



THE GLOBAL COMPANY'S GUIDE TO **EMPLOYMENT OF RECORD (EOR)** SERVICES IN INDONESIA

SINERGIS WHITE PAPER VOL 13

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FOREWORD

Indonesia offers exciting opportunities for global businesses looking to grow. With its large young population, booming digital economy, and strategic position in Southeast Asia, it's becoming a key market for international expansion. But setting up operations here comes with challenges - especially around local employment laws, tax rules, and business registration. Without proper understanding of these requirements, foreign companies can face delays, unexpected costs, or legal issues that slow down their growth.

This is where Employer of Record (EOR) services make a real difference. EOR allows you to hire Indonesian talent quickly without needing to establish your own legal entity first. As your official local employer partner, we handle payroll processing, tax filings, benefits administration, and full compliance with Indonesian labor regulations. This means you can start building your team in weeks rather than months, while avoiding common pitfalls that come with navigating unfamiliar systems.

You'll find practical examples in this guide showing how companies use EOR effectively. Some use it to rapidly hire tech specialists for remote teams, while others test new markets through short-term employment arrangements. EOR ensures your employees receive all legally required benefits like BPJS health coverage and retirement plans, plus support that meets local cultural expectations. This creates a positive experience for your team while keeping your operations fully compliant from day one.

In today's fast-moving business environment, flexible solutions like EOR and PEO (Professional Employer Organization) simplify international hiring. They provide the local expertise needed to navigate Indonesia's unique requirements while reducing your administrative burden. At Sinergis HR, we've helped many companies build successful teams here by combining practical local knowledge with efficient processes. Contact us today to discuss how we can help you build your Indonesian team smoothly and correctly.

Viriya Paramita, Co-Founder & Partner Sinergis HR Consulting & Services



Chapter 1

INTRODUCTION: WHY INDONESIA MATTERS FOR GLOBAL EXPANSION

1.1 Market Potential: Young Workforce, Digital Economy, Regional Hub

Indonesia is no longer just an emerging economy—it is a thriving epicenter for business expansion in Southeast Asia. With its powerful mix of a youthful population, explosive digital growth, and advantageous geography, the archipelago offers a compelling landscape for global companies looking to establish a competitive presence in the region. For those leveraging Employment of Record (EOR) services, Indonesia represents an unparalleled opportunity to access skilled talent, drive innovation, and enter Southeast Asia through a strategically positioned market.

At the heart of Indonesia's market potential is its young and dynamic workforce. With over 270 million people and a median age of just 31.5 years (OECD & World Bank, 2024), the country is one of the youngest labor markets in the region. This youth bulge brings energy, adaptability, and tech readiness. However, with only 19% of Indonesians aged 25–34 having attained tertiary education (Economist Impact, 2023), a significant skills gap remains. For EOR providers like Sinergis, this presents a golden opportunity to step in with strategic upskilling initiatives, helping international employers tap into untapped potential while building local capacity.

Indonesia's digital economy is another pillar of its attractiveness. Valued at nearly USD 90 billion by the end of 2024, it is projected to soar to USD 130 billion in 2025 (Coordinating Ministry for Economic Affairs, 2023). Government initiatives such as Making Indonesia 4.0 and the rapid rollout of 5G infrastructure are laying the foundation for future-ready industries. This momentum is not only driving demand for digital-savvy talent but also transforming how companies hire, onboard, and manage remote teams. Through robust EOR models, Sinergis enables global firms to stay agile and competitive in this digital-first landscape.

Indonesia's position between the Indian and Pacific Oceans offers unmatched logistical and commercial advantages. Cities like Jakarta, Surabaya, and Batam are fast becoming strategic hubs for regional operations, benefiting from proximity to key ASEAN markets. In 2024 alone, the country attracted over IDR 1,714 trillion (\approx USD 112 billion) in investments and created more than 2.4 million jobs (BKPM, 2025). This boom in foreign direct investment (FDI), particularly in sectors such as fintech, AI, and cloud computing, signals growing global confidence in Indonesia as a sustainable and scalable market for expansion.

