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EXPLORING WAGE INCREASE STRATEGY IN THE CONTEXT OF EMPLOYEE PRODUCTIVITY: LITERATURE REVIEW

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Abstract

This research is a literature review that examines the impact of wage increase strategies on optimizing employee productivity within organizations. Wage increases play a crucial role in enhancing employee motivation and performance, as reflected in various research findings and expert perspectives. The method used in this study is a literature review, with article searches conducted through several scientific journal platforms using the keywords "wage increase" and "employee productivity." The selected articles were published within the last ten years and were screened based on their relevance to the topic. A synthesis process was carried out to identify key findings from previous studies that explored the relationship between wage increase strategies and work productivity. The results of this study indicate that properly designed wage increase strategies can serve as effective tools for optimizing employee productivity. Therefore, organizations are encouraged to develop competitive and fair wage policies as part of their human resource management strategies.

INTRODUCTION

Employee productivity is a key factor that determines an organization's competitiveness and long term sustainability. Sustainable competitive advantage is not solely driven by technology or capital, but rather by the extent to which an organization can effectively manage and maximize the potential of its workforce. In this context, wage increase strategies play a crucial role in shaping a productive and adaptive work environment. Various approaches have been developed to enhance employee productivity, ranging from training and skills development to the provision of competitive compensation. Among these strategies, wage increases consistently emerge as a central topic due to their direct connection to employee motivation and job satisfaction. (Alam et al., 2020) found that appropriate wage policies can enhance employees' intrinsic motivation, which in turn significantly improves productivity.

However, providing compensation in the form of wage increases is not a simple decision. Such policies must take into account macroeconomic factors, the organization's financial capacity, as well as both internal and external equity. If implemented carelessly, wage increase strategies may lead to inequality and higher cost burdens without delivering a significant impact on productivity. Therefore, data driven approaches and performance evaluations are essential in formulating effective wage policies. Wage increases are also closely linked to employee retention issues. A study by (Kim & Jang,

2019) demonstrated that increases in the minimum wage within the U.S. restaurant industry successfully reduced turnover rates and improved work productivity, particularly when employees felt fairly valued for their contributions. This indicates that wage increase strategies have not only economic effects, but also psychological and emotional implications.

From the perspective of occupational psychology, perceived fairness in relation to one's contributions influences job satisfaction and organizational commitment. When employees perceive that their wages are commensurate with their workload and contributions, a sense of ownership toward their work emerges, along with greater responsibility for performance outcomes. (Stefaniak et al., 2025) stated that the method of wage increases, whether fixed or variable, affects productivity responses, particularly in labor intensive sectors. On the other hand, structural challenges exist in implementing wage increase policies, especially for small and medium sized enterprises. Limited capital and market uncertainty are often the primary obstacles to raising employee wages. However, research by (Ku, 2022) demonstrated that even in a piece rate wage system, financial incentives can drive productivity when managed properly and transparently.

Despite its high level of urgency, the topic of wage increases often receives limited attention in academic literature, particularly within strategic management and human resource studies. In fact, the long term effects of wage increases on productivity, employee loyalty, and work culture are highly significant. (Biesebroeck, 2015) emphasized the importance of aligning wage growth with productivity in order to establish a healthy equilibrium in industrial relations. Amid digital transformation and labor market disruptions, wage strategies have become increasingly relevant as tools for retaining top talent. Beyond being a form of compensation for contributions, wages also reflect the value an organization places on individual roles. Therefore, the evaluation and redesign of wage increase strategies should be conducted periodically, taking into account both internal developments and external dynamics of the company.

Besides psychological and structural considerations, wage increase strategies must also take into account intergenerational workforce dynamics and sectoral differences. For example, a study by (Børing, 2021) showed that employee age and demographic composition influence the effectiveness of wage strategies on productivity. In certain sectors, such as technology and services, millennials and Generation Z tend to be more responsive to flexible wage structures and performance based incentives. This highlights the need for a contextual and adaptive approach in designing wage policies to meet the expectations and characteristics of a diverse workforce. Furthermore, it is important to understand that wage increases do not operate in isolation as the sole driver of productivity. They are part of a broader ecosystem that is interrelated with other variables such as organizational culture, performance measurement systems, and career development opportunities. If wage increase strategies are not supported by a fair and transparent work system, their impact on productivity may be weak or even counterproductive. Therefore, the integration of wage policies within the performance management framework is crucial.

