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A fair wage model for all

A FAIR WAGE MODEL FOR ALL

Employers favour incentive-based compensation as it is tailored to a business' needs and provides benefits to workers. FILE PIC

MALAYSIA'S National Economic Action Council (MTEN) presented a Progressive Salary Policy paper on Aug 7, to start the shift towards recovering the labour market and a more balanced wage distribution.

A progressive wage system usually entails establishing a minimum wage that rises as workers' experience and skills improve. Such a system is intended to prevent wage stagnation and ensure employees are fairly compensated.

Singapore proposed making its Progressive Wage Model (PWM) mandatory in 2012 to improve wages and working conditions for the bottom 20 per cent of income earners.

According to the *Straits Times* (2022), the PWM model will see about 19,000 full-time lower-wage retail assistants, cashiers and assistant retail supervisors get annual pay increases of between 8.4 and 8.5 per cent over the next three years.

Will our progressive wage system work voluntarily? If a progressive wage system were voluntary, some employers might not implement it.

Forward-thinking employers recognise that a motivated workforce can propel their company to new heights. Furthermore, a voluntary PWM implementation could encourage healthy competition among businesses, encouraging them to raise compensation standards to remain competitive.

The downside to making the PWM voluntary is if many employers opt out, worker exploitation and wage inequality may exist. Workers in such companies may continue to be paid less and will have fewer opportunities for advancement.

On the other hand, mandatory annual salary increases comes with challenges. It may burden small businesses, jeopardising their viability. Increased production costs may cause price increases that affect consumers.

Furthermore, the risk of employee complacency looms large in the face of guaranteed annual raises. Some employees may lower their performance standards if they are not encouraged to excel.

Thus, incentive-based compensation remains appealing to employers. Such a strategy, tailored to the specific nature of businesses, industries and corporate objectives, provides performance bonuses, commissions, profit sharing, stock options and quality-based raises in pay.

This approach not only rewards exceptional performance but also serves as a deterrent to free riders.

Nonetheless, a study published in the *Human Resource Management Journal* offered a more nuanced view. 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 a balance between incentivising performance and protecting employee wellbeing. Incentives should align with individual and organisational goals in incentive-based compensation plans.

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

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