

# **Title: The Impact of National Minimum Wage In The Small And Medium Enterprises In Mauritius Post Covid-19 Pandemic**

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## **Abstract**

**Purpose** – The Government of Mauritius has implemented the National Minimum Wage (NMW) Law to ensure that workers earning low wages are more decently remunerated enabling them lead a better life. However, after the pandemic effect in Mauritius, the survival of many Small and Medium Enterprises (SMEs) have been perceived to be at risk. Noteworthy, that the majority of the low wage workers are employed by the small and medium businesses. While SMEs are complying with the regulations to provide a minimum wage, this study is being carried out to understand the impact that NMW has on the SMEs after the pandemic.

**Design/Methodology/Approach** – The study adopts a qualitative approach using focus group as research method. The research was carried out with 7 companies from the SME Sector comprising of the business owners or representatives from the various economic sectors in Mauritius.

**Findings** – The study revealed that although some companies encountered higher labour cost due to the implementation of NMW, there are some changes in strategy and future planning associated in order to cope with the higher labour cost and also their existence in the market after the pandemic.

**Originality/Value** – The outcomes of this research represent empirical evidence in the field.

**Keywords** – National Minimum Wage (NMW), Small and Medium Enterprises (SMEs), Pandemic effect

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## **I. INTRODUCTION: STUDY CONTEXT AND OBJECTIVE**

Minimum wage is defined as the lowest remuneration employers pay to employees which was long implemented in various parts of the world as a poverty mitigation tool (Zhang, 2016). The evolution in the wage system has a long history in Mauritius. In order to undertake a study on the impact of NMW, it is crucial to be aware of the evolution of the economic development in Mauritius. The island has moved away from a mono-crop economy with fast population growth and high unemployment in the 1970, to one that is more dynamic and diversified. The sources of diversification have been agriculture, textile, tourism and more recently international services with Offshore and Freeport activities (Zafar, 2006). One of the successful strategies to bring upon economic boom across the globe is to set up a small or medium sized business that may also expand to a multi-national firm if they are properly managed. The Government has brought several incentives to encourage the growth and development of small and medium businesses as they are regarded as the ‘driving forces’ to technological upgrade, product and process innovation, employment creation and export promotion. The Government has also embarked on a new challenge to make Mauritius a High Income Country by 2025 and the first step towards it is the introduction of a National Minimum Wage. The objective of a minimum wage is to protect employees against low pay. In addition, minimum wages can be one of the factors to minimize or eliminate poverty and reduce inequality or discrimination. However, with the recent Covid-19 pandemic has had an enormous economic and social impact worldwide, threatening the survival of many small and medium businesses. Thus, in such situation, it may be a challenge for many SMEs to offer a NMW to their staff. This study encompasses few factors that possibly can affect the SMEs while remunerating a NMW to their staff.

Over the decades, many researches have been conducted on the effects of wage increase in small firms such as fluctuation in prices, employment tendencies, fringe benefits and training investments and strategies for higher profits. With the effects of the pandemic, the SMEs should also look for strategies to survive in the competitive market. According to Butcher (2012), reducing fringe benefits can be deemed to discrimination of the workers’ rights since reducing fringe benefits contradicts the main purpose of implementing a minimum wage which intends to prevent exploitation and provide protection to workers. For example, countries such as Hong Kong have experienced manpower streamlining, and fringe benefits and bonus reduction as cost cutting measures in the implementation of minimum wages (Hong Kong Wage Commission, 2010). These fringe benefit changes could demotivate the workers from performing well in the workplace. Neumark and Washer

(2014) reviewed a number of studies on how minimum wage affects employment, mostly in United States and other countries including some European countries and they provided support for the conventional view that minimum wage reduce employment among low-skilled workers and that the low-wage labour market segment can be reasonably well approximated by the neoclassical competitive model. Similar results are obtained by Huang (2014) for China, where the minimum wage is also found to affect employment negatively, particularly in firms with low wage earners. In contrast, Levin-Waldman and McCarthy (1998) use information from a qualitative survey of small businesses in the United States and found that jobs are not necessarily destroyed, but job creation may be hindered. Bradley (2017) found that the goal of a minimum wage is to keep workers out of poverty and to increase the customer's purchasing power to stimulate economic growth.

According to the Microeconomic theory, a firm's ability to raise prices in response to an increase in input costs depends on the following factors:

1. The price elasticity of demand for the good
2. The degree of competition in the product market and the extent to which competitors are subject to the price shock
3. The firm's ability to substitute to alternative inputs or increase factor productivity.

