PRODUCTIVITY-LINKED WAGE SYSTEM
PLWS
SISTEM UPAH YANG DIKAITKAN DENGAN PRODUKTIVITI

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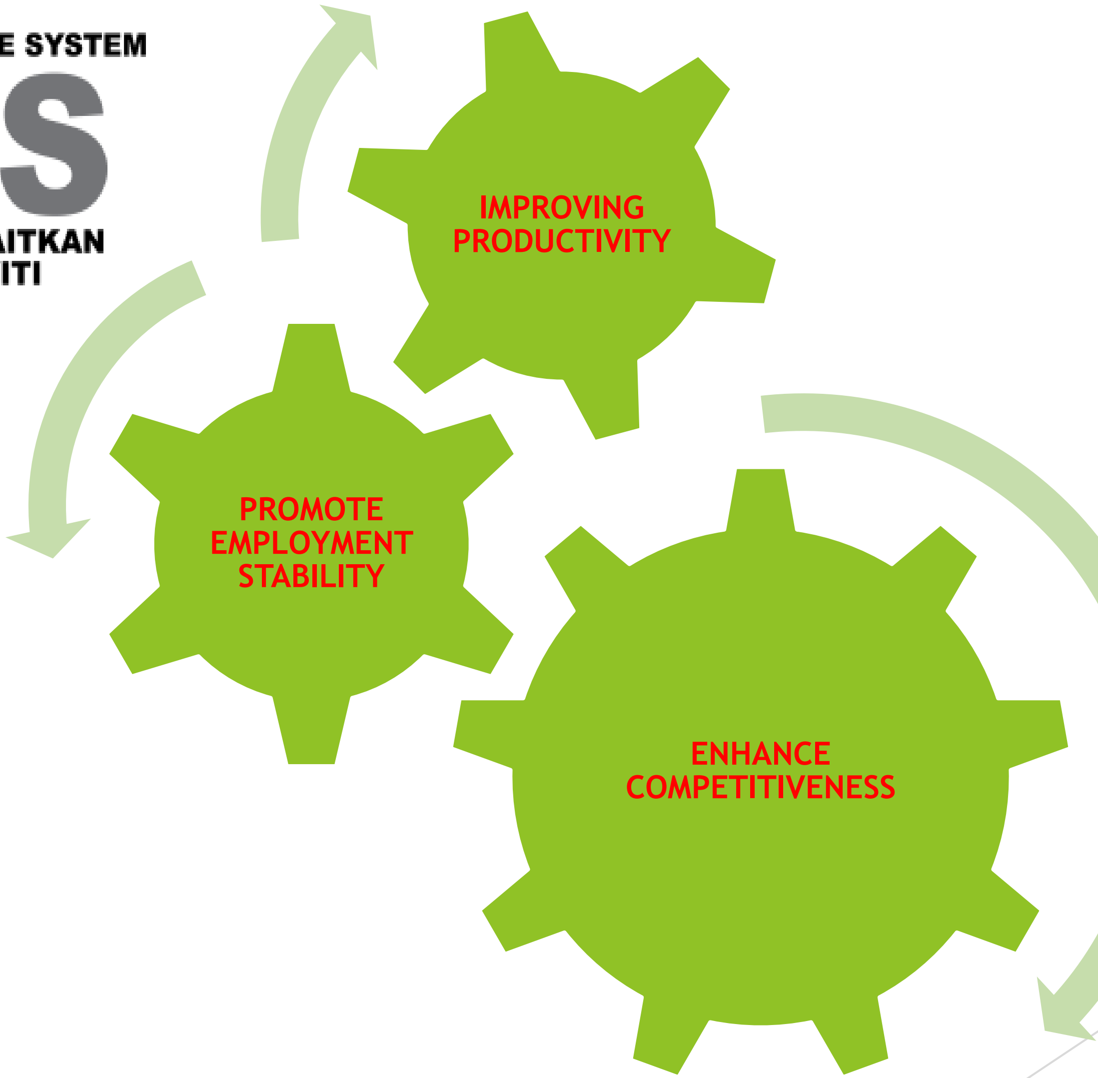

PlWS towards enhance competitiveness, increase productivity and promote employment stability

CONTENTS

- Concept High Income Economy
- Concept Productivity
- Productivity Linked Wages System
- Impact on PLWS Implementation