Efficiency wage theory concept by (Dobija, 2021) gives a strong theoretical foundation for explaining how companies can gain productivity benefits through wage increases. This theory posits that firms offering wages above the market average are more likely to attract and retain higher quality workers, improve employee morale, and reduce turnover and supervision costs. However, there is ongoing debate regarding the optimal point of wage increases. Excessive increases without performance justification may disrupt cost structures and lead to unrealistic expectations among employees. This calls for a comprehensive evaluation of actual productivity as the basis for decision making. In this regard, individual performance data becomes a critical reference point to ensure that wage increase strategies are implemented in a measured and proportional manner. The global context also places additional pressure on companies to adjust their compensation strategies. In an era of high labor mobility and cross border economic integration, firms are no longer competing solely in domestic markets but also in attracting and retaining international talent. Therefore, a solid understanding of global wage practices and trends is essential, particularly for multinational corporations.

LITERATURE REVIEW

1. DEFINITION OF WAGE

Wages represent one of the most critical elements within the employment system, playing a fundamental role in shaping employee motivation and productivity. Over the past several decades, the concept of wages has been the focus of extensive research due to its connection with social justice, economic efficiency, and the dynamics of industrial relations. In labor economics studies, wages are viewed not only as compensation for labor but also as a policy instrument to influence employee behavior and organizational performance (Alam et al., 2020). (Hamzaha, 2016) defines wages as compensation given to workers periodically based on their work productivity or the outcomes they achieve. Accordingly, wages function not only as an economic instrument but also as a reflection of employees' contributions to the organization. (Biesebroeck, 2015) states that in many contexts, wages are positioned as a primary indicator in measuring labor productivity. From this perspective, changes in wage levels are seen as a reflection of shifts in labor productivity, both at the individual and collective levels. Therefore, analyzing the relationship between wage increases and productivity is essential for evaluating the effectiveness of labor policies.

(Policardo et al., 2019) explains that the definition of wages encompasses more than just the nominal amount of payment. It reflects a complex incentive structure, including benefits, bonuses, and other forms of compensation that together constitute total remuneration. In this context, differences in wage systems can have significant implications for employee morale, loyalty, and operational efficiency. (Dobija, 2021) states that the minimum wage in a country should be aligned with the value of labor productivity, otherwise, it may create imbalances in the production system and income distribution. Within the framework of modern industrial relations, wages also carry significant psychosocial dimensions. When workers perceive that the wages they receive are not equivalent to their contributions, it can lead to decreased motivation and productivity. (Speckesser, 2019) indicates that a gap between productivity growth and wage growth can trigger tensions in labor relations and hinder innovation. (Børing, 2021) adds statement also emphasizes that there are significant differences in the effectiveness of wages when analyzed across various industrial sectors and different age groups. These variations suggest that wages do not operate as a one size fits all incentive, but rather have diverse impacts depending on the specific context in which they are applied. For example, wage increases in labor intensive manufacturing sectors may yield different motivational and productivity outcomes compared to knowledge based service industries, where intrinsic motivation often plays a larger role. Similarly, age-related factors such as career stage, financial obligations, and future expectations can significantly shape how individuals perceive, evaluate, and respond to various wage structures offered by organizations. For instance, younger employees may prioritize growth opportunities over immediate compensation, while mid-career professionals often focus on financial stability. Meanwhile, those nearing retirement may value security and long-term benefits, reflecting diverse motivational patterns across different age groups.

1.1 WAGE SYSTEM

The wage system is a formal framework used by organizations to determine how financial compensation is provided to employees. According to (Danilevičienė & Gruževskis, 2015) the wage system encompasses the structure, types, and criteria for providing compensation based on productivity, job position, and labor market conditions. This system functions not only as a distribution mechanism but also as a means to enhance motivation and work performance. The connection between an efficient wage system and employee productivity has been demonstrated in various empirical studies. (Biesebroeck, 2015) states that a wage system that takes into account individual productivity and operational efficiency can drive output growth in the industrial sector. This aligns with the performance based management approach, which integrates motivational aspects into wage design. Furthermore, the wage system also serves a normative function within organizations. It represents the values and work culture that management aims to instill. For example, a seniority based wage system reflects an orientation toward long term loyalty, whereas a performance based system emphasizes meritocracy. (Ku, 2022) provides the example of the Japanese model, which combines a basic salary with annual bonuses based on individual contribution and performance evaluation.

