



## THE BUSINESS IMPACT ANALYSIS OF THE MINIMUM WAGE VALORISATION

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**Abstract.** The paper presents the results of research conducted in companies based in the South Moravian Region with the aim to gain information concerning the influence of minimum wage on employment and competitiveness of business. To complete this paper there have been used methods of analysis, comparison, induction and deduction, percentage of positive and negative answers and Pearson's chi-squared test. The research revealed that majority of companies would embrace minimum wage derived from average wage and yearly minimum wage inflation adjustment. Although, approximately one half of the respondents believe that the minimum wage makes it harder to employ low-skilled workers.

**Keywords:** competitiveness, inflation, Kaitz index, minimum wage, payroll costs, unemployment.

**JEL Classification:** E24, J3.

### Introduction

The general functions of wages as rewards for work performed by individuals include social, regulatory, compensatory and stimulatory functions (Galvas 2004). The amount received by a worker as minimum wage should fulfil these functions at a certain minimum level. A worker earning minimum wage should be able to pay the costs of living from this money; the minimum wage should compensate at a minimum level for the effort and time spent at work. The minimum wage is considered a form of social protection of employees as well as an economic motivation to enter the labour market and be employed instead of being dependent on social benefits (Uhrová and Skalka 2016). This is especially important for young people – fresh graduates for their integration into the labour market (Pilukiene 2015).

Thus the following questions come to mind: what amount of minimum wage can be considered optimal? What prerequisites should be met for the minimum wage to be adjusted?

The objective of the paper is to evaluate the current government policy of minimum wage adjustment with regard to the development of consumer prices (cost of living),

average wage and living minimum. The paper presents the results of research conducted in companies based in the South Moravian Region with the aim to gain information concerning the influence of minimum wage on employment and competitiveness of enterprises, the standpoint of business owners in relation to minimum wage and the manner of its adjustment. The conclusion presents the proposals de lege ferenda of Act No. 262/2006 Coll., the Labour Code, regarding the manner of minimum wage determination and the conditions of its arrangement.

The contribution uses methods of comparison, analysis, induction, and deduction. The analyses are based on data provided by the Czech Statistical Office, the European Statistical Office, the Ministry of Labor and Social Affairs of the Czech Republic, and the Organization for European Cooperation and Development. The proportional representation of positive and negative answers and the Pearson's chi-squared test were used for evaluation of research.

### 1. Minimum wage development in the Czech Republic

The concept of minimum wage has a long tradition in the Czech Republic. It was introduced in 1919 in the former

Czechoslovakia. Minimum wage as such did not exist during socialism. It was implemented again in 1991. Between 1991 and 2006 the minimum wage was raised several times. However, in the period immediately following the Velvet Revolution there were recurrent sharp rises in prices (high inflation rate). Later, in 2007–2012 minimum wage did not increase. The governments kept it at CZK 8 000. In 2013 it was raised by CZK 500, to CZK 8 500. For 2015 the minimum wage is set CZK 9 200 per month. The minimum wage development is illustrated by the figure below (Fig. 1).

The costs of living increased significantly in the last twenty years. This is the result of newly implemented taxes and their continuous raising – namely the value added tax and excise tax (Kubátová 2015). There has also been the considerable impact of rent deregulation (Mikeszová et al. 2009). The growth of consumer prices (costs of living) of households in 1991–2014 is demonstrated in the figure below (Fig. 2).

### 1.1. Kaitz index

The majority of countries derive the amount of minimum wage from the amount of average wage or as a multiple of living minimum. Kaitz index represents the ratio of minimum wage to average wage (Burkhauser et al. 2000). The living minimum is the socially accepted minimum level of money income to ensure nutrition and other basic personal needs (Act No. 110/2006 Coll., on Living and Subsistence Minimum) (Portál veřejné správy). The effective amounts of living and subsistence minimum are determined by government decree. The amount of living minimum for an individual without dependent family members is CZK 3 410. In 2015 the amount of minimum wage in the Czech Republic was CZK 9 200 per month, which was equal to CZK 55 per hour. The amount of average monthly nominal wages in the second quarter of 2015 was CZK 26 278. The ratio of minimum wage to average wage (Kaitz index) in 2014 amounted to 33.1%. Kaitz index was decreasing significantly till 2013, which is also demonstrated by the following Figure 3 representing the development of living minimum, average and minimum wage in the Czech Republic in 1991–2014.