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HIGH INCOME ECONOMY

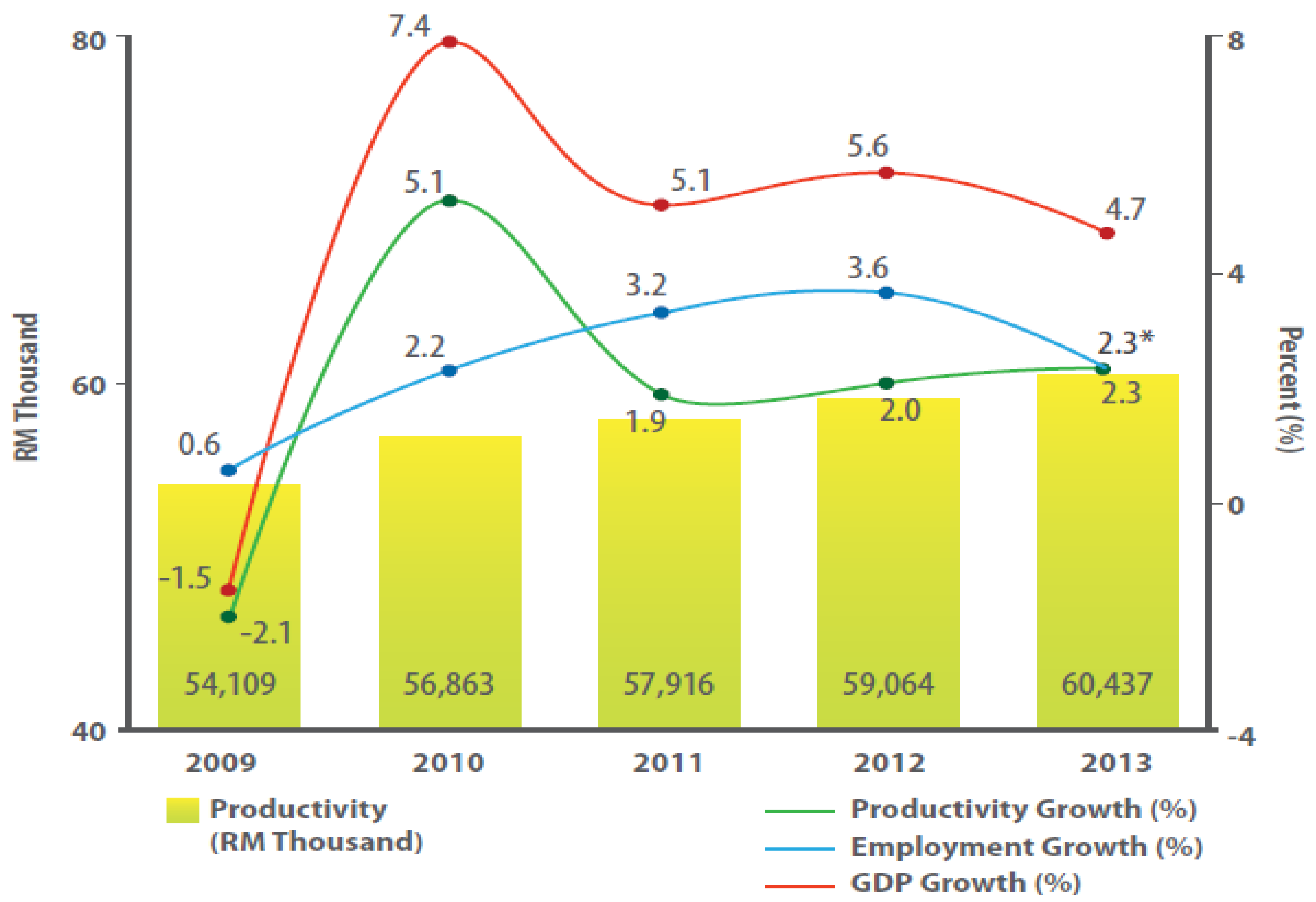
Income per capita
usd 15k – 20k

2020

PRODUCTIVITY GROWTH MUST BE AT LEAST 4.5% - 6 % PER ANNUM CONSISTENTLY

2014

Figure 1.1: Malaysia Labour Productivity and GDP Growth, 2013



CONCEPT PRODUCTIVITY

- Productivity is the ability to **produce output from a given set of inputs** ~ measures the efficiency and effectiveness of resource utilizations such as employees, technology, system and management etc., in converting inputs into useful outputs.

- Mathematically,

$$\text{PRODUCTIVITY} = \frac{\text{OUTPUT}}{\text{INPUT}}$$

Output

End-product of the process which can either be the finished goods or the services rendered.

- ☐ Gross Domestic Product (GDP)
- ☐ Total Output
- ☐ Added Value
- ☐ Monetary Value of Production
- ☐ Quantity of physical unit produced

Input

The amount of resources that are utilise in producing the goods or in providing the services.

