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EFFECTS OF WAGES ON THE PERFORMANCE OF EMPLOYEES

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Abstract: *Job performance of employees is the area of concern of all the firms no matter whether they stand for profit or not. The wage factor and the quality of work life need to get the attention of the management for improvement in the employee's performance. So the basic purpose of this research paper is to identify the effect of wages on the job performance of the employees in manufacturing sectors as they directly relate with job performance. The result showed a significant effect of the wages on employee's performance it means that the salary has a stronger relationship with job performance than training and motivation. This study will also guide top managers of the organizations to get a good understanding of the factors that can increase the job performance of the employees which will ultimately increase organizational productivity.*

Keywords: *Wages, Employees Performance, Job Satisfaction, Quality of Work Life*

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INTRODUCTION

Good remuneration has been found over the years to be one of the policies the organization can adopt to increase their workers performance and thereby increase the organizations productivity. Also, with the present global economic trend, most employers of labor have realized the fact that for their organizations to compete favorably, the performance of their employees goes a long way in determining the success of the organization. On the other hand, performance of employees in any organization is vital, not only for the growth of the organization, but also for the growth of individual employees (Meyer and Peng, 2006). An organization must know who are its outstanding workers, those who need additional training and those not contributing to the efficiency and welfare of the company or organization. Also, performance on the job can be assessed at all levels of employment such as: personnel decision relating to promotion, job rotation, job enrichments etc.(Aidis,2005; Meyer and Peng,2006). Workers tend to perform more effectively if their wages are related to performance which is not based on personal bias or prejudice, but on objective evaluation of an employee's merit. Though several technique of measuring job performance has been developed, in general, the specific technique chosen varies with the type of work. For achieving prosperity, organization designs different strategies to compete with their rivals and for increasing the performance of the organizations.

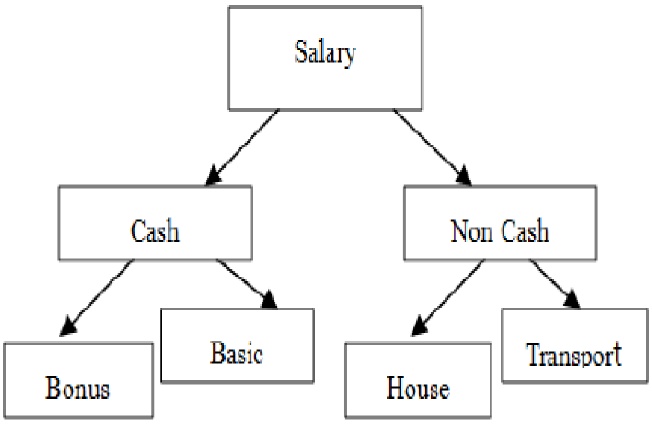

Figure 1: Operational construct of the Salary

A very few organizations believe that the human personnel and employees of any organization are its main assets which can lead them to success or if not focused well, to decline. Unless and until, the employees of any organization are satisfied with it, are motivated for the tasks fulfillment and goals achievement and encouraged, none of the organization can progress or achieve success. All these issues call for research efforts, so as to bring to focus how an appropriate reward package can jeer up or influence workers to develop positive attitude towards their job and thereby increase their productivity.

LITERATURE REVIEW

Employees want to earn reasonable salary and payment, and desire their workers to feel that is what they are getting (Houran, 2010). Money is the fundamental inducement; no other incentive or motivational technique comes even close to it with respect to its influential value (Sara et al, 2004). It has the supremacy to magnetize, maintain and motivate individuals towards higher performance. Frederick Taylor and his scientific management associate described monet as the most fundamental factor in motivating the industrial workers to attain greater productivity (Adeyinka et al, 2007). Research has suggested that reward now cause satisfaction of the employee which directly influences performance of the employee (Kalimullah et al 2010). Rewards are a management tool that hopefully contributes to firms' performance by influencing individual or group behavior. All businesses use pay, promotion, bonuses or other types of rewards to motivate and encourage high level performances of employees (Reena et al, 2009). To use salaries as a motivator effectively, managers must consider salary structures which should include importance organization attach to each job, payment according to performance, personal or special allowances, fringe benefits, pensions and so on (Adeyinka et al, (2007).

