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Implementation of the 3P Method (Pay for Position, Pay for Person, Pay for Performance) Based on AI for Optimizing Compensation Planning in Improving HR Welfare

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Abstract: This study explores the effectiveness of implementing the 3P method (Pay for Position, Pay for Person, Pay for Performance) in compensation planning to improve human resource (HR) welfare. The 3P method offers a comprehensive approach that integrates three key elements: position, individual, and performance, so companies can design a fair compensation system and motivate employees to make optimal contributions to organizational goals. In addition, this method serves as a tool to retain the best talent by providing rewards that follow each employee's contribution. The use of artificial intelligence (AI) in implementing the 3P method increases the accuracy and fairness in determining compensation and allows personalization of rewards according to individual needs and company goals. Thus, this approach has the potential to improve employee satisfaction and overall productivity. The conclusion of the study shows that the 3P method provides a strong foundation for effective compensation planning, creates a more productive and harmonious work environment, and provides strategic insights for HR management in revising compensation system planning.

Keywords: 3P method, Compensation planning, HR Welfare

INTRODUCTION

Employee compensation is one of the key elements in human resource management that plays an important role in improving employee welfare and driving organizational performance. In this context, effective compensation planning not only includes determining the amount of salary, but also involves various forms of rewards and benefits that can meet employee needs and expectations. Good human resource (HR) welfare is expected to be achieved through proper compensation planning, which in turn will affect employee productivity and loyalty to the company. However, challenges in compensation planning often arise, especially in determining fair and competitive policies. Therefore, it is important to explore whether there is a significant correlation between compensation planning implemented by the company and improving HR welfare.

Along with the advancement of information technology, the 3P method (Pay for Performance, Pay for Position, Pay for Potential) based on artificial intelligence (AI) has begun to be widely applied in decision-making related to compensation. This method offers a more objective and transparent approach in determining the amount of compensation based on employee performance, position, and potential. This study aims to provide recommendations to companies or organizations on how to implement the AI-based 3P method effectively. By utilizing the data analysis capabilities of AI, companies can make fairer compensation decisions and support employee development.

Through this research, it is expected to provide input related to the design of a fairer and performance-based compensation system. A good system design must consider various aspects such as individual contributions to organizational goals, job positions, and career development potential. Thus, the compensation system not only functions as a tool to attract and retain talent, but also as a driver for employees to continue to improve employee performance. In addition, this research is expected to produce practical recommendations that can be implemented by companies in formulating more effective and fair compensation policies. Thus, companies will not only be able to improve employee satisfaction and welfare, but also encourage the growth and sustainability of the organization as a whole.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Compensation is all income in the form of money, goods directly or indirectly received by employees in return for services provided to the company. According to Siswanto (2013), compensation is a reward given to employees who are actively working for the recognition of the individual's potential abilities or capacities, the burden of responsibility, and the results of work achievements achieved. According to Hasibuan (2019), the factors that influence compensation policies include: Supply and Demand for Labor, Company Ability and Willingness, Employee Position. If job seekers (supply) are more than job vacancies (demand), then the compensation is relatively small. Conversely, if job seekers are fewer than job vacancies, then the compensation is relatively greater. If employee work productivity is good and abundant, then the compensation will be greater. Conversely, if work productivity is poor and few, then the compensation is small. Employees who occupy higher positions will receive higher salaries/compensation. Conversely, employees who occupy lower positions will receive small salaries/compensation. This is natural because someone who has great authority and responsibility must also receive a higher salary/compensation. According to Sutrisno (2017) The compensation system that is commonly applied is based on the time system, the results system and the piecework system. The time system can be applied if work performance is difficult to measure per unit, and for permanent employees the compensation is paid based on the time system periodically every month. In the results system, the amount of compensation to be paid is always based on the amount of results provided. The piecework system is a method of remuneration in which the determination of the amount of services is based on the volume of work and the length of time it takes to do it. In this piecework system, workers usually get large or small compensation depending on the accuracy of the employee's calculations.

Previous studies have shown that compensation fairness, work motivation, and employee welfare have a significant relationship with employee performance. Research conducted by Zaynul, et al. (2021), states that compensation fairness has a positive and significant effect on employee work motivation and performance. Work motivation has a positive and significant effect on employee performance, with the effect of compensation