As per the Efficiency Wage Theory, it may benefit the firm to pay workers a wage higher than their marginal revenue product since it will in turn increase productivity and loyalty of workers towards the firms. According to a study by Riley and Bondibene (2015), upon the introduction of a National Minimum Wage (NMW) in Britain, low-paying companies increased their labour costs by increasing the labour productivity, which may be associated with a reduction in employee turnover and improvement with training. Mayneris (2014) found that the recent minimum wage reform in China compelled the least productive firms to raise their competitiveness. Bewley (2015) stated that with a higher minimum wage, the employee's income increases thus they are more motivated to deliver their tasks more diligently. As the increase in wages could be mitigated through enhancements in productivity, the overall impact on business costs will likely be insignificant. Notwithstanding, the negative effects of minimum wage policy cannot be ignored for both the employees and employers. According to a study conducted in China, minimum wage reduces the employment of low-skilled labour. The Chinese employees whose education level is low are more likely to be adversely affected by the policy (Fang and Lin 2015). Increase in minimum wage causes labour cost to increase and may compel firms to cut their labour hours or change from full time to part time.

The role of management in a business is to monitor and act on uncertainty and ensure that components of the business model are adjusted to meet the dynamics of change (Demil and Lecocq, 2010). With the recent Covid-19 pandemic across the world, many socioeconomic activities have come to a halt putting many small businesses at risk (Fernandes, 2020). Therefore, the businesses in different sectors are looking for strategies to continue their business adapted to the "new normal". There is a need to change the business model to further run the business. Furthermore, Foss and Saebi (2017) mentioned few specific tasks that are beneficial to manage dynamics of the business model which are as follows:

1. Monitoring the internal and external risks and uncertainties that possibly may endanger the business models
2. Anticipating potential consequences
3. Implementing actions that are designed to modify business models so that company performance can be improved.

One of the major reason for the adaptation of SMEs and their business models is to ensure continuity and improve business activities during lockdowns. In this period of Covid-19, the pandemic can actually trigger SMEs in any industry to create new strategies and set the stage for long-term growth and market leadership (Akpan, Udoh, Adebisi 2020).

Even if the implementation of digital technologies that support business activities was not planned and decided involuntarily, it leads to gains in terms of competitiveness and resilience (Akpan, Soopramaniew, Kwak 2020). Kreutzer (2017) postulated that Digital Darwinism condemns organizations to shut down if they fail to adapt to the changes faster than the available technologies and the environment does. This implies that SMEs have to use their advantages in terms of size and flexibility to incorporate new strategies and new business models for sustainable business operations to enable them survive (Balta, 2020).

One of the biggest challenges faced by the SMEs is the need to transform their existing business models according to the new changes in the market and this may require additional capital. According to Cowling (2020), if the pandemic will last long, many businesses may run out of money if they do not have much reserves. This means that many SMEs are overly reliant on internally generated funds to capitalize on their operations and provide the necessary liquidity to fund their day-to-day operations. Ratten (2020) and Amankwah-Amoah (2020) inferred that the uncertainty that occurred due to the Covid-19 pandemic has resulted

in new ways of understanding the paradigm of entrepreneurship. With the digital transformation, the SMEs will benefit in fostering innovation, economic growth and reducing unemployment (Dhewanto 2020).

### **Research Plan**

This study explores whether the implementation of NMW affected the SMEs after the Covid-19 pandemic. One of the key requirements of this study is to identify factors that may have an effect on the SMEs with an increase in the NMW. A focus group research method was adopted for the purpose of this research and was analysed using the software NVIVO 12. This research design incorporated six key areas to emphasize upon, which are as follows:

1. Introducing the core factors upon which the research will be conducted.
2. Writing up the literature review.
3. Looking for the appropriate methodological approaches suitable for the research work.
4. Analysing and interpreting the data collected.
5. Writing up the report and disseminate the work.

A training programme was initiated to all the students doing MPhil/PhD to enable them understand the principles to be taken into consideration on the research work they are conducting along with the selection of research methods. This training programme helps all the learners to gain confidence to conduct their individual research work. The training programme also provides an environment for learners to share their research experiences, express their challenges and suggest strategies with tailored support or advice from their project supervisors.