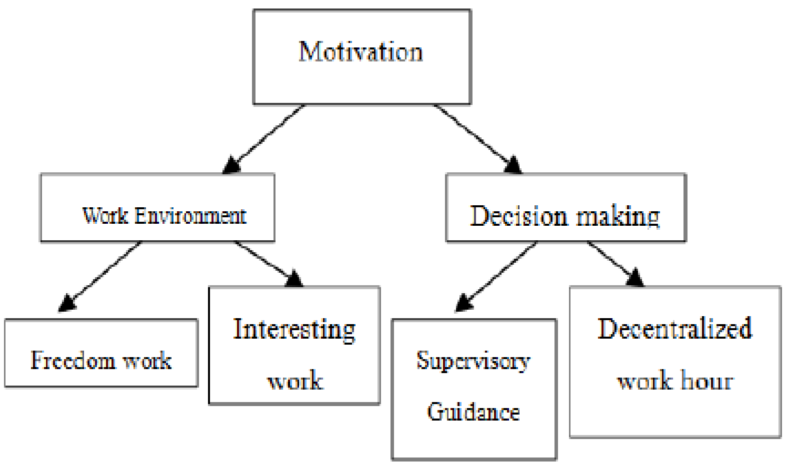

Figure 2: Operational construct of the Employee motivation

Leadership is all about getting things done the right way, to do that you need people to follow you, you need to have them trust you. And if you want them to trust you and do things for you and the organization, they need to be motivated (Baldoni, 2005). The figure 2 shows other motivation factors, which helps in increasing employees performance.

WAGES

One purpose of a person as an employee of a company is to earn income in the form of wages or compensation. Received wages are used to meet basic needs such as food, clothing and housing. Every company in determining the amount of wages paid to the employee must be feasible, so that the lowest wage that is given to meet the needs of their life (Kanzunnudin, 2007). Some economists opine about the meaning of wages. According misesian view that the increase in employment opportunities can only happen if the workers receive wages lower nominal (Syahdan, 2007). Implicit contract model briefly demonstrated that the wages of workers in a company is determined by the contract between the employer and the union. This means that in the presence of strong unions, wage rates cannot be easily changed as in a perfectly competitive market. Resulting in wages rigidity and especially wages will be extremely difficult to decrease if there is a recession. According to this theory the company tends to set wages higher than perfectly competitive market equilibrium wages. Insider-outsider models considers that the markets for goods and labor markets are imperfect. If the labor market there is a union and a relatively limited number of enterprises, the wage rate is determined from the collective contract agreements between unions and employers. Union members called insider and who are not in a union called the outsider. wages determination with the contract likely to be higher than was the case in a perfectly competitive market. Wage flexibility is the main topic of the economy, are mostly found in the literature related to the provision of incentives provided by the company. A number of theoretical models have developed an explanation of how the company should design compensation schemes to encourage employees to work for the benefit of the company. The conclusion is put some effort into their work to maximize corporate profits (Prendergast, 1999).

Wages become an important aspect of being effective if linked to the performance significantly (Umar, 2012). Granting wages remuneration is the most complex task for the industry, is also the most significant aspects for workers, because of the amount of wages reflects the size of the value of their work among the workers themselves, their families and communities. Wages are very important for the industry because it reflects the industry's efforts to defend human resources in order to have a high loyalty and commitment to the industry. Effective wages strategy is expected to contribute to maintaining the viability of the work force, the realization of the vision and mission, as well as for the achievement of work objectives (Umar, 2012).

EMPLOYEE PERFORMANCE

Measurement of employee performance is an activity that is very important because it can be used as a measure of success in supporting the success of the organization's employees (Said, 2008). Factors used in the measurement of labor productivity include the quantity of work, quality of work and timeliness (Simamora, 2004). Individual characteristics that affect performance include age, gender, education, length of employment, job placement and work environment. Performance is influenced by two factors: Factors of self-acting self and external factors acting. Factors that are in the position holders are competence, skills, knowledge, motivation, attitude and experience. External factors are environmental organization office holders, including surveillance, communication, training and performance assessment in an organization. Human productivity has a major role to determine the success of the company. Human productivity is often referred to as mental attitude always had the view that today is better than yesterday and tomorrow.