- ☐ Employees
- ☐ Total man-hours worked
- ☐ Labor cost
- ☐ Capital/Fixed assets
- ☐ Energy
- ☐ Material
- ☐ Services

PRODUCTIVITY LINKED WAGE SYSTEM IN MALAYSIA

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PLWS in Malaysia

INDUSTRIAL RELATIONS DEPARTMENT (IRD)

PROMOTE PLWS

As of APRIL 2014

76,858 employers implemented PLWS

BENEFITING

3,104,038 employees throughout Malaysia

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Malaysia's Policies on Linking Wages To Productivity

Guidelines on Wage Reform Was Established in August 1996.

- Establish a closer link between wages and productivity
- Develop a wider and systematic approach towards improving productivity and wages
- Ensure active involvement and cooperation of employees to develop PLWS
- Ensure that employees obtain a fair share of gains from productivity growth and performance improvements

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Key Players in PLWS

- Employer – the main player that will initiate the implementation of PLWS at company level.
- Employee (unionised or non-unionised) – is the main catalyst that will ensure that the KPIs set under the PLWS are achieved.
- Government – assists companies in developing the system and negotiation process.

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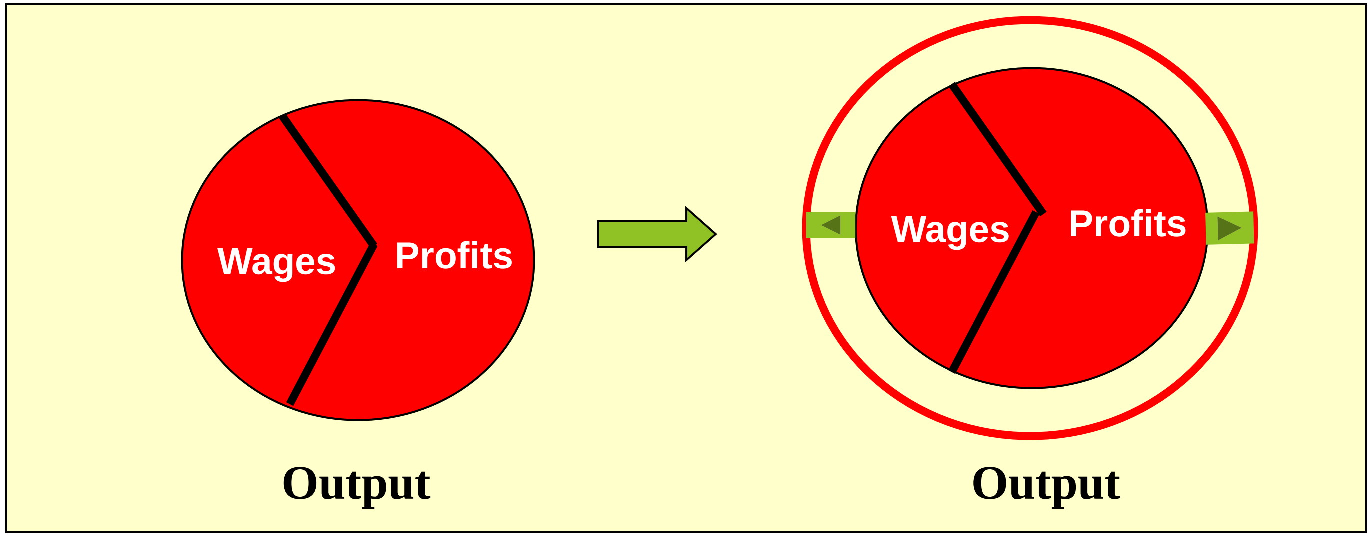
Linking wages to productivity makes the following possible:

a) Higher wages for worker and higher profits for companies.

b) Greater competitiveness for companies.



2 BASIC COMPONENTS OF PLWS

FIXED COMPONENT	• Basic salary • Annual Increment • Bonus Contractual (if any)
VARIABLE COMPONENT	• Wage increase for the year is based on a productivity or • profit sharing formula

There must always be the Fixed and the Variable component in the PLWS

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ELEMENTS PLWS

- NON CONTRACTUAL BONUS
- PIECE RATE SYSTEM
- TRIP INCENTIVE
- SALES INCENTIVE
- INDIVIDUAL ACHIEVEMENT
- INCREMENT BASE ON PERFORMANCE
- SERVICE CHARGES
- ATTENDANCE ALLOWANCE
- COACHING / TEACHING ALLOWANCE

