Impact of wages on employee productivity

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**Introduction**

The impact of wages on the productivity of an employee is a concern of many researchers around the globe. Some of the findings show that there is a direct connection between the two. If the wage rate is increased than the employee is willing to provide enough service to the organization and its productivity will increase. The underpaid usually do not get motivated to work and the show poor performance thus their productivity decreased.

The impact of wage on the productivity of employees should be properly analyzed and understood. This literature review tries to find out the relationship between the wage rate and the productivity of an employee. It discusses out the global influence of this issue and it highlights the factors that promote motivational behavior of an employee.

**Employee Wage rate and the Political force behind it**

Minimum wage rate in the United States is set by the federal and States levels. Each state is free to set its minimum wage rate equal or higher to that of the federal wage rate. Moreover, the state government can set the wage rate less than the set by the federal government but just for that worker on who the federal laws are not applicable. The increase in the minimum wage rate by is the slogan of every state person to get votes of citizens (Peters, 2009).

The minimum wage rate at the State level has three determinants. The model of the legislature that is best for utility maximization, the influence of capitalist and a model that shows union strength. All these models are the determining factors of minimum wage rate at the States level. The state government determined that an increase of ten per cent in the labor organization will increase the minimum wage rate by $0.22 and this rate was set in the year 1997 (Peters, 2009).

But the Canadian political system influences the employee's wage rate differently. The country has no federal wage laws but every province has separate wage laws. The minimum wage rate is negatively impacted by the percentage of women, teens and children in the workforce. The political control of the conservative party also has decreased the minimum wage rate in Canada (Green & Harrison, 2010).

The minimum wage rate decreases the opportunity of employment. The residents who have a high level of wage rate and the union leaders should motivate the policymakers to develop the best legislation for a minimum wage rate (Tamada, 2011).

**Survival:**

At the time of the United States President, Franklin Delano Roosevelt, the policy makers analyzed that the country was able to gain its micro and macro-economic goals by increasing the minimum wage rates of its labor. The macro-economic goal is redistribution the earned money from the one with a high wage rate to the ones with low wage rate in order to make sure the survival of the employees with a low wage rate. The micro-economic goal is to take out the less- skilled labor from the circle of poverty by having macroeconomic growth. The increase in the minimum wage rate of the poor labor will help in their survival and will boost up the economic growth general (Sabia, 2015).

The opponent of this concept says that an increase in the minimum wage will increase the demand for more labor and it will effect during the recession periods (Sabia, 2015). It is because of the fact that most of the low waged workers lack important skills and it affects their productivity in particular and the economic growth of the country in general. So for the survival of the low waged employees, the policymakers and the private companies should focus on the building the skills of the labor so that they would able to contribute in the macroeconomic growth of the country.

**The Global issue of wage growth and its Impact on Employee Productivity:**

The relationship between productivity and wages growth has taken into concern by policy makers worldwide due to the current economic crisis (Meager & Speckesser, 2011)

The United Nations agenda of Sustainable development 2030 talks about lower inequality and decent jobs for man and women. That is one of the key objectives of the current universal policy. This agenda focuses the wage inequality and wage growth. The sustainable development goals are set in order to reduce the inequality among countries and the elimination of discrimination on the bases of wage. The SDG is focusing on the improvement of the life standard 40 per cent of the population that is below the poverty line. Thus the inequalities in the wage rate are posing challenges for political, social and economic cohesion of the society (Office, 2016).

Minimum wages rates are the top issues need to be tackled by the policymakers. There were labor markets that were job killers and were not welcoming of labor and that have shaped the minimum wage rate of the nineties. So after that developing as well as developed countries started working on their minimum wage rates. The United Kingdom introduced its minimum wage rate at the national level in 1999 and after that Ireland introduced its wage policy and determined its minimum wage rate. Then followed by Germany and other Eastern European countries. Germany is a country which has been following the concept of collective agreement on the issue of wage rather than the intervention of the state (Ipc-undp.org, 2019).

The minimum wage rate in developing countries like Brazil in the early twenty century and Brazil increase the federal minimum wage by 2005. While Russia adopted a regional wage rate in 2007. India has also brought reforms in this filed and introduced minimum wage act. China adopted the system of minimum wages for provinces in 1994 and brought reforms in 2004. South Africa recently announced the wage rate in 2018. There are various other countries that have strengthened their minimum wage system in order to cope with the challenges caused by economic disparities (Ipc-undp.org, 2019).

Policymakers view minimum wage as a way to achieve social justice and, therefore, should carefully manage. The previous policies were failed in maintaining exclusive growth so countries need to go bring changes in the minimum wage rates. As a result of such policies, income inequalities have remained high in most countries around the globe. The lowest paid labor gets 12 per cent of the total wage and those labor make 50 per cent of the market. 10 % of the labor gets half of the total wage. The Scandinavian countries have been exceptional in such cases, they have set collective bargaining between the employers and the workers. But in most developing countries this mutual agreement is missing and a specific range of workers have been provided sufficient wage floor (Ipc-undp.org, 2019).

