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THE IMPACT OF MINIMUM WAGE POLICY ON HUMAN CAPITAL MANAGEMENT AND ECONOMIC PERFORMANCE

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Abstract

This study examines the impact of minimum wage policies on human resource management (HRM) and economic performance. By using the literature analysis method. The results show that the minimum wage policy encourages companies to optimise the use of labour, increase productivity, and invest in employee skills development. However, its impact on economic performance is complex, with the potential for increased consumer purchasing power accompanied by the risk of inflation and reduced employment. The study concludes that effective minimum wage policy implementation requires a balanced and adaptive approach, taking into account local economic conditions and diverse industry needs.
Keywords: Policy, Minimum Wage, HR Management, Economic Performance.

Introduction

Minimum wage policy has become one of the important instruments in labour regulation in many countries, including Indonesia. The main objective of this policy is to protect the rights of workers and ensure a decent standard of living for them. (Harney & Alkhalaf, 2021)..

Minimum wage policy plays a crucial role in safeguarding workers' welfare and creating economic justice. Firstly, it aims to protect workers from exploitation and ensure that they receive fair compensation for their work. By setting a minimum wage limit, the government seeks to ensure a better standard of living for workers and their families, which in turn can reduce poverty and social inequality. In addition, minimum wages can also encourage increased productivity, as workers who are paid fairly tend to be more motivated and loyal to their employers. (Amrutha & Geetha, 2020).

On the other hand, minimum wage policy also has a significant impact on the overall economy. By increasing people's purchasing power, this policy can stimulate consumer demand and boost economic growth. This creates a positive cycle where increased consumption fuels production and creates more jobs. (Khan & Ozturk, 2021). Furthermore, an appropriately set minimum wage can help reduce dependence on government assistance and increase the economic independence of individuals.

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However, it is important to note that the setting of minimum wages must be done carefully, considering the balance between the welfare of workers and the ability of businesses to survive and thrive. However, the implementation of minimum wage policies is often contentious and controversial due to its complex impact on various aspects of the economy and human resource management. (Duggan et al., 2020).

In the context of HR management, minimum wage policies have direct implications for labour management strategies and practices. Companies are required to adjust their salary structures, compensation systems, and even recruitment policies. This can affect the company's decisions in terms of the amount of labour employed, investment in employee training and development, and employee retention strategies. (Rodgers et al., 2023)..

On the other hand, the impact of minimum wage policy on economic performance is also a major concern. Some studies show that an increase in minimum wage can increase people's purchasing power and boost economic growth. However, there are also arguments that this policy may increase firms' operational costs, which in turn may lead to inflation, labour reductions, or even business closures, especially for small and medium-sized enterprises (Wilton, 2022). (Wilton, 2022). This complexity is further complicated by the differences in economic conditions between regions in Indonesia. Setting a uniform minimum wage may benefit workers in regions with a low cost of living, but may burden companies in those regions. Conversely, the same minimum wage may not be sufficient for workers in areas with a high cost of living. (Nathaniel et al., 2021)..

In addition, technological developments and changes in the structure of the global economy also add new dimensions to the minimum wage policy debate. Automation and digitalisation are changing the nature of work and labour needs, which may affect the effectiveness of minimum wage policies in achieving their objectives. (Kost et al., 2020).

Given the complexity and importance of this issue, comprehensive research is needed to understand the impact of minimum wage policies on HR management and economic performance.

Research Methods

The study in this research uses the literature research method. Literature research method, also known as literature study or literature review, is a research method that focuses on collecting, analysing, and synthesising information from various written sources relevant to the research topic. (Abdussamad, 2022); (Wekke, 2020).

Results and Discussion

Minimum Wage Policy

Minimum wage policy is a government intervention in the labour market that sets the lowest limit of wages that employers must pay to workers. It aims to protect workers from exploitation and ensure that they receive compensation sufficient to meet basic living needs. Minimum wages are usually set based on various factors, including the cost of living, productivity levels, macroeconomic conditions, and other socio-economic considerations. (Zhang et al., 2021).

The concept of minimum wage is based on the principle that every worker is entitled to a decent standard of living and that the government has a role in ensuring the welfare of its citizens. The implementation of minimum wage policies can vary between countries or even between regions within a country. Some countries set a national minimum wage, while others may have different minimum wages based on industry sector, geographic region, or company size. While these policies aim to protect workers, there is an ongoing debate about their impact on employment, inflation, and overall economic competitiveness. (Aust et al., 2020).

The main objective of minimum wage policy is to improve the welfare of workers, especially those at the lowest income levels. By setting a minimum wage limit, the government is trying to ensure that every worker can fulfil their basic living needs and have a decent standard of living. (Sulaiman et al., 2020).. This policy also aims to reduce the income gap in society, prevent labour exploitation, and provide protection to workers who may not have a strong bargaining position in wage negotiations. In addition, the minimum wage can serve as a tool to encourage increased productivity and efficiency in the company (Ahmad et al., 2020). (Ahmad et al., 2022).