fairness on employee performance of 0.473 greater than its effect on work motivation of 0.698. This finding shows that fairness in compensation can increase employee motivation and productivity. Perception of Compensation Fairness also affects Employee Work Commitment. This is explained by Hartono, et al. (2017), that the perception of compensation fairness received by employees is quite good and is positively related to work commitment. The results of the study showed that the perception of compensation fairness received by employees was quite good and employee work commitment was also quite high. In addition, there is a positive and significant effect of the perception of compensation fairness on employee work commitment. Research conducted by Aziti, et al. (2024), on improving employee performance through performance appraisal fairness and performance-based compensation analyzes the effect of performance appraisal fairness and performance-based compensation on employee performance. The results of the study indicate that employee performance is proven to be positively and significantly influenced by two main variables, namely performance appraisal fairness and performance-based compensation. Furthermore, a case study at PT. Jambi Distribusindo Rayat conducted by Oktaviani, et al. (2021) using the method of testing the effect of perceptions of compensation fairness and motivation on employee performance. The results of the study indicate that partially, compensation fairness has a positive and significant effect on employee performance, and motivation has a positive and significant effect on employee performance. Simultaneously, compensation fairness and motivation have a positive and significant effect on employee performance. Meanwhile, the results of a case study at One of the Conventional Banks in Bandung City, Sunarni (2023), found a significant positive correlation between employee welfare, compensation, and performance. Regression analysis shows that employee welfare and compensation are significant predictors of employee performance. Qualitative findings emphasize how important employee benefits and salaries are in influencing work satisfaction and motivation

Previous research results show that compensation fairness, work motivation, and employee welfare have a significant influence on employee performance. To improve objectivity and transparency in compensation decision-making, the AI-based 3P method (Pay for Position, Pay for Person, Pay for Performance) can be used. The 3P method uses AI to objectively analyze employee performance and position data, allowing for fairer and data-based compensation determination. Thus, organizations can improve employee satisfaction and motivation, as well as improve overall performance. In addition, the integration of information technology in HR management can improve operational efficiency and support better decision-making. An effective information system can provide accurate and real-time data, thus supporting the design of more personalized and effective compensation packages. Overall, this series of studies shows that compensation fairness, work motivation, and employee welfare have a significant relationship to employee performance. The integration of the AI-based 3P method in compensation planning can improve objectivity and transparency in compensation decision-making, thereby supporting the improvement of overall HR welfare.

METHODS

Type of Research. Considering that this activity is to prove the influence of independent factors on the dependent factors studied, the type of quantitative research is considered more appropriate for analyzing the data in this study. This causal quantitative research is an explanatory method. Research with quantitative data types includes

information or explanations that can be measured or calculated directly. While causal research with an explanatory method tries to explain the relationship between the sources and consequences of two or more variables. Data for this study were collected through Literature Study. The publication of a broad literature review on various topics, includes articles other than fiction, such as scientific articles or theses or dissertations, or writings that are not included in scientific works, such as books or articles. This research is a scientific study of literature collected by reading, then studying and trying to understand a phenomenon through other media sourced from literature, books, or various information available on search engines on the internet.

RESULT AND DISCUSSION

A. The Use of Artificial Intelligence (AI) in Compensation Planning

The use of artificial intelligence in compensation planning has been researched by Siahaan (2023) through its application at PT Inixindo Rekayasa Komputer. The use of AI in the compensation system allows for more accurate and objective data analysis, so that companies can determine compensation packages that are fairer and in accordance with individual performance. The application of AI in employee data management, including performance and potential analysis, can help management formulate more effective compensation policies. By utilizing AI algorithms, companies can conduct real-time performance evaluations and adjust compensation based on the results, which in turn increases employee motivation and productivity. Compensation fairness perceived by employees has a positive effect on their work motivation, which has been proven in previous studies. AI has great potential in compensation planning, with the ability to analyze data in depth and provide valuable insights to improve compensation strategies. The implementation of AI can help companies retain high-performing employees and increase overall job satisfaction.

The use of AI in compensation planning is used to analyze employee data and identify patterns related to performance and turnover. By using machine learning algorithms, companies can evaluate factors that influence employee job satisfaction and decisions to stay or leave the company. The benefits of using AI include allowing companies to provide more accurate compensation recommendations based on historical data analysis and performance predictions. This helps in designing compensation packages that are more attractive and in line with employee expectations. The use of AI has not only succeeded in reducing turnover rates but also improving overall performance. By utilizing predictive analytics, better decisions can be made regarding employee recruitment, training, and retention. Despite improvements in decision making, studies have also found that there are still challenges in the accuracy of AI predictions. Adding variables such as employee salaries to the AI model helps reduce the rate of prediction errors and increases the effectiveness of the system.

B. Implementation of Management Information Systems in Decision Making related to HR

The implementation of various information systems, both for decision making related to human resources (HR), improving employee performance, and financial management, is an important aspect in achieving operational efficiency and organizational effectiveness. Management of Information Management Systems (MIS) in the application of the Analytical Hierarchy Process (AHP) method in employee selection at UMKM Djoeragan Ayam Penyet, which shows that AHP increases objectivity and consistency in the selection process, helps management make more structured decisions.

