Report on Wage Restructuring

Tripartite Taskforce
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BOOK 1

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MINISTRY OF MANPOWER

13 January 2004

Dr Ng Eng Hen
Ag Minister for Manpower

Dear Minister,

In July 2003, I was appointed to lead the Tripartite Taskforce on Wage Restructuring comprising members from the Singapore Business Federation (SBF) / Singapore National Employers Federation (SNEF), National Trades Union Congress (NTUC), Ministry of Trade & Industry and Ministry of Manpower. The Taskforce has been entrusted to formulate appropriate measures to help companies put in place a flexible and competitive wage system. Such a wage system would enable companies to respond nimbly and effectively to rapidly changing business conditions and to enhance their wage competitiveness in the face of the increasingly competitive global economic environment.

2 To support and supplement the work of the Taskforce, five working groups were formed. One of the working groups was tasked to formulate the wage principles, develop a generic wage model and recommend measures on how a flexible and competitive wage system could be implemented. The other four were sectoral working groups in 4 selected sectors - in electronics, hotel, chemicals and land transport. These sectoral working groups comprised representatives from unions and the industry, and examined in detail the application of the generic wage structure for their respective industries.

3 The Taskforce's work was divided into two main phases. The first was the development of the generic wage model. The model was developed in consultation with many unions and industry representatives, as well as HR experts. The recommended model, which lays out the structure and the desirable wage components, forms the basis for companies to review and restructure their wage systems. The model was then tailored by the working groups of the four sectors to meet their unique needs.

4 The second phase was the communication and implementation of the Taskforce's recommendations. A series of dialogues, both at the national and industry levels, has been held to explain the recommendations, understand companies' concerns and needs, and to extend assistance to those who wish to implement wage restructuring. This series of promotional efforts will culminate in the National Tripartite Conference on Wage Restructuring to be held on 30 January 2004. Concurrently, HR managers and consultants are being trained to help implement wage restructuring and maintain the new wage structure as part of the broader efforts to improve HR systems in companies.

5 The Taskforce has adopted a highly consultative approach in the deliberation and formulation of its recommendations. More than 100 people from the private sector, public sector and unions were involved in the work of the Taskforce and working groups. The Taskforce has also been actively collecting feedback from various stakeholders to strengthen the recommendations and ensure that they are relevant to the specific needs of different industries. Through this process of consultation and consensus, the Taskforce seeks to achieve successful implementation of wage restructuring.

6 The success of the Taskforce's efforts lies in the effective implementation of a flexible and competitive wage system in different sectors. As the works of the four sectoral working groups have proven to be valuable in addressing the problems and concerns of the specific industries, we recommend that more sectoral working groups be formed after the National Tripartite Conference to help drive wage restructuring. The Tripartite Taskforce also recommends that continued efforts be made by the tripartite partners to promote and facilitate implementation.

7 A nimble and competitive wage system will provide companies in Singapore with an effective tool to make quick adjustment to the volatile business environment, help them to remain cost competitive, and hence provide greater job security for employees. Such a system will also provide Singapore with a competitive advantage over our competitors and complement Singapore's efforts to ensure its long-term economic future.

8 We have great pleasure in submitting our recommendations in the attached report to the Government for consideration.

Yours sincerely,

YONG YING-I (MS)
PERMANENT SECRETARY
MINISTRY OF MANPOWER
CHAIRMAN
TRIPARTITE TASKFORCE ON WAGE RESTRUCTURING

ACTING MINISTER FOR MANPOWER
SINGAPORE

16 January 2004

Ms Yong Ying-I
Chairman
Tripartite Taskforce on Wage Restructuring

Dear Ying-I,

Thank you for your letter of 13 January 2004, submitting the report of the Tripartite Taskforce on Wage Restructuring.

2 The Taskforce's report is timely and appropriate. In the face of the fast-changing business environment, companies today need to be able to adjust wage costs quickly, while still ensuring that workers have a stable income and are motivated to perform and contribute their best. Enhancing wage flexibility and competitiveness is an important part of the long-term strategy for Singapore companies, employees and the economy to stay relevant in the global economy. The Tripartite Taskforce's blueprint is therefore a significant contribution to Singapore's efforts to achieve continued economic prosperity for the well-being of its citizens.

3 The Taskforce's focus on implementation strategies will help employers and employees to better understand and implement the recommendations successfully. As your Taskforce has rightly pointed out, the successful implementation of wage restructuring will require the collective effort of employers, employees/unions and the government. The consultative and consensus approach adopted by the Tripartite Taskforce is yet another manifestation of the tripartite approach on which Singapore has built much of its economic success. I am heartened that the co-operation and trust between the tripartite parties have been further strengthened by the collective work done on this challenging issue. This spirit of partnership will ensure that wage restructuring can be implemented successfully for the benefit of companies, employees and the economy.