The effectiveness of a wage system depends on the level of transparency and consistency in its implementation. A mismatch between the designed system and its actual application in the workplace can lead to perceptions of unfairness, which may negatively affect employee morale. (Osterman, 2017) highlights that a mismatch between productivity and the wage system can lead to stagnation in both microeconomic and macroeconomic growth. In practice, many organizations adopt a mixed wage system, which combines fixed salaries with variable incentives. This combination is considered flexible and capable of balancing the need for income security with the motivation for productivity. (Biesebroeck, 2015) emphasizes the importance of aligning wage structures with the workforce profile and the strategic objectives of the company. In agency theory, the wage system is considered a key instrument for addressing conflicts of interest between managers and owners. By linking compensation to performance outcomes, organizations can reduce the risk of moral hazard. Incentive systems such as bonuses, commissions, and stock sharing serve as concrete implementations of this theory (Osterman, 2017). In the middle of technological advancement and automation, wage systems are also undergoing adaptation, particularly in measuring the contributions of digital labor. Therefore, moving forward, wage systems are expected to become more data driven, dynamic, and inclusive of diverse forms of work.

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1.2 COMPONENTS OF A WAGE SYSTEM

The wage system consists of several key elements that make up the overall employee compensation package. According to (Herr, 2021) these elements include not only the basic salary but also additional components such as fixed allowances, performance bonuses, and productivity based incentives. The composition of these elements varies across sectors and companies. The basic salary is the main component of the wage system. It is a fixed amount received by employees based on their employment agreement and position. This salary typically remains unchanged unless there is a promotion, inflation adjustment, or periodic evaluation. Based on the view of (Danilevičienė & Gruževskis, 2015), the basic salary reflects the value of a job within the organizational structure. Furthermore, there are fixed allowances that cover transportation costs, family support, health benefits, and meal stipends. These components provide additional financial stability for employees and are often used to enhance job satisfaction. In the context of productivity, such allowances contribute to creating more decent working conditions and support greater employee engagement. In addition, performance or productivity based incentives serve as strategic elements in modern wage systems. (Arn, 2017) states that bonus systems and performance based rewards have proven effective in motivating employees to work more efficiently. However, the fair determination of performance indicators remains the main challenge in implementing this element.

In addition to those already mentioned, additional elements such as annual bonuses, holiday allowances, and profit sharing are becoming increasingly popular. Besides enhancing loyalty, these elements also strengthen the emotional bond between employees and the organization. These forms of compensation are situational and depend on the company's performance. Non monetary benefits such as extra leave, flexible working hours, and career development programs can also be categorized as part of the broader wage system. Although not in the form of money, these benefits have a significant impact on work motivation. In certain industrial sectors, wage system elements also include risk compensation and location allowances. For instance, workers assigned to remote areas or high risk environments typically receive special allowances to compensate for those challenges (Arn, 2017). An organization's understanding of the elements of the wage system enables it to develop a compensation strategy that is fairer, more competitive, and more effective in driving employee productivity. A well structured wage system creates clarity, motivation, and trust within the employment relationship.

1.3 WAGE INDICATORS

(Alam et al., 2020) stated that effective wage system indicators must align with a managerial approach based on productivity. In their research, which focused on the relationship between compensation and work motivation, five main wage indicators were identified as being capable of encouraging employee productivity:

1. The alignment between employee performance and remuneration, emphasizing that wages should be determined based on measurable work outcomes rather than solely on seniority or job title.
2. Wage transparency is essential, as employees need access to the structure and calculation basis of their compensation to foster a sense of fairness and enhance organizational accountability.

3. Flexibility in the wage system is necessary to accommodate shifts in job demands, including changes in workload and employee roles.
4. The inclusion of additional incentives, such as base pay combined with performance based bonuses, has been shown to effectively boost employee motivation, particularly in goal driven tasks.
5. Labor cost efficiency should be addressed by designing a wage system that considers the organization's financial capacity while maintaining employee satisfaction and long term sustainability.