The minimum wage amount in the Czech Republic is nearly six times lower than in Luxembourg. When compared to other EU countries with a fixed minimum wage, the current rate of CZK 9 200 in the Czech Republic, i.e. €336, is the fourth lowest minimum wage (Eurostat 2015a). When the current minimum wage amount expressed in the purchasing power parity in the Czech Republic is compared, the value is 502PPS – the fifth lowest amount in the European Union (Eurostat 2015b). In most of European countries the ratio of minimum wage to average wage is about 40% (Kampelmann and Rycx 2012). The minimum wage in the Czech Republic would thus have to be CZK 10 515 per month. In this respect

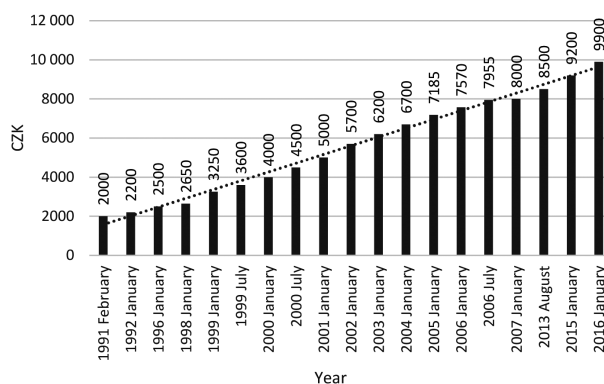
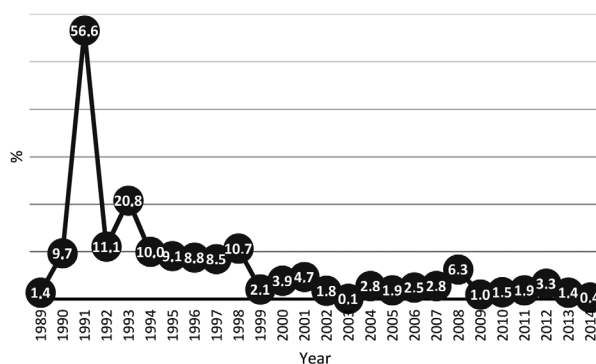


Fig. 1. Minimum wage development in CZK per month in 1991–2014 (Source: author’s interpretation based on the data of Ministry of Labour and Social Affairs (MoLSA) 2016)



Notes: The consumer price index (costs of living) is integrated with the price statistics of EU countries. The aggregate consumer price indices (costs of living) stated by CSO for the respective years remain valid.

Fig. 2. Growth of consumer prices (costs of living) of households in 1991–2014 (Source: author’s interpretation based on the data of CSO 2014 and Ministry of Labour and Social Affairs (MoLSA) 2014)

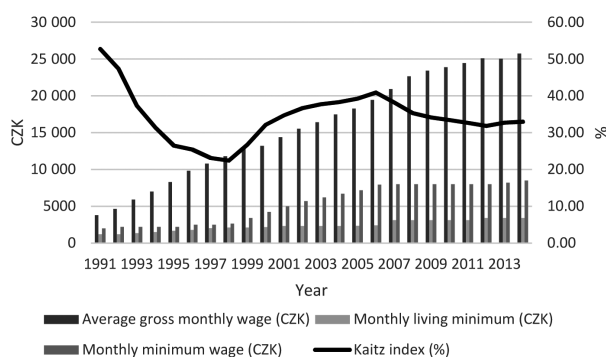


Fig. 3. Development of the average gross monthly wage (CZK), monthly living minimum (CZK), the minimum monthly wage (CZK) and Kaitz index (%) (Source: RILSA 2015)

the Czech Republic is falling behind. The Minister of Labour and Social Affairs, Michaela Marksová-Tominová, has defined the goal of significant minimum wage raise in the Czech Republic in compliance with the estimate of average wage development to the level of CZK 11 200 by 2018 (TN.cz 2014).

Another minimum wage increase is planned for 2016. The Czech-Moravian Confederation of Trade Unions requested the amount of minimum wage to be increased by CZK 1 000 to CZK 10 200 per month (Středula 2015). However, this request was rejected by the representatives of employers, who were only willing to accept an increase of CZK 500 (Kučera 2015). At the end of August 2015 the government agreed to a compromise – minimum wage increase by CZK 700 to CZK 9 900 (Sovova 2015).