## **II. AIMS AND METHODOLOGY**

The overall aim for this study is to conduct a systematic investigation on the impact of NMW in SMEs in Mauritius after Covid-19 pandemic. An interpretivist paradigm is adopted to gain an understanding of the focused research through subjective relationship with the participants (Manroop, 2017). In this study, the interpretivism was assumed to gain information on the experiences of SMEs from various economic sectors after the implementation of NMW in Mauritius. Consequently, a qualitative methodology is employed and a focus group interview was conducted to gain in-depth information on the factors to be analysed in this study. A focus group of 7 participants from different sectors was conducted at a selected venue. For this study, the participants are recruited from the different SME sectors in Mauritius. Precisely, the purposive sampling was used which means that the participants selected were made aware of the aim of the study and they agreed to participate in this study (Creswell, 2013). Initially 12 participants agreed to attend the interview, however only 7 attended the session. Nonetheless, evidence shows that a group of 6 to 8 participants is ideal for a focus group interview as smaller groups show greater potential (Krueger & Casey, 2000). The major concern in any research is to have the consent of the participants. Green and Hart (1999) suggested that focus group participants have a particular vulnerability as they are not only convinced by skilled facilitators to reveal intimate views but they are also mostly asked to do it in front of peers. Therefore, it is very important to have the consent of the participants before the interview starts and confidentiality has to be maintained as the name of the participants should not be revealed. It is also applicable in researches where various organizations are participating but are not willing to reveal their identity. Below is a table with the details of the participants.

**TABLE ON STUDY OF PARTICIPANTS**

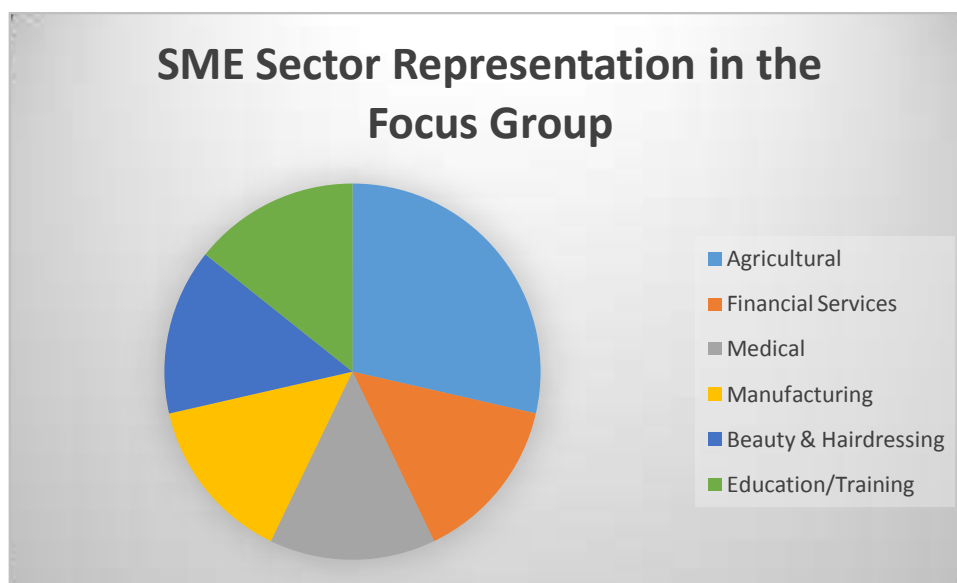
SN	ID of Company	Owner/Representative	SME Sector	Annual Return (Rs)
1	GV	Owner	Agriculture	48M
2	GW	Owner	Agriculture	18M
3	MC	Owner	Medical	2M
4	BA	Owner	Financial	14M
5	CH	Representative	Manufacturing	49M
6	SC	Representative	Hairdressing/Beauty	5M
7	LB	Owner	Education	250,000

While starting the session, the participants were put at ease by serving them refreshments and engaging them in small talk. However, talking on the main issue of the focus group was avoided. The formal group session was initiated by thanking the participants for coming and stating the purpose of the group briefly. They should be aware of the key areas of study for this interview, the rules and confidentiality were emphasized, and they were invited to ask questions if they want.

The focus group discussion lasted for 2 hours debating on the different factors that may impact the companies due to NMW and how to overcome the pandemic effect. The interview session was conducted in the mother tongue to be able to extract maximum information and also the participants were put at ease to interact actively. In the end, the participants were thanked for their valuable contributions to the research. For the data analysis, it is important to record the discussions with accuracy. The participants' responses were recorded in 2 ways. Firstly, by taking notes and secondly, through tape recording. However, in the case of notes taking, there is a possibility to miss little information and this is why tape recording is mostly suggested for all focus groups (Rice & Ezzy 1999).