4 I am pleased to inform you that the Government has studied the Taskforce's report and endorsed the wage model and implementation strategies proposed by the Taskforce. The Government agrees that driving implementation is important, and that tripartite efforts to promote and facilitate implementation will be essential. In this regard, the Ministry of Manpower will work closely with the social partners to step up efforts to bring about flexible and competitive wages in Singapore. MOM will also monitor the results of these efforts.

5 On behalf of the Government, I would like to register my appreciation to you, your Taskforce members and those who have contributed to this worthy task.

Yours sincerely

DR NG ENG HEN
ACTING MINISTER FOR MANPOWER

CONTENTS

Reports of the Sectoral Working Groups (Electronics, Chemicals, Hotel and Land Transport) are compiled in Book 2 of the Tripartite Taskforce Report on Wage Restructuring.

PREFACE

1 In response to the National Wages Council's call for companies to restructure their wage systems to improve wage flexibility and competitiveness, the Government set up the Tripartite Taskforce on Wage Restructuring to drive the wage restructuring process. The Taskforce, comprising key representatives from the Singapore National Employers Federation (SNEF), the National Trades Union Congress (NTUC), and the Government, commenced deliberation in July 2003. The desired outcomes of the Taskforce are stated in its terms of reference; i.e. to promote the implementation of a flexible and competitive wage system, and to formulate and recommend appropriate approaches and measures to drive the implementation of a flexible and competitive wage system.

2 Over the period of the last six months, more than 100 public sector and private sector representatives from the Ministry of Manpower (MOM), SNEF and NTUC participated in the wage restructuring process. The Taskforce formed five Working Groups to help in its work. One working group was tasked to formulate generic wage models, and measures and options that companies and unions can adopt to restructure their wage systems. The recommendations of this working group formed the basis of the Taskforce Report. The remaining four were sectoral working groups that were tasked to look at the changes needed for the four selected sectors, i.e. electronics, hotel, chemicals and land transport, and work with key companies in each respective sector to lead wage restructuring. These sectoral working groups were co-chaired by CEO/HR Directors and union leaders able to lead wage reform. These working groups have published concurrently their reports on the application of the generic wage structure for their respective industries, which can be found in Book 2 of this report.

3 The Taskforce has focused its efforts on the implementation aspect of wage restructuring. The four sectoral working groups played integral roles in ensuring that the wage model was relevant and specific to their industry's needs. As leaders in the effort, they helped communicate to their industry peers how wage restructuring could be done effectively. Following the development of the draft wage restructuring model and recommendations, a planned sequence of dialogues, both at the national and industry levels, was held to explain the wage restructuring recommendations and to understand companies' concerns and needs. Their feedback has been taken in, and has strengthened the Taskforce recommendations. The Taskforce's recommendations are being released at the inaugural National Tripartite Conference on Wage Restructuring on 30 January 2004.

4 The Taskforce recognizes that the bulk of the implementation work lies ahead and intends to seek the Government's endorsement for a tripartite effort to promote and facilitate wage restructuring. To sustain the momentum of the national effort and to build up industry capacity for companies to implement wage restructuring on a national scale, the Taskforce has made plans to provide training to HR managers and consultants to help effect wage restructuring and maintain the new wage structures. Resource assistance and training are also being provided to companies that would like to restructure their wage systems. On its part, the government is committed to helping companies that want to restructure their wage systems to do so. Looking further forward, there are ongoing plans to expand the wage restructuring effort to other industries through similar workgroup planning and implementation.

EXECUTIVE SUMMARY

BACKGROUND

1 In May 2003, the National Wages Council (NWC) recommended to the Government that it consider forming a taskforce to address concerns about the wage competitiveness of our workforce. The Tripartite Taskforce on Wage Restructuring was formed in July 2003, bringing together over 100 representatives from the Ministry of Manpower (MOM), Singapore National Employers Federation (SNEF) and National Trades Union Congress (NTUC). The Taskforce organised its work through five working groups. The Wage Models Working Group developed a generic wage model which the other four working groups adapted for four industries - electronics, hotel, chemicals and land transport.

2 A series of dialogues at the national and industry level were held to explain the recommendations. These sessions also provided a better understanding of companies' concerns and needs so that the Taskforce could take these into account and address them before finalising its detailed recommendations. The Taskforce's recommendations will be released at the National Tripartite Conference on Wage Restructuring on 30 January 2004.