To succeed in Indonesia, companies need more than just capital—they need strategic guidance, cultural understanding, and local workforce alignment. Sinergis HR Consulting & Services offers integrated EOR solutions that help businesses navigate Indonesia's evolving labor laws, optimize hiring practices, and ensure compliance with local regulations. By providing localized expertise with global standards, Sinergis bridges the gap between opportunity and execution.

Indonesia's blend of youth, digital transformation, and strategic positioning makes it not just an option—but a necessity in the global expansion playbook. As organizations look to diversify supply chains, embrace remote work, and access fresh talent pools, Indonesia stands tall as a market ready to deliver. Through Sinergis's forward-thinking HR solutions, companies can confidently enter, grow, and thrive in one of Asia's most promising economies.





1.2 Challenges for Foreign Employers in Direct Hiring

While Indonesia presents immense opportunities for global expansion, entering the market through direct hiring can quickly become a maze of legal, cultural, and bureaucratic complexity. For many foreign employers, the initial excitement of tapping into a large, young workforce is soon tempered by the realities of regulatory red tape, unfamiliar procedures, and costly missteps. Understanding these challenges isn't just helpful—it's essential for survival and long-term success.

One of the first barriers companies encounter is Indonesia's evolving labor regulatory landscape. While the Job Creation Law (Omnibus Law) was intended to simplify employment regulations, its partial and inconsistent implementation across regions has added new layers of ambiguity. From the Manpower Law to sector-specific rules, and obligations like BPJS social security and religious holiday allowances (THR), foreign firms must navigate an intricate compliance ecosystem—where one misstep could mean legal penalties or damaged reputations.

Moreover, hiring talent directly isn't always possible. Foreign companies without a local legal entity (PT PMA) are restricted from employing Indonesians. Even when legally set up, hiring expatriates comes with additional hurdles: obtaining RPTKA permits, following quota requirements, and complying with localization mandates. These steps delay onboarding and can create friction between operational needs and government approvals, slowing down time-to-hire dramatically.

Beyond legal and structural concerns, Indonesia's payroll and tax systems pose a serious operational challenge. Managing PPh 21 tax filings, mandatory contributions to BPJS Kesehatan and Ketenagakerjaan, and keeping track of ever-changing regional minimum wages is a full-time job in itself. Mistakes aren't just administrative—they carry significant financial consequences. For businesses operating in multiple provinces, compliance is further complicated by local variations in labor policies.



Cultural alignment also plays a critical role. From hierarchical work cultures to diverse languages and distinct negotiation styles, international employers may find it difficult to align global HR practices with local expectations. Miscommunication and mismatched expectations around performance, incentives, and loyalty can lead to poor retention and reduced productivity—issues that could otherwise be mitigated with local HR expertise.

Lastly, the operational overhead of building a fully compliant HR infrastructure in Indonesia is daunting. Without in-country HR personnel or legal advisors, foreign employers must invest heavily in building internal systems from scratch—often before they can even start hiring. These delays can cost valuable time and opportunities. That's where Employment of Record (EOR) providers like Sinergis HR Consulting & Services become indispensable—offering a faster, safer, and fully compliant route to tap into Indonesia's workforce without the burden of direct employment complexities.



Chapter 2

EOR AS A STRATEGIC ENTRY MODEL

2.1 Definition of EOR as a Compliant Hiring Model Without Legal Entity

In today's interconnected world, companies need the flexibility to hire top talent regardless of geographic boundaries. However, hiring internationally often runs into legal roadblocks when companies lack a legal entity in the employee's country. This is where the **Employer of Record (EOR)** model comes in.

An Employer of Record (EOR) is a hiring solution that enables businesses to legally employ workers in another country without setting up a legal entity there. Through a local EOR provider, the company can hire talent on paper via the EOR, while retaining full control over day-to-day job duties and performance management.

Setting up a legal entity abroad can be time-consuming, expensive, and legally complex. An EOR eliminates this burden by offering a compliant, fast, and cost-effective way to build an international workforce. The company handles the business strategy; the EOR handles the legal and administrative side of employment.

Key Services Offered by an EOR:

Payroll Management: Ensures employees are paid on time and in full compliance with local laws, including currency conversion, tax deductions, and payslip issuance.