Meanwhile, (Ginevičius, 2024) in his study on wage performance alignment, identified five key wage indicators from the perspective of competitive advantage and labor efficiency:

1. A proportional wage structure requires that compensation levels reflect differences in responsibilities and work outcomes across positions within the organization.
2. Regular evaluation and wage adjustments should be implemented to maintain employees' purchasing power and sustain work motivation, especially during periods of inflation or rising living costs.
3. Wage expenditure control tools must be established by the organization through effective oversight mechanisms to ensure compensation costs remain balanced with productivity levels.
4. Wage determination decisions should ideally be based on objective indicators such as performance, length of service, and formal educational background.
5. Adaptive payment methods are necessary so that the choice between fixed salary, piece rate wages, or profit sharing systems can be tailored to the nature of the job and the organization's structure.

2. EMPLOYEE PRODUCTIVITY

Employee productivity is a multidimensional concept that reflects the actual contribution of the workforce to the achievement of organizational goals. According to (Alam et al., 2020), employee productivity is not only measured by the quantity of output but also involves efficiency, work quality, and the ability to adapt to job demands. In the context of modern organizations, productivity serves as a key indicator of the effectiveness of human resource management. Various approaches are used to assess employee productivity, ranging from objective indicators such as the number of products produced and task completion rates to subjective indicators such as performance evaluations and supervisor satisfaction. In the opinion of (Biesebroeck, 2015), productivity evaluation requires a clear context, as work standards vary significantly across sectors and job positions. Individual factors such as work experience, education, and technical competence have been shown to have a positive correlation with productivity. A study by (Børing, 2021) highlights that productivity tends to increase among employees within the productive age range and with higher levels of education, particularly in knowledge based sectors. Thus, investing in individual capacity development holds significant potential to drive long term productivity.

In addition, intrinsic motivation and emotional engagement in work (employee engagement) are also key determinants of productivity. When employees perceive their work as meaningful and aligned with their personal values, they tend to demonstrate higher levels of commitment and performance. According to (Stefaniak et al., 2025) the perception of job value plays a role in enhancing focus, discipline, and work speed. A supportive work environment, both physically and psychologically, significantly contributes to productivity. Organizations that provide clear work structures, healthy interpersonal relationships, and recognition of individual contributions are proven to achieve higher levels of productivity. (Kim & Jang, 2019) noted that a positive work climate accelerates the achievement of targets and encourages employee initiative. Productivity is also closely related to a fair and accountable performance evaluation system. Employees tend to perform better when they understand how their performance is measured and how their contributions impact the sustainability of the organization. (Holzer, 2015) emphasized that a consistent productivity measurement system strengthens employees' sense of responsibility for their work outcomes. However, the greatest challenge in managing productivity lies in psychological and emotional factors. Work related stress, burnout, and internal conflict can drastically reduce performance, even among highly competent employees. Therefore, attention to mental health and work-life balance becomes an integral part of productivity enhancement strategies.

2.1 WAGE INCREASE STRATEGY IN OPTIMIZING EMPLOYEE PRODUCTIVITY

The wage increase strategy is one of the organizational policy instruments that has a direct impact on work productivity. According to (Kim & Jang, 2019) the increase in the minimum wage in the United States had a positive effect on employee productivity, as employees felt fairly valued. This indicates that wage increases serve as a signal of appreciation for work contributions. In labor economics theory, a wage increase enhances employee utility, which leads to increased intrinsic motivation. (Alam et al., 2020) indicates that providing decent wages increases work motivation, which then acts as a mediator in the relationship between compensation and productivity. Therefore, a well planned wage strategy serves not only as an incentive, but also as a tool for productivity management. However, wage increase strategies must be designed based on measurable data and performance. Otherwise, they may lead to cost inefficiency. As pointed out by (Stefaniak et al., 2025), different approaches to wage increases (example: performance based vs. fixed) show variations in productivity responses across sectors. This suggests that a single strategy cannot be uniformly applied.