RATIONALE

3 Singapore is undergoing rapid economic restructuring to regain its competitiveness and better position itself to sustain its competitiveness going ahead. One of the components of this economic restructuring is the building of stronger internal corporate systems. A flexible wage system is a critical part of this. The external shocks of the last few years and intensified global competition have highlighted the need for Singapore to move away from a wage system that is rigid and seniority-based, to one that is flexible and competitive. In this way, Singapore companies can better sustain themselves to ride out volatile business cycles and shocks by having wage costs that can respond quickly to business conditions without having to resort to retrenchments in a downturn or rushing to hire in an upturn. The wage structure should also better reflect the market value for the job.

4 It was clear from the Taskforce's many dialogue sessions that all parties generally believe in the value of a flexible wage system and the importance of wage restructuring. However, implementation is very challenging because there are many technical details to be worked through together by CEOs, HR managers and employees or their union representatives. Because of this, implementation is often regarded as sensitive and difficult to do. The contribution of the Taskforce has been to provide a convening platform for these parties to come together to engage one another in open and sincere dialogue, and provide guidance and support to develop wage models that specific industry groups agree are realistic to implement. And as these parties have built stronger relationships of trust founded on the recognition that "we are all in this together", they have shown their commitment to flexible and competitive wages by beginning the implementation process. This in turn has demonstrated to the management and employees of other companies that flexible and competitive wages is an achievable goal.

RECOMMENDED WAGE MODEL

5 The Taskforce has surfaced a total of 14 key recommendations in its generic model, known as the **Competitive Base Wage System (CBWS)**. *(A summary of these recommendations can be found on pg.8)*. The CBWS aims to achieve wage flexibility and competitiveness, which will benefit stakeholders in the following ways. The **employee** receives the best possible compensation and incentive for his value-added contributions, and will enjoy better job security. The **employer** will have a flexible and responsive wage system that can help companies to compete more effectively, so as to earn a sustainable competitive return on his capital, while supporting profit growth and rewarding employees.

MAIN FEATURES OF THE COMPETITIVE BASE WAGE SYSTEM

Wage Components

6 The restructured wage system should comprise a basic wage and a variable component sizeable enough for companies to make quick wage adjustments according to changes in business conditions. Increasing the variable component would allow employers more room to cut wages and save jobs in bad times, while giving employees greater upside in good times. By not retrenching trained staff, employers will be able to increase output quickly in an upturn, without having to recruit people afresh and train them from scratch.

7 While recognising that different industries and companies have different needs for flexibility, the Taskforce proposes the following broad guidelines for variable components in the wage structure.

a 70% basic wage, 30% variable for rank-and-file employees
→ (The 30% variable component should comprise 20% AVC and 10% MVC, as recommended by the NWC guidelines).

b 60% basic wage, 40% variable for middle management
→ (The 40% variable component should comprise both AVC and MVC)

c 50% basic wage, 50% variable for senior management
→ (The 50% variable component should comprise both AVC and MVC)

Variable Component

8 The variable component of the wage structure comprises the Annual Variable Component (AVC) and the Monthly Variable Component (MVC). The AVC typically comprises the Annual Wage Supplement (AWS) and a year-end bonus. As the performance of executives and senior management are more closely linked to the performance of their companies, the proportion of variable components in their wages should be higher than that of the rank-and-file employees.

9 The Taskforce found that there was no difficulty with implementing the AVC. The Taskforce developed detailed recommendations for two components where there were issues, namely the AWS and the MVC. These are outlined below.

Annual Wage Supplement (AWS)

10 The Taskforce recognises that some firms regard the AWS, commonly known as the 13th month payment, as part of fixed basic wages, while others regard it as a variable component. Some companies do not pay the AWS at all. The Taskforce accepts that the practice varies widely, that it is "sticky", and that it is not possible to recommend a single position for all companies to take. Thus, the Taskforce recommends that companies decide how much flexibility they require in their wage structures and decide accordingly if the AWS should be variable or not. Where the AWS is regarded as deferred basic wages i.e. it is not variable, the Taskforce recommends that companies endeavour to build up the AVC from future wage increases, excluding the AWS, to 20% of wages. Where more than 1 month of AWS is paid, the company should convert the excess of 1 month into variable components. In the case of executives and managers, or employees who are not covered by the Employment Act or Collective Agreements, where the AWS is contractually fixed for payment at the end of the year, these contracts should be changed at the appropriate time so that the AWS is subsequently treated as part of AVC.

