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Can a voluntary progressive wage system work?

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I REFER to the progressive wage policy proposed by Economy Minister Rafizi Ramli that has been by described by Prime Minister Datuk Seri Anwar Ibrahim as voluntary in nature, based on incentives and linked to productivity.

A progressive wage system is a framework that ensures workers are fairly and reasonably compensated. It usually entails establishing a minimum wage that increases as workers gain more experience or skills.

The system is intended to prevent wage stagnation and ensure that employees are fairly compensated for their efforts.

Singapore proposed making the progressive wage model (PWM) mandatory in 2012 for the bottom 20% of its resident income earners. The system is currently implemented in sectors such as cleaning, security and retail.

Will the system work if it is voluntary?

Implementing a PWM could be motivated by a company's desire to maintain a positive reputation, attract and retain skilled workers and foster a fair and ethical working environment. These are forward-thinking employers who recognise that a motivated workforce is a valuable asset that can propel their company to new heights.

Furthermore, voluntary PWM implementation could encourage healthy competition among businesses, motivating them to raise their compensation standards to remain competitive.

If employers opt out, their workers would continue to be paid less and also have fewer opportunities for advancement.

Mandatory annual salary increments may look appealing for closing income gaps and improving employee morale. But it comes with its own challenges.

It could impose financial burdens on small businesses, jeopardising their viability. Increased production costs may cause inflationary pressures, resulting in price hikes that will affect consumers.

Furthermore, in the face of guaranteed annual pay raises, employees could become complacent and may lower their performance standards if they are not encouraged to excel.

Policymakers should therefore consider the big picture before advocating for mandatory salary increases.

Incentive-based compensation remains an appealing option for employers. Such a strategy, tailored to the specific nature of businesses, industries and corporate objectives, provides various benefits, such as performance bonuses, commissions, profit-sharing, stock options and quality-based raises.

This approach not only rewards exceptional performance but also serves to deter free riders in the workplace.

Nonetheless, a study published in the "Human Resource Management Journal" offers a more nuanced viewpoint. Employees who are paid based on performance work harder, but they also have higher stress levels and lower job satisfaction.

It is therefore critical to strike the right balance between incentivising performance and protecting employee well-being.

Incentives should align with individual and organisational goals in carefully designed compensation plans.

Employer attitude, market dynamics, labour demands and government interventions influence the effectiveness of compensation strategies.

While the voluntary progressive wage model may improve worker compensation and encourage healthy employer and employee competition, it may also increase wage inequality and exploitation.

As policymakers navigate this complex landscape, it is critical to prioritise equitable compensation while considering the needs and constraints of employers and employees. Government intervention should be carefully calibrated to achieve a balance between raising income levels and ensuring economic stability.

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