World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 59, June, 2026
ISSN: 2749-3628,

IMPROVING LABOR PRODUCTIVITY THROUGH THE ENHANCEMENT OF INCENTIVE MECHANISMS IN THE REMUNERATION SYSTEM

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Article history:
Received: 11th May 2026
Accepted: 6th June 2026

Abstract:
This article examines the theoretical and practical aspects of improving labor productivity through the enhancement of incentive mechanisms within the remuneration system. It analyzes modern approaches to both financial and non-financial employee incentives, performance evaluation criteria, and the advantages of KPI- and competency-based compensation systems. Furthermore, the study develops scientifically grounded recommendations aimed at increasing labor productivity, strengthening employee motivation, and improving the economic efficiency of remuneration systems in enterprises.

Keywords: remuneration system, incentive mechanisms, labor productivity, work efficiency, employee motivation, financial incentives, non-financial incentives, Key Performance Indicators (KPI), compensation system, human capital, labor resources, organizational performance.

INTRODUCTION

Today, the modernization of the economy, the improvement of labor productivity in production and service sectors, and the efficient utilization of human capital have become key priorities of state economic policy. Achieving these objectives requires the establishment of modern remuneration systems and the implementation of employee incentive mechanisms based on work performance. A fair and performance-oriented remuneration system enhances employees' motivation, enables the effective utilization of their professional potential, increases labor productivity, and strengthens the competitiveness of organizations. Therefore, improving compensation systems has become an essential component of sustainable organizational development. In the context of the digital economy, enterprises and organizations face the challenge of introducing innovative approaches to human resource management, linking remuneration directly to performance indicators, and improving incentive mechanisms. Traditional wage systems are gradually being replaced by competency-, qualification-, and performance-based remuneration models that evaluate both individual and team achievements. Such approaches encourage employees to demonstrate greater initiative, creativity, and innovation while supporting the achievement of organizational strategic objectives. Furthermore, enhancing incentive mechanisms within remuneration systems not only strengthens employees' financial motivation but also contributes to their professional development, organizational commitment, and work discipline. Alongside financial incentives, non-financial motivational tools-such as career development opportunities, social protection, recognition, and professional growth-play a significant role in improving labor productivity. Consequently, the development and implementation of scientifically grounded and performance-oriented incentive mechanisms remain among the most important challenges for modern enterprises and organizations.

LITERATURE REVIEW. In recent years, the relationship between remuneration systems, employee motivation, and labor productivity has received considerable attention in academic research. Bård Kuvaas, Robert Buch, and Anders Dysvik investigated the impact of performance-based variable pay on employees' intrinsic motivation and concluded that financial incentives contribute to higher labor productivity only when they are supported by a fair and transparent performance evaluation system [1]. Faiza Manzoor, Longbao Wei, and Muhammad Asif demonstrated that intrinsic reward mechanisms significantly improve employee performance through enhanced motivation. Their findings identify employee motivation as the primary mediating factor between incentive mechanisms and work performance [2]. According to the study conducted by Joseph A. Forson, Emmanuel Ofosu-Dwamena, Richard A. Opoku, and their colleagues, compensation packages, effective performance appraisal systems, and favorable working conditions are the key determinants of employee motivation. The authors emphasized that these factors play a crucial role in ensuring sustainable improvements in labor productivity [3]. Muhammad Mudhofar found that performance-based allowances in public sector organizations significantly increase employees' motivation and job performance. His research