Monthly Variable Component (MVC)

11 The MVC was introduced for companies to adjust monthly wages in response to changes in the business environment without having to wait till the end of the year to adjust the AVC. However, the implementation of the MVC has been slower than expected due to among other things, concerns by employers and employees over the rate and level of restoration. The more straightforward of the concerns was how to build up the quantum of the MVC. The Taskforce recommends that companies should be given greater flexibility in building up and implementing the MVC, by building up the MVC partly from future wage increases and partly from basic wages.

12 The more complex issues were the reluctance of some companies to introduce this component, and deep concerns about how it could be triggered in practice. One key concern was the impact on employees' morale and how employees could be made to understand the need for this initiative in the absence of an imminent downturn or crisis. The Taskforce addressed these concerns in detail in the chapter on MVC.

Key Performance Indicators (KPIs)

13 The determination of the quantum of AVC payable, and the triggering of changes in the AVC and the MVC, should be linked to company and economic performance through clearly defined and robust **Key Performance Indicators**. KPIs should be relevant to the company, quantifiable and transparent, challenging yet realistic, responsive and timely, allow for upside and downside, and allow for employees to influence corporate outcomes. Clear targets and automatic trigger points are essential for the implementation of KPIs so that these can motivate employees to perform.

14 While management should determine the actual KPIs to be used, the quantum of rewards linked to KPIs should be agreed through negotiation with employees. KPIs for AVC differ from those of MVC in that they are indexed to performance in the medium to long term. These KPIs could be financial indicators, operational indicators or organisational factors

that contribute to the success of the company. KPIs for the MVC should reflect the financial health of the company in the short term and be timely, e.g Revenue. MVC KPIs should also reflect company performance rather than individual performance.

Moving towards a salary maximum-minimum ratio of 1.5

15 The Taskforce proposes that companies move towards a narrower salary range with an average max-min ratio of 1.5 or less, as soon as possible, to address the issue of seniority-based wages. Companies can do so through a variety of methods. These include raising the salary minimum and/or lowering or holding the salary maximum constant; reducing the maximum points of salary ranges for employees at the salary maximum and truncating long salary ranges into shorter ranges. Companies have to decide the appropriate salary max-min ratios for different jobs. There can be variations between ratios for different jobs, but ratios should not deviate too far from the industry norm and the market value of the job.

Annual wage reviews

16 Companies should conduct annual wage reviews and avoid locking in annual increments for 3 years in Collective Agreements (CAs). To ensure that our workers are not priced out of the market, wage increases should only be given if they are sustainable in the long run. While a small service increment (fixed wage increases that are paid to employees every year for being with the company) can be paid to reward company loyalty and job experience, this should be paid only to employees who are not at the maximum point of the scale. The overall wage increase including the service increment should not exceed the productivity gains in the company. To motivate employees including those who are at the salary maximum, companies are encouraged to pay employees their share of productivity and performance gains through one-off lump sum payments or variable bonuses. Annual wage reviews should continue to be guided by the recommendations of the NWC each year.

FLEXIBLE WAGE SYSTEM:
AN INTEGRAL PART OF A HOLISTIC HUMAN CAPITAL MANAGEMENT SYSTEM

17 The Taskforce recognises that wage restructuring cannot exist in isolation, but has to be managed as part of a company's broader Human Capital Management (HCM) approach. Wage restructuring can only be successful if supported by other aspects of HCM practices. For example, communication is critical to allay employee concerns over how remuneration is linked to company and individual performance. A robust performance management system that supports fair and objective evaluation is also necessary. As salary ranges narrow, employees should have the opportunities to rise to higher job grades, supported by training programmes and career development frameworks.

IMPLEMENTATION STRATEGIES AND MEASURING OUTCOMES

18 The Taskforce's implementation strategy for its recommendations is based on three thrusts. The first thrust is to achieve a catalytic effect through a "first wave" of successful examples of wage restructuring, to encourage companies considering wage

restructuring to follow their footsteps. A tripartite reStructuring Wages AcTion (SWAT) team, comprising five experienced HR experts and conciliators each from NTUC, SNEF and MOM, has been set up to work with selected companies to help them understand the principles of wage restructuring and the key features of the CBWS. This would help such companies kick-start the implementation process.

19 The second thrust is to help interested companies build up Human Resource (HR) capabilities to implement flexible wages, by providing training to HR consultants in the short term who would in turn work with these companies on implementation, and to build up over the medium term the capacity of the HR industry to implement wage restructuring.

20 The third thrust is to market the national wage restructuring effort through smaller platforms such as industry association gatherings. As the sectoral working groups tailoring the recommendations to the needs of the specific sector proved crucial to helping their industry peers move forward, more sectoral work groups in other industries will also be formed. Peer group sharing on how to address practical challenges appears to be valued greatly by participants, and important for generating confidence and buy-in.