Benefits Administration: Provides both mandatory and supplemental benefits (healthcare, retirement plans, social security) tailored to local standards.

Labor Law Compliance: Ensures alignment with local employment laws, including working hours, wage requirements, notice periods, and termination procedures.

Tax Filing and Reporting: Manages all employee-related tax filings, social contributions, and year-end reporting obligations.

Data Protection: Ensures compliance with data privacy regulations such as GDPR and local equivalents.

Immigration and Work Permit Support: Assists in securing legal work authorization for foreign employees.

Onboarding and Offboarding: Handles contracts, benefits enrollment, and exit processes in full compliance with local legislation.

HR Advisory: Offers strategic guidance on local HR practices, performance management, and labor relations.

With EOR, companies can scale globally while staying fully compliant, reducing legal risk, and avoiding the complexities of setting up legal entities in every market they enter. It's a modern employment model designed for global growth.



2.2 Key Differences from PEO (Professional Employer Organization)

As businesses increasingly tap into global talent pools, the need for efficient and compliant international hiring solutions has never been more critical. Two widely used approaches to streamline international employment are the Employer of Record (EOR) and the Professional Employer Organization (PEO). Although both models support HR functions and help reduce the burden of administrative tasks, they are fundamentally different in structure, legal responsibility, and application.

A PEO operates through a co-employment arrangement. This means that while the PEO handles a range of HR tasks—such as payroll, benefits administration, employee onboarding, and compliance support—the legal employer remains the client company itself. Importantly, for a business to engage a PEO, it must already have a registered legal entity in the country where the employee is located. In essence, a PEO supports companies in managing HR operations in regions where they are already legally established.

On the other hand, an Employer of Record provides a far more flexible alternative. An EOR enables companies to hire talent in foreign markets without setting up a local legal entity. The EOR acts as the legal employer, entering into an employment contract directly with the employee and assuming full responsibility for legal compliance, payroll, tax filings, benefits, and even immigration requirements when needed. This model allows businesses to scale internationally with minimal overhead and legal exposure.

The difference in legal structure is crucial. With a PEO, liability is shared between the client and the provider, whereas an EOR assumes full employment liability. Moreover, EORs typically offer more agility by allowing companies to hire as few as one employee in a new market—ideal for testing new regions or quickly onboarding remote talent—without being constrained by headcount minimums often required by PEOs.

How do PEOs and EORs differ?

	PEO	EOR
Structure →	Is a co-employer	Is a full legal employer
Risk →	Shares your liability	Reduces your liability
Scale →	Work for smaller companies with full-time employees	Work for larger companies with full-time or temporary employees
Scope →	Outsources your HR department	Takes over your role as employer
Cost →	Results in higher long-term costs	Results in lower long-term costs

Cost and risk management also differ significantly. While both services may have similar pricing structures, EORs often result in lower long-term costs as they absorb employment risks and include comprehensive benefits and insurance management. PEOs, by contrast, may still require the client company to shoulder certain risks and administrative obligations.

Ultimately, the decision between an EOR and a PEO hinges on your business structure and expansion plans. If your company already has a local entity and simply wants to offload HR duties, a PEO may be the appropriate fit. But if your goal is to enter new markets swiftly without legal or operational delays, partnering with an EOR offers a streamlined, fully compliant solution.



Chapter 3

STRATEGIC ADVANTAGES OF USING EOR

3.1 Faster Market Entry, Risk Reduction, and Cost Control

Faster Market Entry:



Setting up a legal entity in Indonesia can take 3-6 months due to bureaucratic processes, including business registration, tax identification, and labor compliance (World Bank, 2020). EOR providers eliminate this delay by allowing companies to hire employees without establishing a local entity, accelerating market entry to as little as 2-4 weeks (Deel, 2023).

Risk Reduction:



Indonesia's labor laws are stringent, with strict regulations on contracts, severance pay, and termination (Manpower Law No. 13/2003). Non-compliance can result in fines, legal disputes, or operational shutdowns.

How EOR Mitigates Risk:



Compliance with local labor laws – EOR providers ensure adherence to minimum wage, social security (BPJS), and termination rules. Avoidance of misclassification penalties – Using an EOR prevents legal risks associated with independent contractor misclassification (Squire Patton Boggs, 2022).