### 1.2. Legislation concerning minimum wage adjustment in the Czech Republic

In relation to the negotiation concerning minimum wage adjustment within tripartite in summer 2015 the representatives of employers presented a new request for modification of minimum wage determination method based on selected indicators.

Within the EU, 21 of the 28 states have a universal minimum wage regime with a nationwide minimum wage. In seven member countries, there are only sectoral minimum wage regimes, including the Denmark, Finland and Sweden, as well as Cyprus, Italy, Austria and Germany (Schulten 2012). In the Czech Republic, as well as the vast majority of European countries, minimum wage is set by law (Mabbett 2016). The Labour Code defines minimum wage as follows: “Minimum wage shall be the minimum permissible amount of remuneration for work performed within a basic labour relationship pursuant to Section 3.” (Employment relationship and work agreements outside employment relationship). The Labour Code further specifies the basis of minimum wage, which cannot include any supplementary pays: “Wage, salary or remuneration pursuant to an agreement may not be lower than the minimum wage. For this purpose, wage or salary shall not include any premium payment for overtime, work on public holidays, night work, work in arduous working environment and for work on Saturdays and/or on Sundays”. The above implies that the minimum wage applies to employment relationship as well as to agreements on work performed outside employment relationship; the amount is equal throughout the state and is not type-specific. Minimum wage applies solely to legal relations governed by the Labour Code (Zimmermanová 2010). The amount of minimum wage base rate, other rates of minimum wage for limited employment and conditions for provision of minimum wage are defined in Government Decree No. 567/2006 Coll., on minimum wage, the lowest levels of guaranteed wage, definition of

hazardous working environment and extra payment for work in the hazardous working environment as amended. The amount of minimum wage base rate and other rates of minimum wage graded by the extent of the influence restricting employability and the conditions for provision of minimum wage are defined by a government decree. In compliance with the legislation, this should take place: “As a rule taking legal force as of the beginning of a calendar year, taking into account the development of wages and consumer prices”.

The minimum wage is one of the important elements of how to regulate the national economy (Ginevičius and Bruzė 2011). The Government is authorized to issue the Decree by the Labour Code and it depends on the evaluation of the situation and whether it reaches the conclusion that the amount of the minimum wage has to be adjusted or not. The minimum wage adjustment is a purely political decision of the government in office at the given time. The decisions concerning adjustments of minimum wage reflect the coalition standpoint of the parties to the concept of minimum wage itself, as well as the economic policy promoted by the government. This is apparent in all the above data – in particular in the comparison of the development of minimum wage in the Czech Republic in 1991–2014 with the growth consumer prices (costs of living) of households in the same period (in 1991–2014) and the comparison of the development of living minimum, average and minimum wage (1991–2014). Almost two thirds of employees in the Czech Republic earn a wage of a level lower than the national average (Bielikova and Paliderova 2016).

Representatives of Confederation of Employers’ and Entrepreneurs’ Associations of the Czech Republic proposed to relate the minimum wage increase to the median wage in the Czech Republic. The Confederation representative Jan Rafaj in 2015 has explained their stance: “*To set a coefficient that will forever rule out minimum wage as a theme on election billboards. We request minimum wage increase to be automatic, related to the state of industry, so that it is predictable and unambiguous for companies*” (ParlamentníListy.cz).

According to the Czech Statistical Office the average wage in 2014 amounted to CZK 25 686; the median wage, representing the value right in the middle of the wage distribution, amounted to CZK 21 629. Between 2013 and 2014 it increased by CZK 474 from CZK 21 155 in 2013. In 2013 the minimum wage was adjusted (after five years of without changes) by CZK 500 to CZK 8,500 per month; in 2014 the increase was CZK 700, minimum wage thus reaching CZK 9 200 per month (Czech Statistical Office 2015).

Thus two crucial questions come to mind: what amount of minimum wage can be considered optimal? What prerequisites should be met for the minimum wage to be adjusted? A research was conducted in companies to obtain answers to these and other questions related to the minimum wage.

## 2. Research

The objective of the research was to obtain views of representatives of micro, small, medium and large enterprises on the existence of minimum wage, its amount, the relation of minimum wage and average wage, manner of minimum wage adjustment and how it affects employment and competitiveness of the company. Some of these findings were presented at the Ibima Proceedings International Forum of The 25th International Business Information Management Association Conference in spring 2015 in Amsterdam (Pernica 2015). Here I would like to sum up the results presented earlier and extend them by new and yet unrevealed research findings concerning the relation of minimum wage and average wage and manner of minimum wage adjustment.