21 To measure the effectiveness of the efforts to promote and drive the implementation of a flexible and competitive wage system, the top-line indicator would be the proportion of employees covered by flexible wage systems. A concrete goal for unionised companies would be for flexible wages to be built into concluded CAs. Below this top-line, outcomes will be measured by 4 sets of indicators. First, the Taskforce will try to measure the level of awareness and commitment of companies and employers to wage restructuring. Second, wage model indicators will be used to determine the level of flexibility and responsiveness of wages to changing business conditions. Third, similar indicators can be used to measure how competitive the restructured wage system is relative to the former system as well as to wage systems in competitor countries. Finally, it would be useful to gauge the presence of HR and communication practices in companies that support wage restructuring and corporate competitiveness.

CONCLUSION

22 The generic wage model recommended by the Tripartite Taskforce is only a guide; with different businesses and cost structures. Each company and sector has to develop its own wage model suited to its needs. Successful implementation will require company management and employees or their union representatives to engage one another with an open mind, and have a willingness to work and learn together. They must have a shared desire to develop a wage structure that will sustain corporate competitiveness and provide better job security as well as stability and predictability in wages for employees. The Taskforce will help with resources and technical support, and provide convening platforms that generate opportunities for discussion and learning. Together, companies in Singapore will become even more competitive as we face the economic challenges ahead.

SUMMARY OF KEY RECOMMENDATIONS

S/No.	Recommendations	Objectives
INCREASING FLEXIBILITY		
1	To review the wage structure and decide the level of flexibility required for company to respond to sudden changes in market conditions. The broad guidelines for variable components in wages are: **For rank-and-file employees:** 70% Basic wage, 30% variable (20% Annual Variable Component (AVC), 10% Monthly Variable Component (MVC)). **For middle management:** 60% Basic wage, 40% variable (both AVC and MVC). **For top management:** 50% Basic wage, 50% variable (both AVC and MVC).	A sizeable variable component will allow employers to make adjustment to wage cost in difficult times in order to survive and save jobs.
2	To build up the (AVC) and draw up clear and robust Key Performance Indicators (KPIs) to link the component to company and individual performance.	To use AVC as a tool to reward employees for their contributions and motivate them to give their best. Employees' wages will rise in sync with increased company profits in times of economic prosperity.
3	To examine if Annual Wage Supplement (AWS) is in practice variable and decide if AWS should be treated as part of basic wages or part of AVC. To build up AVC from future wage increases if companies and employees consider AWS as separate from AVC. However, in the case of executives and managers, or employees who are not covered by the Employment Act or Collective Agreements, AWS should be treated as part of AVC.	To build up AVC.
4	Where more than one month of AWS is paid, to convert the excess of one month into variable component.	To build up AVC.

S/No.	Recommendations	Objectives
5	To build up MVC partly from future wage increases and partly from basic wages.	To build up MVC.
6	To draw up clear and appropriate criteria/guidelines showing how cuts or restoration of MVC could be triggered. These could include KPIs. The guidelines should be agreed between employers and employees/union.	To implement MVC.
7	To rationalise allowances and convert those that no longer serve any purpose into variable component, where appropriate.	To build up AVC or MVC.
8	To facilitate constructive wage negotiations, companies are encouraged to share regularly relevant information on company performance and business prospects with employees and unions.	To facilitate the process of wage restructuring.
9	To adopt holistic HCM practices in particular, effective and transparent appraisal system, strong information communication channels between companies and employees/union, and staff training and development.	To support wage restructuring.
10	To consider the implementation of additional options to adjust wage cost, which include: a shorter workweeks b temporary lay-off c taking paid or no-pay leave d flexible work schedules	Additional tools to help employers cope with sudden and drastic deterioration of economic and business conditions.
INCREASING COMPETITIVENESS		
11	To move away from the seniority-based wage system and bring the average salary maximum-minimum ratio down to 1.5 times or less as soon as possible. The following options are suggested: a Raise the salary minimum and/or lower or hold the salary maximum constant.	To address the shortcoming of the seniority-based wage system and to ensure that wages reflect the value of the job.

S/No.	Recommendations	Objectives
	b Reduce the maximum points of salary ranges. Companies can consider the following measures for employees whose salaries exceed the new salary maximum: • Giving a once-off lump sum payment for employees who are at the new salary maximum point in lieu of built-in wage increment; • Allowing retention of salary points on a personal-to-holder basis; • Rewarding the employees through productivity or performance-related bonuses; • Buy out excess salaries for employees who are currently paid beyond the new salary maximum c Truncate long salary ranges into shorter ranges.	
12	To avoid locking in pre-determined annual increments in their Collective Agreements (CAs). Companies should conduct annual wage reviews based on company's performance, productivity, economic and market conditions and guided by the NWC recommendations.	To link wage increases to company's performance and market conditions.
13	To give wage increases only if they are sustainable. Service increments should be small, with the amount of the increment dependent on how long the employee should take to reach the top of the salary scale.	To ensure that our wages remain competitive.
14	Companies facing wage pressures from global competition may want to review their wage levels, in consultation with the unions.	To ensure that our wages remain competitive.