### III. DATA ANALYSIS

The Chart below represents the population of the sample chosen for the focus group discussion.



#### Analytical Procedure

The recorded data was transcribed and the interpretation and analysis of the data was performed through the concept of thematic analysis. The thematic analysis was more precisely used for identifying themes and patterns of behavior or meanings in the focus group discussion data. According to Taylor and Bogdan (1984) as cited in Aronson (1994), themes are defined as “conversation topics, recurrent activities, meanings, feelings and proverbs.” For the purpose of this study, themes are the topics of the discussion for the focus group. Clarke and Braun (2017) stated that thematic analysis is flexible and helps to identify the participants' experiences, views and behaviors thus this the same is adopted for this study to understand the experiences and views of the owners/representatives of the SMEs selected for this study. The NVIVO 12 qualitative data analysis software was employed for the initial coding process of the data, which subsequently helped in the identification of themes. As agreed by Wiltshier (2011), NVIVO provides a platform for grouping of data in different ways using folders, sets and cases for coding, easy access and retrieval of the data. For this study, 10 questions were asked to the participants during the focus group discussion. 9 Themes were derived from the 10 questions and these are represented in the table below.

Themes	Questions	Important Points Covered
Business Profits	How has the introduction of NMW affected your business profits?	Affected positively and negatively as well depending on the Sector
Capacity to offer NMW as salary	Are you able to offer the same NMW after the Covid-19 pandemic?	All abide to the Regulations implemented by the Government
Impact on Employment	Has the NMW caused loss of employment in your company?	None of the companies fired their staff even though it is very difficult to sustain the labour cost
Price effect on products and services	Have you increased the prices of your products or services to cope	No price effect unless the market itself is selling at a higher or lower

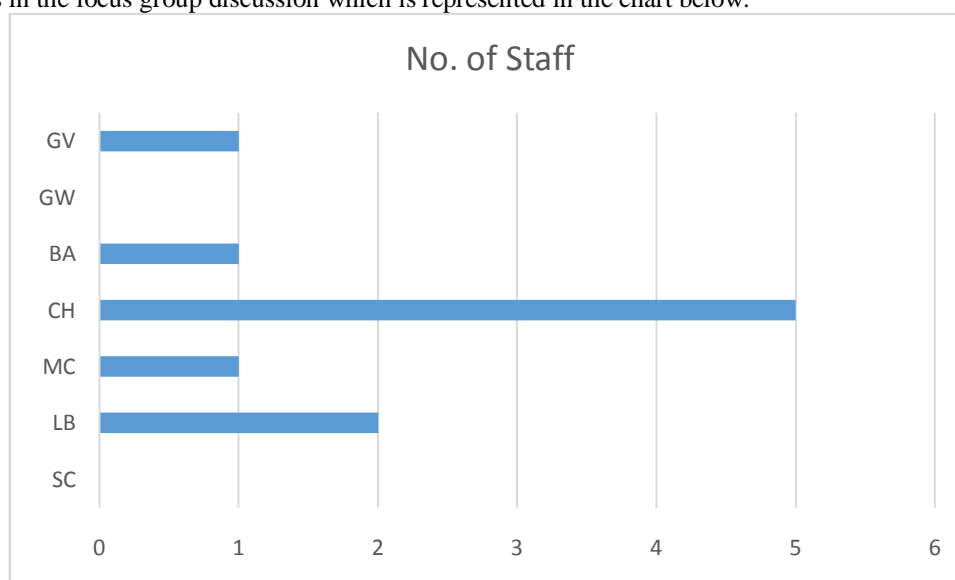
	with the NMW?	price. Competitive Advantage: Lower Price. Price change depends on Market
Profitability and Survival	How did you manage with the National Minimum Wage in terms of profitability and survival?	Though tough for some Sectors still they are offering NMW Purchasing power of employees increased causing sales to increase at the same time
Replacing labour with Machinery	Did you replace labour with capital equipment and machinery?	Strategy for future.
Non-wage Benefits	Did you reduce any non-wage benefits that was entitled for your staff prior to implementation of NMW?	Reducing non-wage benefits will demotivate staff
Productivity	Has productivity of workers increased after the implementation of NMW? If Yes or No, please justify	Increased because staff value their job more after Covid-19 pandemic
New Strategies for Survival	What are the new strategies you have implemented for survival of your company after the Covid-19 pandemic?	Invest in Machinery. Marketing the services and products. Looking for new market.