The research was based on an interview survey. The interview survey was conducted in two stages. In the preliminary phase I contacted four companies and asked them to assess the content and formal aspect of the questionnaire. In this stage I was monitoring the reactions of the respondents to the proposal and concept of the interview survey. The respondents suggested modifications to the questionnaire. Subsequently the questionnaire was modified and finalized and presented again to selected respondents for final approval. Only then the main part of the interview survey commenced.

### 2.1. Addressing respondents

For the purpose of data collection I addressed companies in the South Moravian Region with high numbers of employees. I determined the size of the enterprise based on the Commission of the European Communities Recommendation (European Commission 2003). A total of 300 enterprises were addressed, so that different size companies operating in different fields according to the statistical classification of economic activities would be represented evenly. The contact was mostly face to face. The research was conducted from March to June 2014 and the total of 183 enterprises participated. The questions were answered by owners, executives, management representatives and accountants.

### 2.2. Research questions

The questionnaire was divided into two parts. Some of the questions were aimed at the company itself and how it utilizes the concept of minimum wage, the other questions were related to the concept of minimum wage in general, views on its existence, minimum wage amount, influence of minimum wage on the company costs, competitiveness, employment etc. Due to the volume of gathered research data, I will further discuss the most interesting findings corresponding with the aim of this paper.

Below I list the selected questions and answer options (Table 1).

### 2.3. Results

Below are the results for the respective questions of the interview survey (Table 2).

## 3. Results and discussion

About one quarter of enterprises participating in the survey pay minimum wage to their employees.

The results show that the employers consider the concept of minimum wage important and they unequivocally support its preservation (98% positive answers). An interesting point here is that about 40% of employers are in favour of a substantially higher minimum wage than the effective legislation defines. The current minimum wage amounts to CZK 9 200; at the time of the survey it was CZK 8 500. However, about one half of the respondents believe the concept of minimum wage hinders employment of low-qualified workers. About 40% of enterprises have stated that minimum wage or its adjustment increases the costs of the company to such a degree that it partly/strongly impacts employment termination. Again, approximately the same number, i.e. 40% of respondents believe minimum wage has a negative impact on the competitiveness of the company.

Apart from basic indicators, such as ratio of respective positive or negative answers etc., the Pearson's chi-squared test has been conducted to verify if a random quantity has certain given probability distribution (Zacks 1981).

The purpose of the first question "State the percentage of your employees in the company who receive minimum wage" was to find out whether the enterprise uses the concept of minimum wage for remuneration of their workers or not and potentially what the ratio of workers remunerated in this manner is. The answers were subsequently divided to two options only so that the question could be assessed using the Pearson's chi-squared test – enterprises using the concept of minimum wage and those that do not apply it. After using the formula, the test criterion is 2.619 with a critical value for 10% significance level is 4.605. At the significance level of 10% we do not reject the null hypothesis (H0) of independence of the respective characteristics.

The purpose of the second question "State whether you believe the concept of minimum wage should be applied" was to find out whether the enterprises have a positive approach to the existence of minimum wage in the Czech Republic defined by legislation. At the first sight the results show there is no relation between the size of the enterprise and the opinion on the existence of minimum wage. Due to a high number of null elements the Pearson's chi-squared test could not be used.

Table 1. Selected questions and answer options (source: compiled by the author)