PART I :

WAGE RESTRUCTURING - MAKING THE MOVE

CHAPTER 1:

THE NEED FOR WAGE RESTRUCTURING IN THE NEW ECONOMY

1 Times have changed. Globalisation and technological advancement mean that businesses are now operating in more volatile environments with shorter business and product cycles. The rapid rise of emerging economies like India, China and Thailand has strengthened cost competition and forced economic restructuring into new areas of business. The September 11 terrorist attack, the Bali bomb blasts, the war in Iraq and the SARS outbreak have inflicted a further toll on businesses and added to the economic uncertainty. Against this backdrop, the Singapore economy is restructuring, both at the national level and at the corporate level. Implementing a flexible wage system is part of the internal corporate restructuring that companies need to undertake. This report explains why.

2 The evolving global economy has resulted in a new kind of challenge to employers and their employees. An MIT professor, Paul Osterman, described this as a dilemma - between what the companies need in order to survive in this new economy, and what employees need. In the new economy, companies have to face competitive markets, rapidly changing products and new organisational ideas. To cope with this, they need flexibility, innovation and quality. However, their employees need economic security, and the assurance of fairness in how they are rewarded. There is a delicate balance between the company's needs and the employees' needs - between flexibility and security, and between security and the ability of the employees to produce quality work and be innovative.

3 To be able to survive these difficult times and meet the keen competition, companies must be able to make quick responses to the changing business conditions to remain competitive. Wages form a key component of business costs. Hence there is an urgent need for companies to look at their wage structures to see if they are flexible and competitive enough to help companies absorb the shock of sudden downturns.

> "Companies must be able to look at their cost structures and determine how much flexibility they need to survive a downturn. Wage variability is like a spring that will help companies absorb the shock of sudden downturns"
>
> **- Matthias Yao (Deputy Secretary-General, NTUC)**

4 A highly responsive and flexible wage system will enable companies to make wage adjustments quickly and fairly to deal with sudden changes in the business environment, and thus help preserve jobs for workers. Companies cannot continue to rely on CPF cuts as a means to cut wage costs because there is little further room to move on this front. Besides, cutting the CPF is a blunt instrument and not tailored to companies' needs. The CPF also has important social objectives. CPF cuts will eat into the mortgages, medical and retirement needs of employees. At the next downturn, companies will need to rely on their internal corporate mechanisms. With wage flexibility, companies will be able to adjust wage costs as and when the need arises.

5 However, many companies in Singapore still do not think that they have a problem in their wage structures, even though evidence shows that wage systems in Singapore continue to be heavily based on seniority, which reward employees based on their length of service instead of performance. In addition, although most companies in Singapore have implemented some form of flexible wage system in response to the repeated calls by the NWC to improve wage flexibility, the extent of wage variability has yet to reach the recommended level i.e. variable components should form at least 30% of total annual wages. The implementation of the MVC, which was recommended by the NWC in 1999 to allow for quick wage adjustments to sudden changes in business conditions, has also been slow.

6 If companies do not restructure their wage systems now to enhance wage flexibility and competitiveness to meet the economic challenges ahead, they will have little recourse and will face great pain when they are forced to cut wage costs quickly or even retrench in difficult times. Companies need flexible wage systems so that they can cut costs quickly by adjusting the variable component of wages in a structured and planned way, instead of retrenching workers or cutting wages in a hurried, unplanned way. Moreover, companies are undermining their competitiveness if wages are paid according to seniority rather than market conditions and the value of the job. Inadvertently, this practice will price out older workers and cause them to be more vulnerable to retrenchment than their younger counterparts. Therefore, it is critical to the long term sustainability of companies in Singapore to replace the seniority-based wage system with one that pays employees based on the value of their jobs, their individual performance and company performance.

"We need to modify our wage model, and remedy its faults. If a company cannot restructure its wages when business is tough and it has to cut costs, more workers will lose their jobs. And the older ones will be the first to go."