Cost Control:



Establishing a legal entity in Indonesia involves high setup costs, including capital requirements, legal fees, and ongoing operational expenses. EOR services offer a cost-efficient alternative with predictable pricing.

Cost Savings:



No upfront incorporation costs – EOR eliminates expenses related to entity setup (~\$15,000–\$50,000) (Emerhub, 2023). Reduced overhead – Companies avoid hiring local HR, payroll, and legal teams.

3.2 Typical Use Cases: Remote Hiring, Market Testing, Grant-Funded Projects



Remote Hiring:

Global Talent Acquisition: EOR services enable companies to hire remote employees in Indonesia without the need for a local presence. This allows access to a diverse talent pool and can enhance the company's global footprint. **Compliance and Support:** EOR providers ensure that remote employees are compliant with local labor laws, providing support for payroll, tax, and other HR-related matters.

Enhanced Productivity: By leveraging EOR services, companies can focus on employee productivity and engagement, knowing that administrative and compliance tasks are handled efficiently.



Market Testing:

Low-Risk Exploration: Before committing to a full-scale market entry, companies can use EOR services to test the market. This allows them to gauge demand, understand the local business environment, and make informed decisions.

Flexible Workforce: EOR services provide the flexibility to hire temporary or contract employees for market testing initiatives, reducing the long-term commitment and associated costs.

Data Collection: During the market testing phase, companies can collect valuable data on customer preferences, market trends, and regulatory requirements, which can inform future business strategies.



Grant-Funded Projects:

Compliance with Funding Requirements: Many grant-funded projects require strict compliance with labor laws and financial regulations. EOR services ensure that all employment practices are compliant, helping companies meet the requirements of their funding sources.

Efficient Resource Allocation: EOR providers manage the administrative and financial aspects of grant-funded projects, allowing companies to allocate resources efficiently and focus on project execution.

Reporting and Accountability: EOR services facilitate accurate reporting and accountability, which is crucial for maintaining transparency and meeting the expectations of grant providers.



Conclusion

In summary, EOR services offer global companies a strategic edge for entering and operating in the Indonesian market. They enable faster market entry, reduce risks, and control costs, all while ensuring compliance with local regulations. Whether for remote hiring, market testing, or grant-funded projects, EOR services provide a flexible and efficient solution. For companies aiming to succeed in Indonesia, leveraging EOR services is a key step towards achieving their goals.





Chapter 4

LEGAL LANDSCAPE IN INDONESIA: AN OVERVIEW FOR FOREIGN EMPLOYERS

4.1 Labor Law Highlights (Without Going Into Process Details)

Indonesia's legal environment presents foreign employers with unique challenges and considerations when establishing operations in Southeast Asia's largest economy. Understanding the regulatory framework is essential for successful market entry and sustainable growth. Indonesia's employment regulations have undergone significant transformation with the introduction of the 2020 Omnibus Law (Law No. 11/2020 on Job Creation), which amended various provisions of the primary labor legislation, Law No. 13/2003 on Manpower. This reform represents the government's efforts to create a more business-friendly environment while maintaining core worker protections. The Omnibus Law has streamlined regulations around fixed-term employment, outsourcing arrangements, working hours, termination procedures, and severance calculations – areas that previously created substantial compliance burdens for foreign employers. Indonesian labor law establishes comprehensive employee protections, including restrictions on termination without cause, mandatory minimum wages that vary by region, required religious holiday allowances (THR), strict overtime limitations, and generous leave entitlements. Foreign employers must navigate these requirements alongside Indonesia's unique cultural expectations regarding employment relationships, which often emphasize loyalty, community, and mutual obligation beyond contractual terms. All employers in Indonesia must register employees with two mandatory social security programs: BPJS Ketenagakerjaan (employment social security) and BPJS Kesehatan (health insurance). BPJS Ketenagakerjaan encompasses work accident protection, death benefits, old-age savings, pension benefits, and the newer job loss security program. Combined employer contributions typically range from 6.7% to 8.2% of monthly wages, with additional employee contributions required. The BPJS framework applies to all workers, including expatriates, making compliance unavoidable for foreign employers.