#### IV. EVALUATION OF FINDINGS AND DISCUSSION

This study presents verbatim quotes of the interview participants (in italics) as a way to reinforce the study findings and discussion relating to what previous empirical evidence revealed on each and every theme derived from the focus group questions.

##### Number of Staff obtaining less than minimum wage prior to the implementation of NMW

First of all, it is important to know the population of staff who were obtaining less than a NMW in each of the companies in the focus group discussion which is represented in the chart below.



##### Business Profits

Most of the companies claimed that their business profits have been affected in some way or other. Profit was affected not only because of the implementation of a NMW but also due to the Covid-19 pandemic. Since the Tourism Sector is one of the pillars of economy in Mauritius, it has been heavily affected due to the pandemic globally causing job loss and reduced profits. In Mauritius, there are various small and medium enterprises, which went through a tough phase since they were highly dependent on the income from the Tourism Sector:

*“Many clients were from the Tourism industry and since it was hugely impacted after the pandemic, we lost many clients causing the profit to decline” (SC)*

The sector that was mostly affected by the implementation of NMW is the manufacturing sector since the manufacturing industry does not only offer a salary but also other benefits such as attendance bonus, overtime and other allowances (for ex. refund for casual and sick leaves) causing labour cost to be very high for the companies to sustain. As per the study conducted by Bell and Machin (2016), the firm value fluctuates in response to wage increase resulting to a significant drop in the stock market value for low wage firms which in turn decreases the profitability. Similarly, Draca, Machin and Van Reenen (2011) also confirmed that higher wage cost leads to a reduction in business profits based on the introduction of minimum wage in 1999 in UK. In this context, the representative from CH commented:

*“There was 5 staff who were obtaining less than the NMW and their salaries had to be adjusted, this caused the labour cost to be significantly increased and impacted the business profits heavily” (CH).*

The objective behind the implementation of NMW is to increase the purchasing power of people and also to enhance the staff performance. As mentioned above, Bradley (2017) stated that the goal of a minimum wage is to keep workers out of poverty and to increase the customer’s purchasing power to stimulate economic growth. Mankiw (2011) also confirms that increase in wages improve the standard of living of workers hence increasing their purchasing power which ultimately increase the demand of goods and services. According to the owner of GV:

*“Profit was affected both positively and negatively. Although not many staff were obtaining a minimum wage, once we adjusted the salary of the staff under NMW, we had to review the salaries of the other staff as well causing the labour cost of the company to increase but this incentive motivated the staff to perform better. However, another crucial observation was that since NMW was implemented, the purchasing power of many people increased and they are able to invest as small planters resulting in a rise in the sales of fertilizers and seeds. It can be said that the companies where the elasticity is higher for basic needs, such companies faced higher sales as the purchasing power of people increased” (GV).*

#### **Capacity to offer NMW after the Covid-19 pandemic**

As reported by Bretas&Alon (2020), Ratten (2020), Sigala (2020), the global pandemic has affected the businesses of all sizes and in all industries. The small and medium enterprises are finding themselves in a “new normal” environment. The negative impacts of the pandemic have been reported in all the spheres of life and have economic, social, political and psychological consequences. However, before the pandemic, more than half of small business owners surveyed in the New York City by CNBC in 2020 responded that the minimum wage increases in the states in which they operated would have no impact on their businesses (Wronski and Cohen, 2020). While, after the pandemic, the Raise the Wage Act would phase in the increase in the minimum wage to \$15 by 2025 since workers obtaining the prescribed minimum wage are finding it hard to survive thus providing businesses with ample time to adjust their balance sheets accordingly (Wronski and Cohen, 2020). Therefore, the data revealed that the implementation of minimum wage was still affordable but with the pandemic effect, there is a rise in minimum wage which may cause some companies to suffer from high labour cost.