MODEL PLWS

PRODUCTIVITY-LINKED WAGE SYSTEM
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3 BASIC MODELS

COMBINED MODEL

PRODUCTIVITY MODEL

PROFITABILITY MODEL

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PRODUCTIVITY MODEL

FIXED COMPONENT
Basic Wage &
Annual Increment

VARIABLE COMPONENT

A variable productivity payment to be determined.

$$T = A + P$$

Where T = total wage increase
A = annual increment
P = variable productivity payment

Example Productivity model

- <u>Year 1</u>
- If Basic wage = RM1000 per month, A = 2% and P = 3%,
- Basic wage + A = RM1,000 + 2% (RM1,000) = RM1,020 (built into basic wage).
- P = 3% x RM1000 x 12 months = RM360 per annum

- <u>Year 2:</u>
- If basic wage = RM1,020; A = 2% and P = 4%
- Basic Wage + Annual Increment = RM1,020 + 2% (RM1,020) = RM1,040 per month
- P = 4% x RM1,020 x 12 months = RM489.60 per annum
- <u>Annual Variable Payment at end of year 2:</u>
- P for year 1 RM360.00
- P for year 2 RM489.60
- Cumulative for 2 consecutive years RM849.60

PLWS Model 2: Productivity Model

EXAMPLE #2

- Incentive given base on identified monthly productivity indicators and linked to the team incentives (Team).

- If team of 5 employees able to achieves all 5 criteria → RM100/ team member
- If team achieves only 2 criteria → No incentives

Performance Criteria		Performance Standard (Target)
1.	Production targets	Above 80%
2.	Quality output	Above 90%
3.	Customer complaint	Zero complaint
4.	Maintenance	No machine breakdown
5.	Discipline	No reminder or warning letter

No. of Criteria Achieved	Incentives (RM)
5	100
4	80
3	60
2	0
1	0

Example Profitability Model

Fixed component

- Basic Wages
- Annual Increment
- Bonus Contractual (if any)

Variable component

- bonus to be determined by a profit-sharing formula and where applicable:-
- The formula is to be agreed upon between the management and union and spelt out in the Collective Agreement or through consultation for the non-unionised sector

PLWS Model 1:
Profitability Model

#1

- Payment of bonus according to profit levels based on monthly basic pay.

Profit After Tax (RM Million)	Bonus [Month(s)Salary]
<1.5 (threshold)	0
1.5 - 1.99	0.5
2.0 - 2.49	1.0
2.5 - 2.99	1.5
3.0 and above	2.0

PLWS Model 3: Combine Model

EXAMPLE #1

- Payment of bonus according to 2 criteria – Company Performance and Employee Performance Rating

Operating Profits (RM Million)	Variable Productivity payment (Months)					
Above 5.00	1.00	1.00	1.25	1.50	1.75	2.00
4.00 – 5.00	0.75	0.75	1.00	1.25	1.50	1.75
3.00 - 4.00	0.5	0.5	0.75	1.00	1.25	1.50
2.00 - 3.00	0.25	0.25	0.5	0.75	1.00	1.25
Below 1.00	0	0	0.25	0.5	0.75	1.00
Employee Performance Rating (%)	<40	40 - 49	50 - 59	60 - 69	70 - 79	>80

Combined Model

EXAMPLE #2

Annual Profit (RM Million)	Months of Basic wage					
Above 1.49	1.00	1.00	1.25	1.50	1.75	2.00
1.00 – 1.49	0.75	0.75	1.00	1.25	1.50	1.75
0.77 – 0.99	0.50	0.50	0.75	1.00	1.25	1.50
0.50 – 0.69	0.25	0.25	0.50	0.75	1.00	1.25
Below 0.50	0.0	0.0	0.25	0.50	0.75	1.00
Productivity growth	<1	1.0 – 2.49	2.5 – 4.99	5.0 - 7.45	7.5 – 9.99	>10.0

PLWS and its impact

Companies with PLWS Elements in Collective Agreements	2001 - 2004	2005 - 2008
	691	1,566
Impact of PLWS Implementation	**2006 (%)**	**2008 (%)**
Productivity	**2.64**	**5.17**
Staff Turnover	**5.21**	**2.13**
Absenteeism	**8.80**	**4.17**
Rejects and Reworks	**5.33**	**2.85**

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ENHANCE PLWS PRACTICES

Benefits

- Improved Productivity and Competitiveness at the firm level
- Job stability and reduces retrenchment
- Provide continuous improvement
- Motivation and job satisfaction
- Improves communication and cooperation

THANKS YOU