Management Information Systems (MIS) in improving employee performance by accelerating decision making and improving communication between departments. In addition, the use of information technology in financial decision making shows that real-time data access improves managers' ability to make strategic decisions and minimizes the risk of errors. The implementation of a financial management accounting information system that not only improves the accuracy of reports but also supports better decision making through in-depth data analysis. Operating systems, server infrastructure, and programmers also provide the role of interaction between these three elements in creating an efficient and effective information system, as well as the importance of integration between technology and human resources. Overall, the implementation of the right information system greatly contributes to better decision making and supports the growth of the organization as a whole.

C. 3P methods Pay for Position, Pay for Person, and Pay for Performance

The 3P method, which consists of Pay for Position, Pay for Person, and Pay for Performance, is a compensation structure designed to provide a fairer and more objective assessment in employee pay.

1. Pay for Position

Pay for Position determines salary based on the value of the work carried out by an employee, without considering individual skills. Salary is determined based on position or title, as well as factors such as education, experience, and seniority. In this case, employees with higher positions will receive higher salaries, and differences in value between divisions can also affect the amount of salary. Pay for Position is carried out by considering Job Evaluation, Determination Criteria and Salary Structure. Job evaluation is assessing the value of each position in the organization to determine the appropriate salary range. Determination of criteria is salary determined based on factors such as education, experience, and seniority. For example, a marketing manager may receive a higher salary than a finance manager if the position is considered more strategic. Salary Structure is developing a salary structure that includes minimum, average, and maximum salaries for each position.

2. Pay for Person

Pay for Person links pay to the skills, abilities, and competencies of individual employees. Employees who have unique or special skills, such as creativity or high efficiency, deserve higher compensation. However, the challenge in this method is the need for an objective competency evaluation system so that salary assessments can be accounted for. Pay for Person is carried out by considering Skill Identification, Skill Enhancement, and Salary Adjustment. Skill Identification is identifying the skills and expertise possessed by employees that are relevant to the employee's job. Skill Enhancement is offering training and development to improve employee skills, so that they can meet higher job demands. Salary Adjustment is setting salaries based on the level of skills and certifications possessed by employees. This encourages employees to continue learning and developing

3. Pay for Performance

Pay for Performance focuses on employee performance achievement. In this method, employees who successfully achieve or exceed the set targets are entitled to additional rewards, such as bonuses or salary increases. This system encourages employees to work harder and contribute better to the company's goals. Pay for Person is done by considering Goal Setting, Performance Appraisal System and Incentive Provision. Goal Setting is done by setting clear and measurable goals for each employee or team. Performance Appraisal System is implementing an objective

performance appraisal system to evaluate the achievement of these goals. Incentive Provision is providing bonuses or allowances based on performance achievement. For example, the marketing division can receive additional incentives if they achieve certain sales targets.

D. Use of AI in the 3P Method (Pay for Position, Pay for Person, Pay for Performance)

The 3P method can be done with the help of artificial intelligence (AI) to increase efficiency and effectiveness in compensation planning. Here are some ways in which AI can contribute to each component of the 3P method:

1. Pay for Position

- **Market Data Analysis:** AI can analyze market data to determine competitive salaries based on position. Using machine learning algorithms, AI can process information from multiple sources to provide salary recommendations that are appropriate for a particular position.
- **Salary Benchmarking:** AI-based systems can perform salary benchmarking automatically, comparing salaries offered by companies with industry and regional data, so companies can adjust their salary structures to stay competitive.

2. Pay for Person

- **Compensation Personalization:** AI can analyze an individual's skills, experience, and achievements to provide more precise compensation recommendations. By considering the employee's holistic profile, AI can help in designing compensation packages that are fairer and more in line with each employee's contribution.
- **Skills Analysis:** Using data analysis, AI can identify the skills required for a particular position and match them with the skills possessed by the employee, making it easier to determine an appropriate salary based on the individual's abilities.

3. Pay for Performance

- **Automated Performance Evaluation:** AI can be used to automate the performance evaluation process. By analyzing performance data in real-time, AI-based systems can provide more accurate and objective feedback on employee achievement against set targets.
- **Data-Driven Performance Measurement:** AI enables more holistic performance measurement by collecting and analyzing data from multiple sources (such as sales results, customer feedback, and other metrics) to determine bonuses or incentives based on employees' real contributions.

CONCLUSIONS

The 3P method provides a comprehensive approach to compensation planning by combining three essential elements: position, people, and performance. By implementing this method, companies can create a fair compensation system and motivate employees to give their best contribution to the organization's goals. This approach also helps in retaining the best talent by providing rewards that are in line with employee contributions. By leveraging AI in the implementation of the 3P method, companies can improve the accuracy and fairness of their compensation system. AI not only helps in data-driven decision making but also enables better personalization of compensation according to individual needs and organizational goals. This has the potential to increase employee satisfaction as well as overall productivity.

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