Since it is against the law not to offer a NMW, all the companies are finding ways to manage their funds to be able to bear the cost of salary adjustment. The owner of GW confirmed the same:

*“The organization has to manage its fund. It will be against the law if minimum wage will not be given to the staff and it is illegal not to give salary compensation” (GW).*

However, many companies operating in the manufacturing sector are suffering and are offering the salary of their staff from their saving funds or share capital. The representative from the CH stated:

*“Since I work as accountant in many small and medium enterprises, I can say many companies are suffering and even giving the salary of staff from their saving fund or share capital after the pandemic. They are not able to pay rental also, they are taking loan to pay rental. But if an employee is resigning they are not replacing them. 60% of small and medium enterprises are waiting for border to open otherwise they have no option other than to close down. CSR from bank is not available since the bank is already aware of how the enterprises are suffering.” (CH).*

### **Impact of NMW on Employment**

Even though implementing a NMW has been challenging for certain companies, however, none of them have fired their employees except the owner of a medical clinic who changed the strategy for, e.g., instead of giving a doctor a part-time salary, he is being paid for every patient he consults. The employment of no staff was at risk after the implementation of the NMW yet, the pandemic effect has caused many business activities to slow down and therefore they are not able to generate the same profit. Still, another fact is that when staff are well-remunerated, they become more productive and loyal towards the company and they work very hard for the survival of the company especially after the pandemic, the workers, at all levels, are grateful for their jobs since there are many sectors that had no choice than to close down causing many people to face the hardships of unemployment.

According to the standard economic theory, rise in the minimum wage does increase the earnings of low-wage workers but at the same time, it does depress employment (Brown, 1999, Borjas, 2004). Nevertheless, empirical evidences show positive impact on the structure of wages but mixed conclusions on employment effects. Dube, Lester and Reich (2010) compared the employment growth across U.S with different levels of the minimum wage and show that employment trends may alternate substantially between regions. The data revealed that a higher employment growth was encountered in regions where minimum wage is low and a lower growth rate of employment in regions where minimum wage is higher. Therefore, there are businesses that are compelled to reduce their number of staff or lower further recruitment to avoid higher labour costs. However, a recent study by the University of California, Berkeley, found that even sharp increases in minimum wages in low-wage areas do not result in significant job losses. (Godoy and Reich, 2019)

### **Price effect on Products and Services**

Overall none of the companies have had a rise in the prices of their products and services. Firstly, it is because the price increase is market-oriented and secondly due to tough competition in the market. Below are some comments from the focus group participants:

*“Since the competition in the market is very tough, it is not advisable to charge higher fees for the services provided”*(BA).

*“Competition is high for the time being, at the end of year promotion price have been given but increase in price will cause a decrease in sales. Many small and medium enterprises are not able to increase their prices but they have to be more efficient in terms of their cost of production. For survival we either adjust price or cost, most of the enterprises prefer to adjust their cost of production instead of price increase”* (CH).

*“Price increase is industry-oriented. If one increases, all will increase. For e.g., freight charges have increased then all the companies will increase their price”* (GV)

*“There is no rise in prices. The enterprises will prefer to reduce price and reduce their profits instead of increasing their price and reduce their sales”* (MC).

*“SMEs are limited to increase prices of their products or services”* (GW).

*“Price of service has not increased. But for example; the price of a shampoo has increased by 5% due to freight charges increased, the number clients buying this shampoo has decreased”* (SC).

As mentioned in the study context above, the finding is in line with the Microeconomic theory, according to which, increase in price of a product depends on the factor such as the price elasticity of demand of goods, the degree of competition in the market and the firm's ability to substitute to alternative inputs or increase in productivity.

According to Lemos's (2008) survey of 30 studies on the relation between minimum wages and prices, the latter found no significant impact on prices due to higher wages. Consistent to this evidence, Wadsworth (2010) also reported very limited impact of minimum wages on prices of goods and services in UK in the short term.

Here we can also refer to the models for minimum wage approaches, more precisely the monopsony case. Monopsony refers to a market with one buyer and multiple sellers or in this case, one employer and multiple workers. A minimum wage could, in this case, therefore raise employment, by forcing the employer to be a price-taker and set wages at the minimum wage rate. A price-taker refers to a market participant that is not able to dictate the price in the market just like the SME companies mentioned above. Therefore, being price-takers, they must accept the prevailing market price. However, the fluctuations in prices, for example, of freight charges are entertained by the whole market and this may cause a price increase. A price taker lacks enough market power to influence the prices of goods or services (Brown 1989).