The tax landscape similarly demands careful attention, with employers responsible for monthly income tax (PPh 21) withholding using progressive rates between 5-30%. Indonesia's recent implementation of the CoreTax system has digitized tax administration while simultaneously enhancing authorities' compliance monitoring capabilities. This modernization streamlines reporting but also increases the visibility of non-compliance to tax authorities.

4.2 Risks of Non-Compliance or Misclassification

The consequences of regulatory non-compliance in Indonesia can be severe and multifaceted. Employee misclassification – whether through improper contractor arrangements, misuse of fixed-term contracts, or unauthorized outsourcing of core business functions – often triggers retroactive benefit obligations, substantial penalties, and potential business disruption. Indonesian authorities have demonstrated increasing vigilance in scrutinizing employment arrangements, particularly those involving foreign companies. Violations may result in business license suspension, director liability, significant financial penalties, and reputational damage that can undermine market positioning. The Indonesian labor court system generally favors employee protections, making defensive compliance strategies essential for risk management. For foreign employers navigating this complex landscape, Employer of Record (EOR) solutions offer a strategic alternative that can mitigate compliance risks while maintaining operational flexibility during market entry and expansion phases.





Chapter 5

HOW (EOR) ENSURES COMPLIANCE & REDUCES RISKS

5.1 How EOR Shields from Permanent Establishment (PE) Risk

One of the primary concerns for global companies hiring in Indonesia is the creation of a Permanent Establishment (PE). According to both OECD and local interpretations, a PE arises when a foreign company has a fixed place of business or employees regularly acting on its behalf in Indonesia, triggering local corporate tax obligations, VAT, and reporting duties.

Using an EOR in Indonesia mitigates this risk. The EOR becomes the legal employer, formally managing payroll, taxes, and contracts—while the global company retains control over day-to-day operations. This separation helps avoid the risk of being deemed to have a taxable PE within Indonesia.



5.2 Managing Employment Obligations via a Local Legal Partner

01 Entity-free expansion and employment contracts

EOR services enable companies to hire staff without establishing a local legal entity, a faster, lower-risk route to market entry. They draft contracts aligned with Law No.13/2003 and the Omnibus Job Creation Law No.11/2020, ensuring full compliance from the onset.



02 Payroll, taxes & benefit

EORs handle all statutory payroll requirements, including withholding PPh21 and making mandatory contributions to BPJS Kesehatan and BPJS Ketenagakerjaan, while remaining current with regional salary thresholds and benefits such as religious holiday bonuses (THR).



03 Working permit

If hiring foreign nationals or relocating employees, the EOR manages work permit applications, such as RPTKA and VITAS, reducing risks of fines or imprisonment for non-compliance



04 Data protection & HR support

EOR providers often offer robust data protection systems in line with Law No.27/2022 on Personal Data Protection, keeping HR and employee information secure. They also oversee end-to-end HR processes, from onboarding to offboarding, including severance compliance, grievance handling, and performance management



Chapter 6

CASE STUDY 1: TECH COMPANY SCALING ENGINEERING TEAMS REMOTELY

6.1 Objective: Hire in 2 Weeks, No Local Entity

In the face of business expansion, hiring new employees is one of the most important aspects that needs to be fulfilled. If their operational growth is not being matched with more talents to meet the increasing workload, they will struggle to meet the client's expectation in delivering the expected output, nevermind so in a high quality. For international companies looking to expand abroad, this is even more important and challenging.

To employ local staff, or even to have international employees working there, international companies have to navigate the intricacies of the local legal framework. As an example, in the Indonesian labor laws, businesses are required to have a legally registered entity within the country to hire employees directly. This poses a significant challenge for companies looking to hire as quickly as possible, and even more so for companies that are not yet interested in building a local entity here—which makes EOR a promising solution. Since EOR handles all the administration and legalities, these global companies have the flexibility to hire local employees with much less hassle, resulting in quicker talent acquisition.



6.2 Result: Full Compliance, Operational Speed, Employee Satisfaction

An example of benefitting from an EOR can be seen from one of Singergis' own clients. This company is an AI technology company based in Singapore that wants to employ Indonesians into the company. Unfortunately, they were facing difficulties in navigating the Indonesian Labor Laws and were looking for a more efficient solution, which brought them to Sinergis.