Research by (Biesebroeck, 2015) emphasizing the importance of maintaining a balance between wage growth and productivity growth is crucial. When wages grow faster than productivity, organizational costs increase without a corresponding rise in output. This can reduce overall efficiency. Wage increase strategies also play a role in shaping workplace culture. Employees who feel financially valued are more likely to demonstrate a stronger sense of responsibility and greater initiative in their work. This aligns with the result of study research by (Holzer, 2015) which showed that employees' preference for wage increases over other types of benefits has a greater impact on actual productivity. Furthermore, a merit based wage increase system can encourage healthy competition among employees. However, its implementation must be fair and transparent; otherwise, it may lead to perceptions of discrimination, which can in turn decrease motivation. Therefore, the role of HR in clearly communicating the basis of wage policies is vital. In a global context, wage increase strategies also serve as tools to retain top talent. Companies that fail to align their wage structures with market standards risk losing their competitive edge in human resources. Thus, wage strategies are not only essential for maintaining productivity but also for retaining high quality employees.

Table 1. Previous Research

Author	Definition
Hamzaha. (2016). *The Effect of Wage and Incentive on Employee Productivity Viewed in Islamic Perspective.*	Wages are compensation given to workers periodically based on their work productivity or the results achieved.
Policardo, L., Punzo, L. F., & Sanchez Carrera, E. J. (2019). *Wage inequality and productivity in OECD countries.*	Wages represent a comprehensive incentive structure encompassing base pay, bonuses, allowances, and additional benefits that collectively constitute total compensation.
Dobija, D. (2011). *Labour productivity vs. minimum wage level.*	Wages are the minimum compensation that must be adjusted to the value of labor productivity in order to maintain a balanced income distribution system.
Meager, N., & Speckesser, S. (2011). *Wages, productivity and employment: A review of evidence.*	Wages are an instrument of income distribution that must align with productivity growth, as a disparity between the two may lead to labor relation conflicts.
Shelburne, R. C. (2023). *The History and Theory of the Living Wage Concept*.	Wages are the minimum amount of income required by workers to live with dignity and to meet basic needs.
Alam, M. M., Galeitzke, M., & Schulze, L. (2020). *Incentive system for industrial companies: Integrating wage and productivity*.	Employee productivity is a combination of output quantity, work efficiency, result quality, and the ability to adapt to job demands.
Van Biesebroeck, J. (2014). *The relationship between wages and productivity across sectors*.	Employee productivity refers to the level of labor output that must be analyzed in the context of sectors and occupations, as work standards vary significantly.
Børing, P. (2021). *Wage returns to training in Norway: Differences between younger and older employees.*	Employee productivity is an individual's capacity to generate output, influenced by productive age and educational background, particularly in knowledge based sectors.
Stefaniak, A., Zięba, M., & Wiśniewski, P. (2025). *Understanding work meaning and productivity in knowledge sectors*.	Employee productivity is the work result reflected in focus, discipline, and task execution speed, which is determined by one's perception of job value.
Kim, Y., & Jang, S. (2019). *Minimum wage increase and its effects on employee performance in the restaurant industry.*	Employee productivity is the ability to achieve work targets efficiently, which is strongly influenced by workplace climate and emotional engagement.

Based on several definitions proposed by experts, wages are a form of compensation granted to workers as a reward for their contributions to the work process.

Wages encompass a complex incentive structure, including nominal payments, bonuses, allowances, and other benefits, which must be aligned with labor productivity to ensure fair and balanced income distribution. In addition to serving as a tool for income distribution, wages must also be sufficient to meet workers' basic needs so that they can live with dignity.

Employee productivity refers to an individual's capacity to generate optimal work output, assessed in terms of quantity, quality, efficiency, and speed in completing tasks. Productivity is influenced by various factors such as educational background, productive age, perception of job value, as well as working conditions, employees' emotional engagement, and the availability of proper tools and resources.

RESEARCH METHOD

This study adopts a literature review method, which involves a systematic examination of various written sources relevant to the topic of how wage increase strategies affect the optimization of employee productivity. The study does not collect primary data but focuses on the exploration and analysis of secondary data derived from scholarly journal articles, academic books, research reports, and labor policy documents. Literature selection is carried out selectively by considering thematic relevance, content recency (particularly publications from the last ten years), and the credibility of academic sources. The chosen literature specifically discusses the relationship between wage strategies and the optimization of employee productivity, including aspects such as motivation, performance, operational efficiency, and employee retention. Descriptively, the reviewed literature is analyzed by identifying patterns of findings, strategic approaches, and challenges in implementing wage policies that impact employee productivity. This approach is chosen to provide a more comprehensive understanding of how wage increase strategies can be optimized as managerial instruments to enhance employee performance, particularly in the context of modern organizations that demand high efficiency and competitiveness.