### **Profitability and Survival**

The implementation of a minimum wage is usually a Government regulation and since many businesses are struggling with an increase in minimum wage and increasing overtime, they will have to make a choice. According to Cantor (2015), if businesses choose to increase prices for their goods and services to pay higher wages, they risk to lose their customers. If they change their hiring practices, they tend to lose good employees. This is elasticity in action that is if a business chooses a wrong strategy, it could lose money and possibly go out of business. Therefore, it is very important to choose the right strategy to stay profitable and to survive in the market. Employees should be well remunerated to stay loyal towards the companies. Below are few comments from the participants:

*“NMW has caused better business since the purchasing power of people with low skill has increased. The profits were affected mostly where the business owners did not give a decent remuneration to staff prior the introduction of minimum wage” (GV).*

*“Minimum wage has indeed reduced the unfair distribution of profits” (GW).*

*“The staff are working much more efficiently since they are aware of how many people are facing unemployment after the pandemic and they are working harder for the survival of the company” (BA).*

*“The shareholders are financing many costs since the Manufacturing Industry has been highly affected after the pandemic. They are injecting money into the business to compensate the loss due the pandemic. In fact, NMW did increase the labour cost however, the pandemic impacted the running of the business largely” (CH).*

### **Replacing labour with Machinery**

Response was very low for this question. However, it is in the future plan to move towards more advanced technology. The representative from the CH revealed that it is a high investment, which is not possible for the time being. The owner of GV and GW mentioned:

*“It is in the plan ahead to move towards more mechanical. Many businesses will be sooner or later adopt the technology gadgets for their company. It is a heavy investment cost while the manual works are the variable cost in the long run” (GV).*

*“Due to shortage of local workers, we will definitely go for machinery. Not because we can't give minimum wage but because the workers are not willing to take up such jobs” (GW).*

As mentioned in the study context above, according to Kreutzer (2017), Digital Darwinism condemns organizations to shut down if they fail to adapt to the changes faster than the available technologies and the environment do. Balta (2021) also stated that this implies that SMEs have to use their advantages in terms of size and flexibility to incorporate new strategies and new business models for sustainable business operations to enable them survive.

According to Autor and Dorn (2013), Autor, Dorn and Hanson (2015), low-skilled jobs are threatened since many businesses are focusing on automation because advance technologies deliver the tasks more quickly and also the reductions in cost of technology that can substitute low skilled workers. Manning and Salomons (2014) have stated that automation has affected the occupation over time but with advanced technology the occupations in which low-skilled individuals are employed. Such evidence suggests, as we would expect, that firms choose to substitute technology for workers as it becomes cheaper for them to do so. However, machinery investment can be a huge budget and the firms who are undergoing financial crisis may find it challenging to invest.

### **Non-Wage Benefits**

As per the owners of GW and GV:

*“Once a benefit is given, it cannot be taken away even with the implementation of NMW because it will result in lack of motivation of staff leading to lower production” (GW).*

*“Similarly as inflation, the benefits also have to be adjusted but not related with minimum wage” (GV).*

Usually in many sectors such benefits are not common, however, in the manufacturing sector, there are benefits such as performance bonus, attendance bonus and payment of overtime are compulsory over and above minimum wage.



Empirically, most firms use the same benefits plans for all workers or for broad categories of workers. When firms offer a common benefits package to workers of multiple skill types, minimum wage increases may alter the compensation packages offered to both minimum wage and non-minimum wage workers. Indeed, the optimal mix of pay and benefits will tend to trade off the utility cost of distortions to compensation packages for all types of workers, in proportion to their relative shares of a firm's workforce. This has both empirical and welfare implications. Empirically, reductions in the generosity of benefit packages will also affect individuals higher up the skill distribution. When firms substitute cash for non-cash compensation, cash incomes will rise for both minimum wage workers and workers higher up in the skill distribution. Changes in non-cash compensation can thus generate a "ripple effect," whereby minimum wage increases result in wage gains for non-minimum wage workers (Lee, 1999; Autor, Manning, and Smith, 2016).

### **Productivity**

There are a large number of experimental studies that support the hypothesis formulated by Akerlof (1982) that employees consistently provide higher effort levels in response to higher wages, the so-called "efficiency wage" theory. Ehrenberg and Smith (2009) stated that higher pay can also elicit commitment and productivity from existing employees. Experimental evidences show positive response in both UK (Georgiadis, 2013) and US (Owens and Kagel, 2010), leading to the conclusion that if minimum wage is well designed it can generate improvements in outcomes in productivity of workers.