As an HR Consulting & Services company legally administered in Indonesia, Sinergis is able to act as an EOR for the client. Sinergis not only handles their employees' legal employment and contracting, but also provides an end-to-end solution in managing the local employees, from payroll administration, tax and social security, HR administration, and onboarding and offboarding processes. This saves the company's HR from having to deal with all of those and focus more on strategic things.

As a result, the company experiences way less hassle in recruitment and employee management as but ensured local compliance from Sinergis' expertise in navigating the local legal framework, which provides a pathway to a more speedy operation. Sinergis' familiarity with local regulations, payroll transparency, and responsive support also brings employee satisfaction knowing that their rights are well protected according to the existing laws.



Chapter 7

CASE STUDY 2: CONSUMER BRAND TESTING MARKET ENTRY

7.1 Objective: Evaluate Local Market Potential

In today's competitive global business landscape, entering a new market like Indonesia requires a careful, efficient, and legally compliant strategy. This is especially true for consumer brand companies—those offering services or products directly to end consumers—where having a local presence is often the key to success. However, not all companies are ready to take the risk of immediately establishing a legal entity in the target country.

Many multinational companies are now adopting a market testing approach before committing to large-scale investments. The goal is clear: to evaluate the growth potential and local consumer acceptance of their products. In the context of Indonesia, this strategy faces significant challenges, particularly the complexity of labor regulations and strict business laws. Indonesia has a comprehensive labor law framework that governs employment relationships, workers' rights, social security registration (BPJS), and the tax system. Therefore, global companies looking to test the Indonesian market need a solution that allows them to recruit and manage a local team without having to immediately establish a legal entity.

A strategic solution for global companies seeking to expand into Indonesia is the use of the Employer of Record (EOR) model. An Employer of Record (EOR) is a solution that allows foreign companies to employ workers in a country without first establishing a legal entity. In this model, the EOR acts as the official employer in the eyes of the law and regulators, while the client company retains control over job functions and objectives. In Indonesia, this model is increasingly relevant, as it provides a legal, fast, and flexible middle ground for companies wishing to test the market without long-term commitments. The EOR handles all administrative aspects such as employment contracts with workers in Indonesia, payroll, BPJS payments, income tax, and lawful termination of employment.

The use of the EOR model also aligns with global trends. According to a report by Verified Market Research, the global market for Employer of Record services was valued at approximately USD 4.42 billion in 2023 and is projected to reach USD 8.59 billion by 2030, with a compound annual growth rate (CAGR) of 6.8%. This growth indicates a rising interest among companies in business models that enable cross-border expansion without significant legal risks.



7.2 Result: 6-Month Compliant Employment Before Formal Incorporation

In this case study, a global company utilized the Employer of Record (EOR) model to recruit a marketing and research team for a six-month project in Indonesia. During this period, all employment-related aspects—from the recruitment process to payroll management and compliance with obligations such as BPJS and income tax—were handled in accordance with applicable regulations, without the company having to establish a local legal entity. Through this model, the company was able to directly execute its market testing program, including brand activation and consumer feedback collection, without bearing legal or administrative risks.

The six-month operation run through the EOR yielded significant results. The company gained deep insights into consumer preferences and operational conditions, and was able to swiftly adjust its strategies. The flexibility provided by the EOR model allowed the company to remain agile—whether to proceed with further expansion or to exit the market if evaluations indicated that long-term investment was not feasible.

At the end of the six-month period, the company had two equally legal and efficient options. If choosing to proceed with expansion, it could establish a local entity and transition employees into the internal system. However, if deciding not to move forward, the entire market exit process could be completed without administrative burdens or long-term legal obligations, since the employment relationship was established under a fixed-term contract in accordance with Indonesian labor laws.

If your company is considering entering the Indonesian market, the EOR approach offers a bridge between market exploration and execution—without requiring large upfront investments. Sinergis HR Consulting and Services is ready to be your EOR partner, managing all administrative and legal aspects so you can focus on market validation and strategic decision-making. Contact the Sinergis team today and discover how we can support your business expansion into Indonesia—safely, swiftly, and flexibly.