1. State the percentage of your employees in the company who receive minimum wage.				
a) 0% of employees receiving minimum wage out of the total number of employees	b) 1–3% of employees receiving minimum wage out of the total number of employees	c) 4 or more % of employees receiving minimum wage out of the total number of employees		
2. State whether you believe the concept of minimum wage should be applied.				
a) Yes.	b) No.			
3. State your opinion on optimal amount of minimum wage. The amount of minimum monthly wage should be:				
a) less than CZK 10 000	b) CZK 10 001 – 12 000	c) CZK 12 001 or more		
4. State whether you believe the concept of minimum wage hinders employment of low-qualified workers.				
a) Insignificant impact on employment of such workers.	b) Slightly negative impact on employment of such workers.	c) Strongly negative impact on employment of such workers.		
5. State whether you believe the concept of minimum wage or minimum wage adjustment increases the costs of the company to such a degree that it results in reducing the number of workers.				
a) Minimum wage and its adjustment has insignificant impact on reducing the number of workers in the company.	b) Minimum wage has slight impact on reducing the number of workers in the company.	c) Minimum wage has strong impact on reducing the number of workers in the company.		
6. State whether you believe the concept of minimum wage or minimum wage adjustment has negative impact on the competitiveness of the company.				
a) Minimum wage has insignificant impact on the competitiveness of the company.	b) Minimum wage has a slightly negative impact on the competitiveness of the company.	c) Minimum wage has a strongly negative impact on the competitiveness of the company.		
7. State what the amount of minimum wage should be derived from.				
a) Average gross wage in the Czech Republic.	b) Average gross wage in all EU Member States.	c) Living minimum.	d) Subsistence minimum.	e) Median wage.
8. State how the minimum wage amount should be adjusted.				
a) Yearly by inflation.	b) Based on average gross wage adjustment.	c) Based on living minimum adjustment.	d) Based on subsistence minimum adjustment.	e) Based on median wage adjustment.

Table 2. Summary of interview survey results (source: compiled by the author)

Enterprises				
	Number of micro enterprises	Number of small enterprises	Number of medium and large enterprises	Total number
Enterprises participating in interview survey divided by their size	73	56	54	183
1. State the percentage of your employees in the company who receive minimum wage				
a) 0% of employees receiving minimum wage out of the total number of employees	53	40	45	138
b) 1–3% of employees receiving minimum wage out of the total number of employees	0	2	4	6
c) 4 or more % of employees receiving minimum wage out of the total number of employees	20	14	5	39
2. State whether you believe the concept of minimum wage should be applied.				
a) Yes	73	56	51	180
b) No	0	0	3	3
3. State your opinion on optimal amount of minimum wage. The amount of minimum monthly wage should be:				
a) less than CZK 10 000	52	29	32	113

End of Table 2

Enterprises				
	Number of micro enterprises	Number of small enterprises	Number of medium and large enterprises	Total number
b) CZK 10,001 – 12 000	11	14	18	43
c) CZK 12 001 or more	10	13	4	27
4. State whether you believe the concept of minimum wage hinders employment of low-qualified workers.				
a) Insignificant impact on employment of such workers	35	24	28	87
b) Slightly negative impact on employment of such workers	25	25	19	69
c) Strongly negative impact on employment of such workers	13	7	7	27
5. State whether you believe the concept of minimum wage or minimum wage adjustment increases the costs of the company to such a degree that it results in reducing the number of workers.				
a) Minimum wage and its adjustment has an insignificant impact on reducing the number of workers in this company	40	32	37	109
b) Minimum wage has a slight impact on reducing the number of workers in the company	23	17	12	52
c) Minimum wage has a strong impact on reducing the number of workers in the company	10	7	5	22
6. State whether you believe the concept of minimum wage or minimum wage adjustment has negative impact on the competitiveness of the company.				
a) Minimum wage has insignificant impact on the competitiveness of the company.	41	31	38	110
b) Minimum wage has a slightly negative impact on the competitiveness of the company.	21	16	12	49
c) Minimum wage has a strongly negative impact on the competitiveness of the company.	11	9	4	24
7. State what the amount of minimum wage should be derived from.				
a) The amount of minimum wage should be derived from average gross wage in the Czech Republic.	27	23	28	78
b) The amount of minimum wage should be derived from average gross wage in all EU Member States.	13	14	7	34
c) The amount of minimum wage should be derived from the living minimum.	26	16	10	52
d) The amount of minimum wage should be derived from the subsistence minimum.	6	0	1	7
c) The amount of minimum wage should be derived from the median wage.	1	3	8	12
8. State how the minimum wage amount should be adjusted.				
a) The minimum wage amount should be adjusted yearly by inflation.	60	49	42	151
b) The minimum wage amount should be adjusted based on average gross wage adjustment.	9	4	7	20
c) The minimum wage amount should be adjusted based on the living minimum adjustment.	3	2	2	7
d) The minimum wage amount should be adjusted based on the subsistence minimum adjustment.	0	0	0	0
e) The minimum wage amount should be adjusted based on the median wage adjustment.	1	1	3	5

Note: The results for medium and large enterprises were connected, so that the number of components (enterprises) in the respective evaluated groups is approximately the same.