**A Global Issue: The U.K.**

Economists suggest that the hourly employee’s compensation should grow with GPD over the long run. But the US GDP growth rate was 84 per cent in the year 2010 and its wage grew just 21 per cent. In the UK the productivity showed a growth of 114 per cent and real wages grew by 72 per cent. The worker protested that they were being denied of their shares in the economic growth of the country. As a result of that workers have lower wages and they have to stay more in the workplace. The workers accept lower wages just to stay in their respective jobs. The second factor of the competition in the market could be due to the flexible nature of the market and decline in the trade union which reduced the number of wages inside the country (Blundell, Crawford, & Jin, 2014).

The UK experienced an increase in the productivity of labor when the wage rates were improved but the product could differ with respect to the skills of the workers.

**A Global Issue: Ghana**

The Ghana Manufacturing Enterprise was examined and finds out that the small firms operate in a competitive environment and their productivity depends on the wage rate. The increase in the wage rate of the workers motivates them to work more and thus it adds up to the productivity of the firms (Serneels, 2005).

Ghana has a slower growth rate of labors than the growth rate of population and hence the influx of labor in the market is huge and its youth population is also increasing. To cope with this situation the labor market should be more creative. The share of formal employment is less than informal job opportunities in Ghana. Self-employed are more in numbers in the market. The production figure of the country shows that a large portion of the GDP is shared by the employers but the labor productivity is not that much increasing. This is due to the limitation of economic activities and long run capacities of those activities (Serneels, 2005).

**Employee Productivity**

Employee participation effect employee satisfaction, commitment and productivity. Increasing employee participation will have a positive impact on the productivity of the employer. It also has a positive effect on employee commitment and job satisfaction. Increasing the participation of an employee is a long term process. Employee participation is defined as a process in which the particular influence is being shared among the individuals who are basically on separate hierarchical stages. The productivity of employee can be increased by improving their participation in the workplace. Employee participation can be increased by improving the wage rate. The productivity can be gained one is by increasing demand with the increase in minimum wages or introducing an incentive mechanism. The productivity gains are seen in the low productivity workers but not among the high productivity workers. The minimum wage rate of the less productive employers does not frequently change so that its impact on productivity could not be guaranteed. The minimum wage rate raises productivity endogenously (Krekel, Ward, & de Neve, 2019).

The minimum wage rate helps to decrease the wage dispersion and it also helps to productivity gains in the high wages. It also contributes to higher productivity. This will also keep the employee motivated and they will stay working in the company for longer.

**Motivation**

Employee motivation should not be underestimated and motivation is related to the commitment shown by the employer towards the company. Motivation is a tool that can be used to increases the commitment of an individual in the workplace and thus it is used to increase productivity.

Motivation can neither be observed nor can it be directly felt. It is a state which will let people invest their time and energy to gain the goals. The higher the motivation then the higher is the involvement of the person in tasks that will get him or her closer to the set target.

Motivation is a force that triggers the behavior of an employee and helps him or she maintains that behavior. The degree of motivation also depends on the performance of that individual and whoever is able to get their goal. There could be different types of motivation. Motivation could be in shape of compensation or positive feedback, or other types of support in the workplace. It keeps the employee on track and boosts up his or her energy. The motivation can either be controlled by some external factors or can be increased by the employees themselves.

Intrinsic motivation is something that comes from within. It includes the curiosity for work, expectations of success and positive work attitude. Effectiveness is the main component of intrinsic motivation and it is the end result that builds up the interest level of the employee. Whereas, extrinsic motivation comes from outside in the form of incentives or feedbacks. Both types of motivation increase the productivity of an employee and help to boost up the overall economic growth (Bright, 2008).

**Creating Profitable Businesses by Employment Benefits**

Business can provide their employee with benefits in order to get the business goals. Benefits could be non-cash payment and could be indirect incentives as well. The organization provide benefits to the employee in order to increase the competition among the employers and this competition will increase the overall productivity of the organization. Those benefits could be Overtime, compensation, insurances and paid leaves. The type of employee benefits depends on the nature of the organization.

The major purpose of the employment benefit is to generate a profitable business. The profit of the business can be maintained by retaining the top employee. The top employee will know his or her worth and will get huge benefits from the organization.

Benefits can also be given to the employee in order to promote employee loyalty which will eventually lead to the profit maximization of the business. If the company will deliver some rewards based on the performances of the employee then the employee will build up a strong relationship with the organization.

A satisfied worker is very useful for the organization because it will help to generate profit and will work hard to make the organization a success. So employee benefits will generate profit for the business by Lessing down the rate of turnovers (Jehanzeb & Bashir, 2013).

**Conclusion**

The minimum wage rate of employees differed based on the country where they reside. The literature shows that the minimum wage rate has a positive effect on the productivity of the employees. The strengths of this literature are that they compare the minimum wage rate of different countries and then compare it with productivity growth. It has highlight wage rate as a global issue and discussed the impact of wage rate on employee’s productivity. It discusses the relationship between wage and productivity. This literature contributes to the understanding of the impact of wage on the productivity of an employee.

The weakness of this literature is not its only focus on the link between the minimum wage rate and employee benefit with employee benefits. There are other driving forces which will affect the productivity of employer despite providing enough wage and benefits.

The literature also identifies a research gap that is, employee skill development is more important to get enough benefit than to focus on increasing the wage rate.

The next step could be that research should be conducted in order to find out the ways of employee skill development and increasing profitability. The scope of this research needs to be elaborated and many major forces that have a positive impact on the profitability of the employee should be included.

In a nutshell, the literature shows that wage rate has a positive impact on employee productivity and many employees are motivated by increasing the rate of wages.

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