it is not accompanied by a positive work culture and a supportive work environment. In addition to salary, non-financial rewards such as recognition and opportunities for self-development have also been proven to encourage better service quality. Employees will feel ‘invested’ and willing to put in extra effort in their work (Langer, 2022).

At the same time, perceptions of fairness in compensation can be a key motivator. Inequality or lack of transparency in the pay system can lead to conflict, lower morale, and reduce the quality of services provided. Compensation also plays a role in improving work efficiency, as employees who receive fair rewards are more willing to allocate their energy and thoughts to achieve organisational targets (Pryce, 2021).

In the context of service companies, flexibility in compensation is key to adapting to the demands of highly dynamic service work. For example, incentives for achieving certain levels of customer satisfaction or bonuses for working beyond standard hours can strengthen the spirit of service.

On the regulatory side, compliance with laws and regulations related to minimum wages or allowances also ensures that employees' rights are fulfilled, which will have an effect on long-term productivity and service quality (Kang, 2020). Employees also tend to be more loyal and less likely to want to change jobs if they feel that the compensation package they receive is fair.

This loyalty implies minimal costs for training new employees and maintaining consistency in service. The influence of compensation is multidimensional, where policies that are responsive to employee needs are key to creating harmonious industrial relations. Management should continue to evaluate compensation policies to ensure they remain in line with the evolving needs of employees and the dynamics of the labour market (Lee, 2021).

Ultimately, the success of service companies in managing compensation not only impacts employees but also customer satisfaction and company competitiveness. Highly motivated employees deliver the best service, ultimately improving overall organisational performance. In other words, effective compensation is not merely a human resource management tool but a strategic investment for the sustainability and competitive advantage of service companies in the era of global competition.

Conclusion

Compensation is a crucial component that shapes the performance and motivation of employees as service providers. The type of employment agreement—whether a Fixed-Term Employment Agreement (PKWT) or an Indefinite-Term Employment Agreement (PKWTT)—has a significant impact not only on the amount and

structure of compensation but also on the sense of security and satisfaction that employees feel in performing their roles.

A fair and transparent compensation scheme, tailored to the type of employment agreement, is essential to ensure motivation, loyalty, and high service quality. Furthermore, the relationship between compensation and employee performance is multidimensional.

Effective compensation not only fulfils legal and contractual obligations, but also drives productivity, commitment and customer satisfaction in service-based organisations. When compensation reflects both employee needs and the dynamic demands of the service sector, it supports organisational stability and superior service standards.

Ultimately, this analysis reinforces the importance of aligning compensation practices with the legal framework and ethical standards. Companies must continuously evaluate and adjust their compensation strategies to accommodate changes in labour regulations and workforce expectations. By doing so, organisations can enhance employee well-being, reduce turnover rates, and maintain a competitive edge in the increasingly competitive service industry.

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