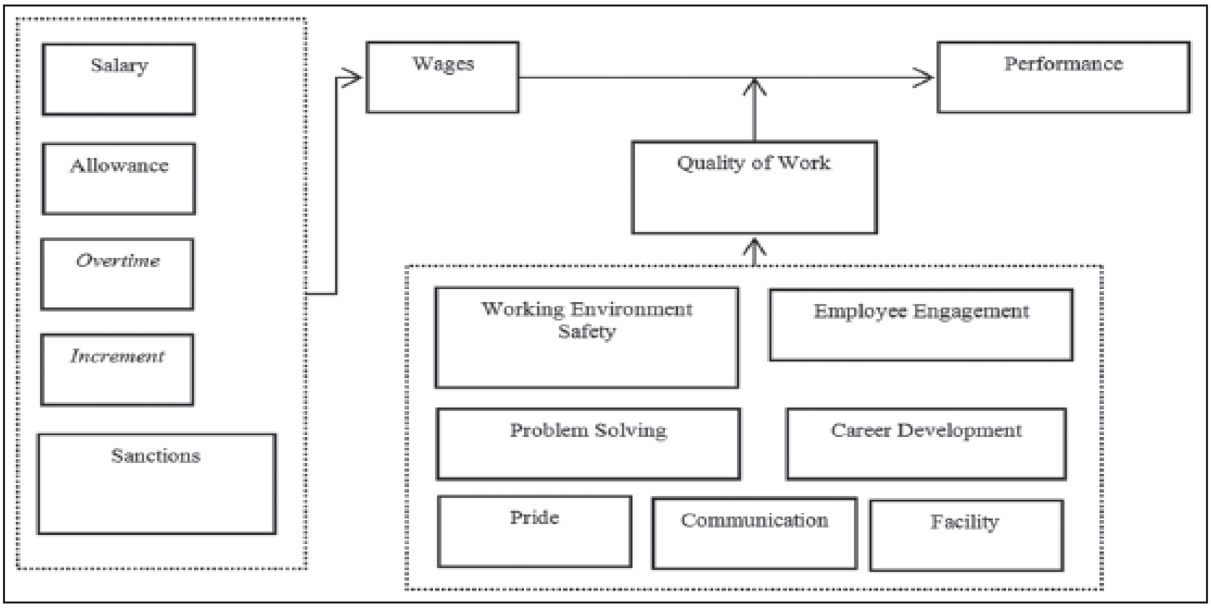

Figure 3: Conceptual of wages

Source: Gunawan and Amalia: Wages and Employees Performance: The Quality of Work Life as Moderator

Figure 3 shows the relationship between the factors that affect the income (salary, allowances, overtime, increment, sanctions) against wages that can affect performance. Other factors are quality of work that consists of working environment safety, Employee engagement, problem solving, career development, pride, communication, and facility to mediate the relationship between wages and performance.

OBJECTIVES OF THE STUDY

1. To examine the effect of wages on employee's organizational performance
2. To determine the factors that increase motivation of employees in an organization.
3. Investigating why workers are always demanding increase of salary.
4. Make recommendations based on the findings from the study.

EVALUATING THE EFFECTIVENESS OF PAY SYSTEMS

After following the general design principles outlined in the preceding section, how can an organization evaluate the success of its compensation policies and practices? One of the most important suggestions to emerge from the reviewed research is that *one needs to track employee behaviors as well as employee attitudes.* On the behavioral side, there are at least three outcomes that are likely to be heavily affected by compensation practices: attraction, retention, and performance. Each of these outcomes should be closely monitored to detect problems with the compensation system. For example, with respect to attraction, is a company's job acceptance rate higher or lower than those of other companies in its area or industry? If lower, are applicants accepting positions with higher or lower starting salaries? In addition, what *types* of applicants and employees are being lost—the most desirable or the least? Similar questions should be asked about retention. Also, in both cases, outcomes should be tracked in relation to previous years, as well as to benchmark firms or competitors. Different results suggest different kinds of solutions. Similar kinds of tracking should be done with respect to employee performance. Because most firms do not have objective measures of individual performance, performance outcomes must often be tracked at team, department, or plant levels. Of particular interest are changes in performance associated with major changes in HR practices, such as shifting from individual to team production or from merit pay to gain sharing. Although assessing employee behaviors is crucial to evaluating effectiveness, *there are still reasons to monitor employee attitudes as well.* In particular, changes in satisfaction or importance levels are often leading indicators of subsequent changes in behavior. As such, employee surveys can still be a valuable part of the evaluative system. Previous research has shown that responses to employee surveys (e.g., which items are rated as more "important" or "satisfying" than others) can be heavily dependent on such things as the precise wording and format of the questions asked (Lawler, 1971). Therefore, managers should use highly similar surveys from year to year and pay considerable attention to *changes* in responses to key questions having to do with pay importance, pay fairness, and pay satisfaction. If the implicit contract regarding pay level, pay-for-performance, or any other aspect of pay has changed (due either to actual changes in practice or to a changing market or workforce conditions), a good survey should be able to capture this. In particular, the responses and reactions of the top performers should be carefully monitored. Of course, employee survey data are typically anonymous, so direct links to performance data may not be feasible. However, self-reported performance on employee surveys can be used. Additionally, the turnover rates of high performers can be compared to those of other employees. Employers can also be more proactive in anticipating and heading off certain problems (e.g., eroding pay levels) by using salary surveys to benchmark their pay level and other pay practices against other organizations. Finally, realizing that people may not always be forthright in exit interviews about their reasons for leaving, one should ask directly what they will be earning in their new job as a way of gauging the extent to which pay might be a determining factor.