Chapter 8

HOW TO CHOOSE AN EOR PARTNER STRATEGICALLY

8.1 Evaluation Criteria: Legal Standing, Expat/Local HR Capabilities, Transparency

Globalization has enabled businesses to grow rapidly around the world. However, this growth has made employment law, payroll, and human resource administration more complex. The Employer of Record (EOR) services have proven to be an effective solution—EOR acts as the legal employer on behalf of the client company, handling legal and operational complexities such as compliance, payroll, and HR functions in foreign jurisdictions¹. However, not all EORs are created equal. Evaluating potential providers on legal standing, local HR (human resource) expertise, and transparency is essential for successful international operations.

In terms of legal standing, the key of choosing an EOR partner is conducting due diligence on its legal credentials and track record in the operating countries. This includes verifying that the EOR partner is registered as an official staffing provider and has a history of compliance with local labor and tax regulations. References from clients in the operating countries are needed to confirm their legitimacy. A company should verify the legitimacy of its EOR partner by reviewing its certifications, such as ISO 9001. Other than that, a company should seek the EOR's proof in advance that it has measures in place to protect sensitive data and employee rights².

A good EOR partner should possess the ability to manage both expatriate and local employees, including onboarding, benefits administration, and ongoing support. Familiarity with local job markets, cultural norms, and recruitment strategies is needed to facilitate smoother onboarding, benefits administration, and employee support. A company should assess whether the EOR partner has experience working with companies in the same industry, as this ensures tailored solutions for unique HR challenges³.

Transparency is also key to choosing the right EOR partner. The EOR partner should provide clear, timely information about processes, fees, and responsibilities. This includes transparent contracts and regular reporting on compliance and payroll matters. A company should ensure the EOR partner adheres to international data protection standards and maintains robust security practices for sensitive employee information. Additionally, details about the EOR's internal quality control, risk management, and audit procedures is needed to ensure ongoing compliance and accountability⁴.



8.2 Questions to Ask and Common Red Flags



A company should ask strategic questions to understand the real capabilities of a potential EOR partner. In understanding its answers, a company should know the common red flags to choose the best EOR partner. This following table illustrates the example of questions to ask and common red flags of an EOR provider.



Table 1. Example of questions to ask and common red flags

Evaluation criteria	Questions	Red flags
Legal	<ul style="list-style-type: none"> • How do you stay updated with local law changes in each country? • Do you have your own legal entity in our target countries, or do you work with third parties? • What happens if there is a compliance breach or legal issue? Who is liable? 	<ul style="list-style-type: none"> • EOR relies heavily on third parties without clear accountability or oversight.
HR capabilities	<ul style="list-style-type: none"> • How do you handle onboarding, benefits, and ongoing support for both expats and local hires? • Who manages employee queries or issues, and in what language(s)? • Can you provide references from clients in our industry and region? 	<ul style="list-style-type: none"> • Provider cannot demonstrate in-depth knowledge of specific country's laws or lack local HR teams. • Slow response times, lack of multilingual support, or limited availability for employee queries. • Reluctance to provide client references or real-world examples of their work.
Transparency	<ul style="list-style-type: none"> • Can you provide a detailed breakdown of all costs and services? • How do you manage and protect sensitive employee data? Are you ISO-certified? • Where is your data stored, and what is your recovery plan in case of a system failure? 	<ul style="list-style-type: none"> • Providers are not upfront about all costs or have hidden fees. • Lack of certifications (e.g., ISO 27001) or unclear data handling practices.



Chapter 9

STRATEGIC RECOMMENDATIONS

9.1 When EOR Is the Right Choice

Employer of Record (EOR) is a strategic solution for global companies looking to hire employees in Indonesia without setting up a local entity. According to Papaya Global (2024), an EOR not only acts as a legal entity to hire employees, but also ensures that all compliance with local labor, tax and social security regulations are professionally met.



When is an EOR an ideal choice:

01



Market Testing / Entry Stage

If a company wants to test the Indonesian market, an EOR provides a quick way to recruit local labor without the long-term commitment of establishing a PT PMA.