RESULT AND DISCUSSION

Wage increase strategies have become a central concern in human resource management (HRM) policies due to their broad impact on employee motivation, retention, and productivity. A number of previous studies consistently indicate that wages are not merely an economic reward, but also a form of recognition for employees' contributions. (Alam et al., 2020) found that wage increases accompanied by improvements in employee welfare facilities contribute to higher productivity across various industrial sectors. Work motivation rises significantly when employees feel that their compensation reflects the value of the work they perform. Similar findings were reported by (Kim & Jang, 2019) in the context of the restaurant industry in the United States, demonstrating that an increase in the minimum wage can reduce employee turnover while simultaneously enhancing work productivity. In this study, workers who felt financially appreciated showed better performance and higher loyalty to the company. Therefore, wage strategies can be regarded as catalysts in creating a productive work environment.

(Biesebroeck, 2015) emphasizes the importance of synchronizing wage increases with labor productivity. In his cross sectoral analysis, he found that wage hikes that are not aligned with productivity levels tend to reduce organizational efficiency. This indicates that wage increase strategies should be grounded in the principles of internal equity and actual productivity, rather than being driven solely by fiscal or political considerations. A study (Børing, 2021) also highlights demographic variables as mediating factors. The research shows that the response to wage increases is more significant among individuals in the productive age group with higher educational attainment, particularly in knowledge intensive sectors. In other words, wage strategies are more effective when aligned with workforce characteristics and sectoral contexts.

Empirical support for this hypothesis is also reinforced by (Sabil et al., 2020) yang melakukan penelitian terhadap sektor manufaktur di Indonesia. Mereka who conducted research in the manufacturing sector in Indonesia. Their findings indicate that wage increases designed based on performance evaluations and actual economic conditions have a significant impact on employee output and organizational effectiveness. Furthermore, a combined approach involving fixed wages and performance based incentives, as explained by (Burke & Hsieh, 2019) has proven effective in maintaining a balance between income stability and motivation for high performance. This scheme simultaneously facilitates income certainty for employees while fostering healthy competition among individuals or work teams. However, (Osterman, 2017) cautions that not all forms of wage increases yield positive outcomes, particularly if not accompanied by an objective and transparent performance measurement system. When evaluation systems are inaccurate, wage increases may lead to misguided expectations and even reduce aggregate productivity. Therefore, an effective wage increase strategy must involve careful planning, performance based reward mechanisms, and a thorough consideration of the balance between labor costs and production outcomes in a sustainable manner. Such an approach offers dual benefits, enhancing work productivity and ensuring long term stability in employment relations within the organization. Previous studies have demonstrated that a strategic approach to wage determination makes a tangible contribution to employee productivity, thus positioning it as an integral component of results oriented and competitive human resource management systems.

CONCLUSION

Wage increases as part of human resource management strategy, have a significant impact on employee productivity. This study demonstrates that a well designed wage strategy not only encourages employees to improve their performance but also serves as a strategic tool in fostering a positive and competitive work climate. When wages are aligned with employee contributions and a decent standard of living, perceptions of fairness increase, ultimately strengthening employee loyalty and commitment to the organization. The implementation of wage increase policies based on performance evaluation, supported by clear productivity measurement systems, has been proven to enhance both the quantitative and qualitative output of employees. Fair compensation also contributes to lower turnover rates, higher job satisfaction, and the creation of an emotional bond between employees and the company. Therefore, organizations seeking to optimize productivity must integrate wage policies into their broader business and human resource strategies.

Beside the financial aspect, wage increases also yield important psychological effects on employees. Feelings of being valued, recognition of contributions, and trust in the company grow when compensation policies align with actual performance. This positions wages not merely as economic transactions, but as symbols of reciprocal relationships between individuals and the organization. Employees who feel appreciated tend to be more enthusiastic, focused, and committed to achieving collective goals. In this context, management should consistently review wage structures, taking into account macroeconomic variables such as inflation and living standards, as well as internal organizational needs such as efficiency and sustainability. Through adaptive and equitable wage policies, companies can not only optimize employee productivity but also build a strong foundation for healthy and sustainable labor relations.

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