Another function of minimum wage policy is as an instrument of macroeconomic policy. By increasing the purchasing power of workers, minimum wages can stimulate aggregate demand and promote economic growth. It also serves as a social safety net, helping to prevent poverty among workers and reduce reliance on government welfare programmes. In a broader context, minimum wages can play a role in promoting social justice and economic stability. However, it should be noted that the effectiveness of this policy in achieving these goals depends on a variety of factors, including the level of minimum wage set, overall economic conditions, and how the policy is implemented and enforced. (Rahim et al., 2021).

As such, minimum wage policy is a complex policy tool that requires careful consideration in its planning and implementation to strike a balance between worker protection and overall economic health.

Human Resource Management (HRM)

Human Resource Management (HRM) is the process of managing and developing human resources in an organisation or company. This definition includes various activities designed to attract, develop, motivate, and retain qualified employees to achieve organisational goals. (Lucia et al., 2020). HR management plays a crucial role in aligning employee management policies and practices with the company's business strategy. It involves a systematic and strategic approach to the management of an organisation's most valuable asset - its people - both individually and collectively, to contribute to the achievement of organisational goals. (Farza et al., 2021).

The scope of HR Management is vast and covers various aspects of managing employees throughout their employment cycle. These include workforce planning, recruitment and selection, new employee orientation and placement, training and development, performance management, compensation and benefits, industrial relations, occupational safety and health, and career planning and development. In addition, HR Management also covers aspects such as change management, organisational culture development, diversity management, and succession planning. (Lee & Vu, 2020). In the modern era, the scope of HR Management also extends to areas such as talent management, employee engagement, and the use of technology in HR practices (e.g., HRIS - Human Resource Information Systems). As such, HR Management has an integral role in shaping a productive work environment and supporting the achievement of an organisation's strategic goals. (Lee & Vu, 2020).

Human Resource Management (HRM) functions include a series of interrelated activities aimed at effectively managing human resources in an organisation. These functions include human resource planning to ensure the availability of a workforce that matches the needs of the organisation, recruitment and selection to attract and select the right candidates, orientation and placement of new employees, development and training to improve employee competencies, performance management to evaluate and improve productivity, compensation and benefits to provide fair rewards and motivate employees, industrial relations to manage the relationship between the company and employees, and occupational safety and health to ensure a safe and healthy working environment. (Todaro & Smith, 2020). In addition, HRM functions also include career development, talent management, and succession planning to ensure the long-term sustainability of the organisation. All these functions operate in an integrated manner to support the organisation's business strategy and maximise the contribution of human resources to the achievement of organisational goals. (Surya et al., 2021).

A Human Resource Management (HRM) strategy is a long-term, comprehensive approach to managing an organisation's workforce, designed to support and align HR practices with the company's business goals and objectives. It involves the planning and implementation of consistent and interrelated HR policies, programmes and practices, with the aim of maximising employee and organisational performance. Some of the key elements in an HRM strategy include: strategic workforce planning, development of a supportive organisational culture, design of effective performance management systems, leadership development programmes, talent management, employee retention strategies, and diversity and inclusion initiatives. (Tomizawa et al., 2020).. HR Management strategies also include the adoption of technology to improve the efficiency of HR processes, the development of policies that support work-life balance, and the creation of work environments that encourage innovation and creativity. By integrating HRM strategies into the overall business strategy, organisations can build competitive advantage through their people, increase employee engagement, and ultimately drive long-term organisational growth and success. (Hang, 2021).

Economic Performance

Economic performance is an overall measure of the health and effectiveness of an economic system, both at the micro (firm or individual) and macro (country or region) levels. The concept encompasses a wide range of indicators and metrics that describe productivity, efficiency, growth, and economic stability. At the macro level, economic performance is often measured through indicators such as Gross Domestic Product (GDP), inflation rate, unemployment rate, trade balance, and foreign direct investment. While at the micro level, economic performance can be assessed through company profitability, revenue growth, operational efficiency, and competitiveness in the market. (Paais & Pattiruhu, 2020).. Strong economic performance is usually characterised by stable growth, low unemployment, controlled inflation, and improved living standards. Analyses of economic performance are essential for policymakers, investors, and businesses in making strategic decisions and planning for the future, as well as for the general public in understanding the economic conditions that affect their daily lives. (Bossler & Gerner, 2020).

Economic performance indicators are measurement tools used to evaluate and monitor the health and development of an economy. Some of the key indicators that are often used include: Gross Domestic Product (GDP) which measures the total value of goods and services produced in a period; the inflation rate which shows the general change in prices of goods and services; the unemployment rate which reflects the percentage of the labour force that is unemployed; the trade balance which reflects the difference between exports and imports; the consumer price index (CPI) which measures the change in prices of goods and services consumed by the public; interest rates which affect borrowing and investment; currency exchange rates which affect international competitiveness; the industrial production index which shows the output of the manufacturing sector; and stock market indicators such as the composite stock price index (CSPI) which reflects the performance of the capital market. (Stahl et al., 2020). In addition, indicators such as poverty rate, income distribution (e.g. Gini coefficient), and human development index (HDI) are also often used to measure broader socio-economic aspects. Understanding and analysing these indicators helps policymakers, investors, and the general public to assess current economic conditions, forecast future trends, and make informed decisions in the context of the economy (Khan & Ozturk, 2021). (Khan & Ozturk, 2021).