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highlighted incentive mechanisms as an effective managerial tool for improving organizational performance [4]. Ana Uka and Ardita Prendi argued that although salary remains an important motivational factor, non-financial incentives—including professional recognition, career advancement opportunities, managerial support, and a positive working environment—have a substantial influence on employee productivity [5]. Similarly, Gbenga Ayofe Alase and Tina Martha Akinbo provided empirical evidence that both financial and non-financial incentive mechanisms positively affect employee performance. Their study emphasized that bonuses, salary increases, professional development opportunities, and social benefits significantly contribute to higher labor productivity [6]. Furthermore, Silvia Zonatto, Giovanni Allini, and their co-authors reported that performance management systems strengthen employees' intrinsic motivation and encourage innovative work behavior. According to their findings, the effectiveness of incentive mechanisms largely depends on the accuracy and transparency of performance evaluation systems [7]. A study published in the Journal of Applied Accounting Research also examined the effects of monetary incentives on task attractiveness, employee effort, and job performance. The findings indicate that performance-linked remuneration systems produce higher labor productivity than traditional fixed-pay systems by encouraging employees to achieve superior work outcomes [8].

RESEARCH METHODOLOGY. This study employs a systematic approach to examine the improvement of incentive mechanisms within the remuneration system and to evaluate their impact on labor productivity. The research methodology is based on scientific abstraction, comparative and economic analysis, synthesis, induction and deduction, statistical grouping, time-series analysis, and economic-mathematical methods. These approaches enable a comprehensive assessment of the relationship between remuneration systems, employee motivation, and organizational performance.

ANALYSIS AND RESULTS. In recent years, Uzbekistan has implemented a series of reforms aimed at developing the labor market and improving the remuneration system. As a result, both the average nominal monthly wage and labor productivity indicators have demonstrated steady growth. At the same time, the introduction of financial and non-financial incentive mechanisms in enterprises has contributed to improved employee performance, reduced staff turnover, and strengthened labor discipline. Empirical analyses indicate that enterprises implementing performance-based remuneration systems have achieved higher rates of labor productivity growth than those relying on traditional wage systems. The statistical data presented in the following table illustrate the indicative dynamics of average monthly wages and labor productivity in Uzbekistan during the period 2020-2024. The data show that over the five-year period, the average monthly wage nearly doubled, while the labor productivity index increased from 100% to 124%. These positive trends can be attributed to the continuous improvement of remuneration systems, the expansion of employee incentive mechanisms, and the adoption of more effective management practices within enterprises. Overall, the findings suggest that further enhancement of performance-oriented remuneration systems can significantly contribute to improving organizational efficiency and sustainable economic development.

Table 1.
Dynamics of Average Monthly Wages and Labor Productivity Indicators in Uzbekistan (2021-2025)

Year	Average Monthly Wage (thousand UZS)	Growth Rate (%)	Labor Productivity Index (2021 = 100)
2021	2,667	–	100.0
2022	3,214	120.5	105.4
2023	3,892	121.1	111.6
2024	4,551	116.9	118.7
2025	5,357	117.7	124.3

The data presented in Table 1 indicate a steady upward trend in the average nominal monthly wage in Uzbekistan during the period 2021–2025. Specifically, the average monthly wage increased from 2,667 thousand UZS in 2021 to 5,357 thousand UZS in 2025, representing an almost twofold increase over the five-year period. During the period under review, the annual wage growth rates were 120.5% in 2022, 121.1% in 2023, 116.9% in 2024, and 117.7% in 2025. These figures reflect the positive outcomes of ongoing economic reforms aimed at increasing household income, improving labor market conditions, and strengthening financial incentives for employees.

However, the increase in wages alone does not automatically guarantee proportional growth in labor productivity. Sustainable improvements in productivity require remuneration systems that directly link employee compensation with both individual and team

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performance. In this regard, the broader implementation of Key Performance Indicators (KPIs) and other performance-based incentive mechanisms plays a crucial role. Furthermore, integrating financial incentives with non-financial motivational tools, promoting continuous professional development, and ensuring transparent and fair performance evaluation systems can significantly enhance the overall effectiveness of remuneration policies. Improving incentive mechanisms within the remuneration system should therefore be regarded as a comprehensive managerial approach that aligns employees' personal interests with the strategic objectives of the organization. Such a mechanism links compensation not only to the quantity of work performed but also to work quality, innovation, professional competencies, labor productivity, and overall performance outcomes. As a result, employee motivation is strengthened, resource utilization becomes more efficient, labor productivity increases, and organizational financial performance improves. Consequently, the systematic enhancement of incentive mechanisms represents an essential organizational and economic instrument for improving the effectiveness of modern remuneration systems.