IMPLEMENTING GENERAL PRINCIPLES FROM COMPENSATION RESEARCH

The preceding evidence leads to the following suggestions:

- ***Take complaints about pay seriously:*** Given that there is a general social norm against revealing that one is motivated by pay (at least in nonunionized situations), when an employee does indicate pay dissatisfaction, it is generally a cause for concern. This assumes, of course, that you actually want to retain the individual.
- ***Do not fall very far below market pay levels:*** It is more disadvantageous to be "way below market" than it is advantageous to be "way above" it. Being noticeably below market will cause some applicants, often the most desirable ones, to reject your offer out of hand. However, once you reach market levels, choices will generally be made on a multidimensional basis, where factors other than pay can also become competitive advantages (or disadvantages).

- ***Realize that most of the best employees want strong pay-performance relationships****:* On average, the ability to earn a lot of money for outstanding performance is a competitive advantage for attracting, motivating, and retaining high-performing employees. This is not to say that organizations cannot attract good employees without high-contingency systems; clearly, a number of well-known firms have done so (e.g., SAS software). However, in such cases, the absence of contingent pay is compensated by a strong culture emphasizing other values and benefits (in SAS's case, family friendliness, as well as high general pay levels and benefits). In addition, there are also a number of organizations that thrive on high *company* based (versus individually based) contingent pay, such as Southwest Airlines or Nucor Steel. These companies are able to attract high performers who also hold relatively strong collectivist values.
- ***Evaluate current pay systems with respect to the strength of pay-performance relationships:*** Although most nonunionized and nongovernment employees are ostensibly paid on the basis of merit, examination of most companies' pay systems reveals little differentiation in raises between average and superior performers. Pay-performance contingencies are generally limited by such practices as setting job grade ceilings and paying for non merit considerations (e.g., external equity adjustments or matching competing offers) out of the "merit" pay budget. Similarly, pay-performance contingencies should also be evaluated at the supra-individual level: Are there gain-sharing or profit sharing programs? If so, are the payouts large enough, immediate enough, or frequent enough to make a difference to how hard people are willing to work? (For example, deferred profit-sharing plans that are designed as substitutes for defined benefit pensions are unlikely to have a motivational effect.) Finally, examine how closely pay-increase budgets mirror changes in organizational performance levels. Many employees have become quite used to being told that the annual increase budget will be very modest due to limited ability to pay (i.e., low corporate profitability). However, the reverse is often not true, with raise pools remaining modest even in years of high profitability and the remaining money being allocated elsewhere.

- ***Examine whether executive pay is moving in the same direction, and at roughly proportionate rates, as employee increases:*** Evidence from the past 30 years reveals quite convincingly that in the typical corporation, the ratio between executive and nonexecutive compensation has increased to a very substantial degree. Not only has the earnings gap between executive and nonexecutive employees exploded over the past several decades (Bok, 1993; Crystal, 1991; Frank & Cook, 1995; Shulman, 2003), but there are also many examples of disproportionate increases in executive pay in the face of poor organizational performance (Samuelson, 2003; Useem, 2003). Because how people feel about their pay is a result of comparative processes, organizations with huge variance between executive and employee pay practices are likely to be populated with workers eagerly awaiting opportunities to move to other organizations. (An important side note is that workers are often accepting of very high executive pay, such as Bill Gates at Microsoft or General Electric under Jack Welch, so long as the fruits of strong organizational performance are also passed on to lower layers of the organization.)

CONCLUSION

Money is not the only motivator and it is not the primary motivator for everyone. However, there is overwhelming evidence that money is an important motivator for most people. Further, there is ample evidence that surveys asking people to rank order money and other motivators do not accurately reflect the important effects that changes in pay levels or the way pay is determined actually have on people's decisions to join and leave organizations. Likewise, the often modest survey rankings are at odds with behavioral evidence on the powerful effects that monetary incentives have on the goals that people choose to pursue within organizations and the effort and commitment they exert toward those goals. Thus, while managers will (and should) consider both financial and nonfinancial tools for attracting, motivating, and retaining employees, it would be a mistake to conclude, based on general surveys, that monetary rewards are not highly important. Finally, as we have demonstrated, the importance (or potential importance) of monetary rewards in any particular situation can be evaluated by considering both the situational variables (e.g., pay variability) and individual variables (e.g., performance level) that best describe the context of a particular manager's decision. The empirical evidence we have presented here is highly consistent with the motivational views of former CEO Jack Welch, who is widely acknowledged to have breathed new life into a well-respected, but somewhat "sleepy," General Electric. Changing GE's pay system to provide much higher rewards for strong individual and organizational performance was one of the pivotal tactics in Welch's overall strategy for revitalization and growth: The results of this study have important implications that the factor wages and quality of working life needs attention from management to improve employee performance. The results of the research and the limitations found in this study can be used as the development of further research. Future research should extend the research by adding independent variable that affect the performance of the employee example of leadership styles and organizational culture.

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