- Prime Minister Goh Chok Tong
(at the 38th National Day Rally Speech in August 2003)

7 **Wage restructuring is not about cutting wages.** Wage flexibility is not the same as wage cuts. **Increased wage flexibility is about building a new wage system** where a higher portion of employees' salaries becomes variable and linked to performances. A sizeable variable wage component will allow companies to make quick adjustments to wage costs in adverse economic and business climates in order to survive and save jobs. These quick adjustments can be made because the system was designed for this, and everyone in the company understands why action is being taken. Retrenchments and job cuts will no longer be the first resort when there is an urgent need to cut wage costs. More importantly, a flexible wage system also provides upsides to the employees. Wages will be able to flex upwards in sync with increased profits when the company performs well. This is a virtuous cycle - a flexible and competitive wage system will in turn help motivate employees to give their best and contribute towards meeting the company's business objectives.

8 It is important to highlight that low wages are not the basis for sustainable competitiveness of Singapore and Singapore's workforce. Employers need to pay competitive wages. If they fail to do so, they will rightfully lose their good employees to companies that pay more attractively. Neither is cutting wages or finding the cheapest possible sources of manpower a solution for long-term competitiveness. Ultimately, companies need to continue to innovate, introduce new products and provide quality services to customers. Companies need to actively engage their employees, and focus on building up best practices in their human capital management systems.

9 Wage restructuring is not new, as the NWC has been recommending flexible and competitive wages for some time. However, the progress of wage restructuring has been slow in the past, and this can be attributed to two reasons. Firstly, unlike the theory, which is fairly simple, the practical details of implementing wage restructuring are genuinely complex. The Taskforce realised quickly that many people did not understand how to actually implement these details even if they wanted to do so. Secondly, companies find it difficult to do wage restructuring on their own initiative. It is very difficult to convince managers and employees of the need, particularly if both employers and employees have a different understanding of how to proceed. The Taskforce has tried to address these two points by thrashing out the details at the sectoral work group level, and by offering the support of a dedicated SWAT team and trainers to equip companies to grapple with implementation details. We have also structured work on an industry basis to provide platforms for discussion and sharing of best practices. The value of the Taskforce's work is therefore in the details that we hope you will find useful to start your company on its wage restructuring journey.

10 This national effort in wage restructuring presents a unique opportunity to companies. NTUC and SNEF both understand that wage restructuring is necessary. The government is committed to facilitate and support companies and unions that are willing to implement wage restructuring. This common understanding ensures that stakeholders will have trust in each other. For wage restructuring to succeed, employees need to trust the appraisal system and that employers will reward them for taking more risks, while employers in turn should trust employees to do their best. Companies should take this opportunity to join in the national effort on wage restructuring, and capitalise on the support provided by the tripartite partners. There may not be a better opportunity to restructure wages, and it may be too late to do so if and when the economy faces another downturn.

11 Even as we see signs of economic recovery, increasing global competition and a volatile business environment will continue to be challenges for companies in the years ahead. Only companies that are able to respond quickly to changing business conditions can remain viable and competitive, and hence provide job security for their employees. This is why employers and employees need to work together now to ensure that their wage systems are robust enough to withstand the buffeting of economic winds in the future.

"If you put wage restructuring off today, you will have to deal with it tomorrow. If you put it off tomorrow, you deal with it the day after. It is inevitable."

- Stephen Lee (Chairman, SBF & President, SNEF)

CHAPTER 2:

ARTICULATING ASSUMPTIONS: THE PROCESS OF MOVING AHEAD TOGETHER

1 In his keynote address at the closed-door seminar on wage restructuring held on 7 November 2003, the Acting Minister for Manpower, Dr Ng Eng Hen, recounted an incident that had happened a few months before. The former Minister for Manpower, Dr Lee Boon Yang, was addressing a business group and spoke about the need for wage restructuring. Dr Lee told the audience of CEOs how, in spite of much persuasion, the proportion of companies that had adopted the MVC as part of a flexible wage structure remained low. A very senior CEO, after hearing the speech, went back and relayed the message to his HR director to push ahead with the MVC. His HR director said, "This is not going to be popular! It is not possible to implement it in the company!" And that was the end of that company's attempts at wage restructuring. Everyone had performed according to script: the government's wishes had been proclaimed, the CEO dutifully relayed this to his HR director, who on cue responded predictably. This was a script with a bad ending.

ASSUMPTIONS AS A BARRIER TO MOVING FORWARD

2 This story illustrates much about why progress all these years on implementing flexible wages has been very slow. As you read this report, you will quickly realize that much of the technical content is not new. But because change in wages is a sensitive subject and implementation requires several parties to work together, they must each believe that they can work productively together. In the Taskforce's work, we have found that much of the slow progress is due to the unwillingness of each party to discuss the sensitive subject because of assumptions they hold about how other parties might feel. No one wants to offend others. The trouble is that many of these assumptions happen to be wrong.