Economic performance is influenced by various interrelated and complex factors, both internal and external. These factors include government policies, such as fiscal and monetary policies, which can affect inflation rates, interest rates, and public spending. Global conditions, including commodity price fluctuations, changes in international trade, and economic crises in other countries, also have a significant impact. Demographic factors, such as the age structure of the population and education levels, play a role in determining productivity and consumer demand. Technological innovation and infrastructure development can improve economic efficiency and productivity. Political stability and institutional quality are also important, as they affect investor confidence and the business climate. (Amar & Pratama, 2020). Natural factors, such as natural disasters or climate change, can affect certain sectors of the economy. In addition, consumer behaviour and market expectations play an important role in determining consumption and investment levels. Cultural factors, such as work ethics and social norms, can also affect productivity and innovation. Finally, foreign investment policies, national savings rates, and the availability of natural resources also contribute to overall economic performance. A deep understanding of the complex interactions between these factors is critical to managing and improving the economic performance of a country or region. (Ahmad et al., 2022).

Thus, the economic performance of a country or region is the result of a complex interaction of various indicators and factors that influence each other. Indicators such as GDP, inflation, unemployment rate, and trade balance provide a snapshot of current economic conditions, while factors such as government policies, global conditions, technological innovation, and demographics play a role in shaping and influencing that economic performance. A thorough understanding of these indicators and factors is essential for policymakers, businesses, and the general public to be able to evaluate, forecast, and improve economic performance. Considering the complexity and interconnectedness of these various aspects of the economy, a holistic and adaptive approach to economic management is key to achieving sustainable growth, stability and public welfare. Therefore, continuous monitoring of economic performance indicators and an in-depth understanding of the factors that influence them are crucial in the effort to improve and maintain positive economic performance.

The Relationship between Minimum Wage Policy, Human Capital Management, and Economic Performance

Minimum wage policy, human resource management (HRM), and economic performance have a complex and interrelated relationship. Minimum wage policies, set by the government, aim to protect workers from exploitation and ensure a decent standard of living. However, the implementation of this policy has a direct impact on HR management practices in firms and, in turn, affects overall economic performance. (Van et al., 2021).

When the minimum wage is raised, companies have to adjust their HR management strategies. This may include increasing efficiency through automation, reducing working hours, or even reducing the workforce. On the other hand, higher wages can increase worker motivation and productivity, reduce employee turnover rates, and encourage investment in skills development. Effective HR management in response to minimum wage policy changes can help companies maintain their competitiveness and profitability. (Noe et al., 2020).

The impact of minimum wage policy on economic performance can vary. In the short term, an increase in the minimum wage can increase consumer purchasing power, which in turn can boost aggregate demand and economic growth. However, if the increase is too high or too fast, it may lead to inflation, reduction in employment, or even closure of small businesses that are unable to meet higher labour costs. In the long run, a balanced minimum wage policy supported by good HR management can contribute to increased productivity, innovation, and sustainable economic growth. (Alzoubi et al., 2022)..

Therefore, it is important for policymakers to consider the impact of minimum wage policies on HR management and overall economic performance. A balanced approach is needed that considers workers' needs, companies' capabilities, and macroeconomic objectives. Companies, on the other hand, need to develop flexible and innovative HR management strategies to adapt to changes in wage policies. Thus, synergies between appropriate minimum wage policies, effective HR management practices, and a focus on productivity improvement can create a conducive environment for inclusive and sustainable economic growth.

Conclusion

Based on the discussion of the impact of minimum wage policies on HR management and economic performance, it can be concluded that the relationship between these three aspects is very complex and mutually influencing. The minimum wage policy has the potential to improve workers' welfare and boost economic growth through increased purchasing power. However, its implementation can also pose challenges for companies in managing their human resources. Effective and adaptive HR management is key in dealing with changes in minimum wage policy, enabling companies to maintain their productivity and competitiveness while fulfilling prevailing wage requirements.

Overall, the impact of minimum wage policies on economic performance depends on striking the right balance between the protection of workers' rights and the ability of firms to expand. A well-designed policy, supported by innovative HR management practices, can foster increased productivity, innovation, and long-term economic growth. However, it is important to consider various factors such as labour market conditions, inflation rates, and industry competitiveness in determining minimum wage policies. With a holistic and balanced approach, minimum wage policy can be an effective instrument in creating an inclusive and sustainable economic environment, where both workers and companies can thrive together.

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