02



Avoiding Bureaucratic Setup

Establishing an entity such as PT PMA requires time, legal fees, notarization, and lengthy processes at BKPM, Kemenkumham, and DGT. EOR avoids this by providing a ready-made structure.

03



Urgency to Hire

When global companies need fast onboarding due to project or client urgency, EOR allows employees to officially start working in days, not months.





04



Legal & Tax Risk Mitigation

Direct hiring without an entity can pose permanent establishment (PE) tax risks, employment fines, and incorrect tax reporting. EOR prevents all of this.

05



Limited Number of Employees (<10)

According to Papaya, if only employing 1-5 people in the initial stage, operating costs with EOR is more efficient than creating a full internal structure.



9.2 Transition Planning: from EOR to Full Local Presence

While EOR is the ideal initial solution, many companies eventually choose to form their own entity (e.g. PT PMA) when:

- The number of employees continues to grow
- EOR costs are already equal to or more expensive than standalone operations
- Full control over the organizational structure and branding of the company is required
- There is a need for long-term contracts or opening a physical office

Strategic transition steps:

01

Legal and Operational Preparation

- Register PT PMA through OSS (Online Single Submission).
- Register for NPWP, NIB, BPJS Health & Employment accounts.
- Register the office with the local Manpower Office.

02

Contract Migration

- Coordination with EOR to make an amicable termination letter.
- Convert EOR contract to PKWT or PKWTT directly by PT PMA, keeping the length of service recognized to avoid severance pay claims in the future.

03

Payroll & Tax System

- Set up a local payroll system that handles: PPh 21, BPJS, THR, overtime, and monthly reporting.
- Use e-Bupot, e-Faktur, and Coretax systems for tax reporting according to the latest DGT regulations (since 2025).

04

HR Management & Retention

- Socialize this transition to employees so as not to cause anxiety.
- Ensure that allowances and benefits do not decrease.
- Provide training and orientation on the new entity to keep them loyal.

05

Transfer Pricing and Audit Consultation

- If the local entity receives funding from the head office, consult a tax consultant to avoid the risk of a transfer pricing audit by the Directorate General of Taxes.



9.3 Final Checklist for Global Employers Entering Indonesia

To help foreign companies start the recruitment process through EOR in Indonesia legally and efficiently, here is a strategic checklist:

01 Strategic Preparation

- Have you determined what positions you want to recruit?
 - Already have a clear expansion timeline & budget?
-

02 Legal Compliance

- Is the employment contract in accordance with Law No. 13/2003 and the Job Creation Law (No. 11/2020)?
 - Do you understand the type of contract (PKWT vs PKWTT), annual leave (12 days/year), THR (paid H-7 Lebaran)?
-

03 Taxation and Social Security

- Has EOR handled Income Tax 21 and BPJS contributions?
 - Has the salary structure taken into account net/gross salary according to regulations?
-

04 EOR Service Provider

- Does the EOR provider have a legal entity in Indonesia and is officially registered?
 - Do they have experience managing taxes & BPJS, and understand the local work culture?
-

05 Long Term Plan

- Is there already a roadmap if you want to transition to PT PMA?
- Is there a structure for administrative support if the EOR is no longer used?



Chapter 10

CONCLUSION

Expanding into Indonesia's dynamic market offers tremendous opportunity, but navigating its labor regulations requires more than just compliance. Success demands a partner with genuine local insight and strategic understanding. Employer of Record (EOR) services enable global companies to build local teams quickly and compliantly. Yet the real value of this model hinges on choosing the right EOR provider—one that grasps Indonesia's unique business culture, translates complex legal requirements into practical operations, and prioritizes a smooth experience for your employees.

Sinergis know how to navigate Indonesia regulatory knowledge with practical cultural understanding. We help international businesses scale confidently here by handling everything from payroll and benefits to visas and tax compliance. But we go further: our local teams offer real-world insights into Indonesian workplace norms, regional labor variations, and relationship-driven business practices. This means you avoid costly missteps while building a motivated, productive team.

Choosing an EOR without true local expertise risks delays, fines, or employee dissatisfaction. Sinergis provides stability through full-cycle HR support tailored to Indonesia's evolving landscape. We focus on getting the details right so you can focus on growth. Contact us for more information about HR legal compliance in Indonesia.

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