The third question was aimed at opinions on optimal amount of minimum wage. The survey was conducted at the time when the minimum wage amount exceeded CZK 8 500 per month for full forty-hour working week. Based on the Pearson's chi-squared test results it can be concluded that at the significance level of 10% we reject the null hypothesis (H0) of independence of the respective characteristics and we accept hypothesis H1, which says there is certain dependence. The answers to this question have positively demonstrated the influence of enterprise size on its view on the minimum wage amount considered optimal.

The fourth question focused on finding out whether the concept of minimum wage hinders (has a negative impact) employment of low-qualified workers. The Pearson's chi-squared test result is the test criterion of 2.282 with a critical value for 10% significance level is 7.779. At the significance level of 10% we do not reject the null hypothesis (H0) of independence of the respective characteristics. The answers to this question do not prove the influence of enterprise size on their view whether the concept of minimum wage hinders employment of low-qualified workers.

The fifth question was seeking the opinion of enterprises on the impact of the minimum wage adjustment on business cost increase and subsequent negative impact on employment within the enterprise. The Pearson's chi-squared test result is the test criterion of 2.633 with a critical value for 10% significance level is 7.779. At the significance level of 10% we do not reject the null hypothesis (H0) of independence of the respective characteristics. The answers to this question do not prove the influence of enterprise size on their view whether the minimum wage adjustment causes decrease in employment.

The aim of the sixth question was to find out whether the existence of minimum wage has any impact on the competitiveness of the company. The Pearson's chi-squared test result is the test criterion of 2.868 with a critical value for 10% significance level is 7.779. At the significance level of 10% we do not reject the null hypothesis (H0) of independence of the respective characteristics. The answers to this question do not prove the influence of enterprise size on their view whether the existence of minimum wage decreases competitiveness of the company.

The seventh question was aimed at opinions on the manner of determining minimum wage base. There were several completely different answer options. The Pearson's chi-squared test was not relevant here. The answers to this question differ; however, the prevailing opinion of companies is that the minimum wage should be derived from the average wage (42.62%).

The objective of the eighth question was to find out how the minimum wage should be adjusted. Again, there were several completely different answer options. The Pearson's chi-squared test was not relevant here. The proportion of answers marking the minimum wage adjustment based on

inflation rate (increase in costs of living) is 82.51%, which can be considered unambiguous.

### 3.1. Proposals

Based on the above it is suitable to consider the following proposals de lege ferenda of Section 111 of Act No. 262/2006 Coll., the Labour Code, as amended. The minimum wage determination should be based on a tripartite agreement that would serve as a starting point for the discussion on minimum wage arrangements. The Government should have a statutory obligation to review the necessity of minimum wage adjustment in the course of the year, taking legal force as of 1 January of the given year for the whole calendar year. More frequent adjustments of the minimum wage, e.g. due to substantial changes to Czech economy should be left for the Government to consider. The minimum wage should be derived from average gross monthly wage. When deciding on altering the minimum wage amount the Government should have a statutory obligation to reflect at least the development of average monthly wage, consumer prices and living minimum. The legislation should entitle the Government to adjust the minimum wage amount at least according to the increase in consumer prices (inflation).

### Conclusions

The continuous valorization of the minimum wage in the CR leads to growth in other wage levels. The minimum wage in the Czech Republic is one of the lowest throughout European Union countries, both in terms of the ratio of the minimum wage to the average gross wage, which is far below 40%, and in terms of the minimum wage expressed in the purchasing power parity. Therefore there is a potential for growth in the minimum wage. At the time of survey the minimum wage was CZK 8 500 per month and the majority of business representatives argued for the amount of approximately CZK 10 000 per month. As of 1 January 2016 the Government has approved the minimum wage adjustment to CZK 9 900. The business owners disagree that minimum wage make difficult employing of low-qualified workers. However, they are convinced that it has a negative impact on competitiveness. Wages are important part of firm's costs. The research revealed that majority of companies would embrace minimum wage derived from average wage and yearly minimum wage inflation adjustment. Although, approximately one half of the respondents believe that the minimum wage makes it harder to employ low-skilled workers. About 40% of the respondents mentioned that this institute increases unemployment, has a contrary effect on business costs and reduces the competitiveness. The continuous valorization of the minimum wage by CZK 500–700 a year, to the level of 40% of average wage, as planned by the Government of the Czech Republic, is

bringing stability to the labor market and is not jeopardizing the financial stability of Czech enterprises.

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