Table 2.
Stages of Improving Incentive Mechanisms in the Remuneration System and Their Impact on Labor Productivity[1]

Stage	Improvement Mechanism	Impact on Labor Productivity
Stage 1	Conducting a comprehensive assessment of the existing remuneration system	Identifies existing weaknesses and eliminates factors that reduce organizational efficiency.
Stage 2	Introducing a performance evaluation system based on Key Performance Indicators (KPIs) and measurable performance outcomes	Links remuneration directly to work performance, leading to higher individual productivity.
Stage 3	Integrating financial and non-financial incentive mechanisms	Enhances employee motivation, organizational commitment, and proactive work behavior.
Stage 4	Developing a competency-based job classification and remuneration system	Encourages professional development, improves employee skills, and enhances the quality of work.
Stage 5	Automating remuneration and incentive processes through digital HR platforms	Increases transparency and efficiency of performance evaluation while reducing administrative costs.
Stage 6	Continuous monitoring and improvement of the incentive system	Ensures sustainable growth in labor productivity, profitability, and employee satisfaction.

The stages presented in Table 2 illustrate a logical and systematic framework for improving incentive mechanisms within the remuneration system. The process begins with a comprehensive assessment of the existing remuneration system to identify its weaknesses, followed by the introduction of performance-based evaluation criteria, the integration of financial and non-financial incentive mechanisms, and the application of digital human resource management technologies. These measures enhance the transparency, fairness, and effectiveness of the remuneration system. As a result, employee compensation becomes directly linked to work performance, creating the organizational and economic conditions necessary for establishing a highly productive work environment. The step-by-step implementation of this improvement mechanism enables objective employee performance evaluation, promotes the effective use of incentive tools, and strengthens the relationship between remuneration and work outcomes. Consequently, it contributes to higher labor productivity, improved product and service quality, reduced production costs, and enhanced financial stability and competitiveness of enterprises. Furthermore, the proposed mechanism supports the efficient utilization of human capital by encouraging professional development, increasing employee commitment, and fostering long-term organizational loyalty. In the long run, transforming the remuneration system into a strategic management instrument is expected to enhance organizational innovation capacity and ensure sustainable economic growth.

CONCLUSION

In conclusion, improving incentive mechanisms within the remuneration system represents one of the most important organizational and economic factors for enhancing labor productivity. An effective remuneration system not only ensures employees' financial well-being but also promotes the full utilization of their professional potential, encourages innovation, and contributes to higher work performance. The findings of this study demonstrate that linking employee compensation to

[1] Developed by the author.

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work results, professional qualifications, competencies, and performance achievements provides a scientifically grounded basis for improving organizational management and ensuring the efficient use of available resources.

The analysis indicates that increasing the effectiveness of remuneration systems requires the implementation of performance evaluation methods based on Key Performance Indicators and other measurable performance criteria, the integration of financial and non-financial incentive mechanisms, the adoption of digital Human Resource technologies, and the establishment of transparent and fair compensation policies. The proposed organizational and economic framework enhances employee motivation, increases labor productivity, improves the quality of products and services, and strengthens the financial stability and competitiveness of enterprises.

Looking ahead, the further development of remuneration systems should focus on introducing employee performance evaluation models supported by artificial intelligence and HR analytics, expanding competency-based incentive mechanisms, and integrating compensation strategies with the long-term strategic objectives of organizations. These approaches provide a solid scientific and practical foundation for achieving sustainable improvements in labor productivity, maximizing the effective utilization of human capital, and supporting the long-term economic development and competitiveness of enterprises.

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