Efficiency wage and training responses to increased labour costs have been studied by Arulampalam (2004), who found indication that the introduction of the national minimum wage in Britain led to increased employers' training. Researchers have pointed out that productivity increases may be the result of a fall in employment due to the minimum wage, as enterprises substitute capital for labour and adopt more capital-intensive production technologies. While this remains a distinct possibility when the minimum wage is set too high, the emerging trend is that the effects of minimum wages on employment are often small or insignificant, and in some cases positive (Kuddo 2015). Mayneris, Poncet and Zhang (2014), using data for more than 160'000 manufacturing firms in China found that increases in city-level minimum wages resulted in lower survival probability of low-productive firms. For surviving firms, wage costs increased without negative repercussions on employment. They explain this finding by the fact that productivity in surviving forms improved significantly, allowing firms to absorb the higher labour costs without hurting their employment or profitability. They conclude that minimum wage growth allows more productive firms to replace the least productive firms and forces incumbent firms to strengthen their competitiveness. Using semi-structured interview with 80 senior representatives of employers' organizations and trade unions, senior civil servants and industrial relations academics, McLaughlin (2007) examined how minimum wage regulations can raise productivity in Denmark, New Zealand and Ireland. He found that higher minimum wages are important for productivity but in the long-term other supporting institutions – such as collective agreements that enable training outcomes - can contribute to encourage firms to adopt the "high road" strategy through training and higher quality-based products market strategies.

Productivity has increased to some extent:

*"Staffs are more efficient after Covid-19 pandemic as they value their job even more"* (BA).

*"During the pandemic, the staff were motivated and once they obtained their Work Access Permit (WAP), they were readily available to report on their duties."* While the owner of *"The effect is short lived. The first month after obtaining minimum wage, they perform very well and the months after performance became same as prior to implementing NMW"* (GV).

*"The productivity of staff is the same, no alarming situation of shirking, absenteeism, slackness or lateness"* (SC).

As for LB and MC stated that the productivity of staff remained the same. For the first few months, staffs are very motivated but after that it becomes as usual as before. However, with the Covid-19 pandemic, many staff became more grateful for their job and doing their best for the survival of the companies to secure their employment as well.

### **New Strategies for Survival**

Several strategies are planned for the future:

*“It is very important to market the services provided. Develop the service provided even more towards, audit, accounting and secretariat, consultancy. Staffs are motivated since many people have lost their jobs in other sectors, so the staff value their jobs and are more efficient and delivering more. Have to look for other clients also since many enterprises are or have shut down their business. Competition is high” (BA).*

*“The future plan is to increase the range of products for e.g., the soap detergents and look for new markets to export the products for e.g., Reunion Island”(CH).*

*“Investing more in product development since the competition is higher and lateral expansion of the business is being predicted for future” (GV).*

*“Renovation works are being done and to re-engineer the business and manage efficiently” (GW).*

*“We are investing in marketing and publicity of the courses available at the Institute on social media and other platforms as well along with introducing online classes” (LB).*

*“The strategy is to launch promotions and diversify the services. Review the existing treatments available and make it more attractive for clients.” The representative from SC stated that “investment in new equipment and introducing new services such as manicure and pedicure” (MC).*

Due to Covid-19 pandemic, SME entrepreneurs need to assess their business crisis through appropriate action considering several competitive aspects such as scenario planning, stakeholder analysis, development strategies, external and internal communication. Business or organizational resilience is the organization’s ability to anticipate, prepare, respond and adapt to gradual changes and sudden disturbances in order to survive and prosper.

## **V. CONCLUSION**

The critical evaluations of the findings from the qualitative data discussed above show the relevance, benefits and challenges that SMEs are facing after the implementation of a NMW in Mauritius. The study contributes to shed light on the factors that are mostly affected in order to understand the impact of NMW along with the pandemic effect. The study has been able to provide useful insights on how business profits have been affected, the capacity of SMEs to offer a NMW to staff post the pandemic, the factors such as employment of staff and prices of products, profitability and survival of the business, productivity of workers, the replacement of staff with machinery where possible and the strategies adopted to survive in the market. Furthermore, outcomes of this study suggest that the implementation of NMW in Mauritius is still sustainable with the upcoming new strategies and demand generating profits. However, after the pandemic effect, some companies are indeed facing the challenge to offer a NMW, however, with new demands of products and services along with the new mode of work, the companies should adjust themselves to the new normal in order to survive in the market. This study will contribute towards creating more opportunities and new strategies for the SMEs for effective application of theory into practice.

While transcribing the data and carefully reviewing the participants’ responses and making initial notes, it was observed that interviewing a larger sample of the SME companies with a higher population of staff obtaining a NMW can bring more data on the factors being analysed. Nevertheless, there is still opportunity for further research with a larger sample of the population.

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