3 The Tripartite Taskforce has designed its work to focus on bringing parties together to discuss the importance of implementing flexible wages. The parties involved in most of the dialogues are CEOs, HR managers and union leaders from various sectors or industries. Their dialogues have served to build trust, and through that, ensure that party feels comfortable enough to surface their unspoken assumptions about what is holding them back. The most sensitive assumptions are about the other parties. The usual ones are:

a CEOs think that this is a working level technical issue that they can leave to their HR Directors. The reason why nothing happens is because their HR Directors are unable to implement such a complex initiative alone as it is part of the larger corporate strategy which requires the decision of the CEOs;

b HR Directors know that this is a sensitive issue of morale amongst employees and are thus reluctant to be the "bad guys". They think it is better to retrench a few people, if the need arises for this, than to introduce a "complex mechanism" to adjust wages according to business conditions. Retrenching a few people only hurts those few people, whereas introducing a flexible wage system saps the morale of all.

c HR Directors know that wage structures are fundamental to corporate competitiveness and wage restructuring should be driven by the CEO. However, line managers often don't understand this, or object to the proposed changes, and HR Directors do not have the power in the organisation to successfully implement difficult changes if line managers resist.

d CEOs and HR Directors think that the union will object strongly to restructuring wages. Especially since wage restructuring is complex and changes are difficult to design and explain, negotiations on the changes will be a tough and painful experience. It is not worth the effort.

e Union leaders believe that flexible wages will help save jobs, and are willing to support wage restructuring. But they know that they can't drive it. They attribute the lack of movement by the management to 3 reasons:

i) management is weak on HR matters
ii) management has a vested interest not to introduce flexible wages which put their own remuneration at risk. Why should the management penalise themselves for the sake of the shareholders?
iii) management prefers to retrench rank-and-file workers, while rewarding themselves well.

f Government Ministers and Committees issue declarations and think they will work. Employers and unionists think the Government does not understand implementation difficulties on the ground.

ARTICULATING ASSUMPTIONS

4 The above assumptions may appear hard-hitting and uncomfortable. However, most readers of this report will recognise the thoughts as familiar ones they themselves have had before. Part of the *modus operandi* of the Tripartite Taskforce was to get parties to work together, to a point where they felt comfortable enough with each other to bring up these assumptions and ask the other party to comment on them. And the experience was a pleasant surprise and a fruitful one, in that they found that either many of the assumptions were wrong, or if right, that they could change the views of the other parties and hence remove the difficulty.

5 The first major conclusion from the discussions was that "everyone is on the same side". All parties generally believe in the value of flexible wages and the importance of wage restructuring. Their concerns were about "how to get there", not about the destination itself.

6 Now, let us address each of the common assumptions:

ASSUMPTION 1: WAGE RESTRUCTURING IS THE JOB OF HR MANAGERS

Wage restructuring involves fundamental questions about the company's business strategy and people-management philosophy. The Taskforce has recommended that variable wages be linked to individual and corporate performance as measured by Key Performance Indicators (KPIs). The CEO must decide how performance of his staff is to be measured and managed to achieve corporate objectives, albeit in close consultation with his HR directors. Employees must trust the performance management system or they will not feel engaged. This is a strategic issue and not a HR administrative issue. Therefore the CEO must take the lead.

ASSUMPTION 2: WAGE RESTRUCTURING IS ONLY FOR RANK-AND-FILE EMPLOYEES

There was feedback that the senior management and executives in some companies think that the flexible wage structure, especially the MVC, is only for unionised employees or rank-and-file employees. However, recent trends have shown that professionals, managers and executives have become increasingly vulnerable to job loss. Moreover, as the Singapore economy moves up the value-added ladder, the salary cost of professionals, managers and executives will account for an increasing share of a company's wage cost. Indeed, the cost competitiveness of many companies hinges more heavily on flexibility in executive compensation than it does on rank-and-file compensation. For all these reasons, and of course leadership and morale, flexible wages should apply across the board. The Taskforce has recommended that the variable component of executives and senior management be at least 10 - 20 percentage points more than that of the rank-and-file employees.

ASSUMPTION 3: CEOS AND HR DIRECTORS THINK WAGE RESTRUCTURING IS MORE PAINFUL THAN CUTS TO BASIC WAGE DECIDED ON DURING DOWNTURNS, AND RETRENCHMENTS

Companies often underestimate the costs of hiring and firing to control wage costs - additional costs are incurred through retrenchment benefits, recruitment and training after the economy recovers. As for building a flexible wage system in advance, in preparation for future use if needed, versus reacting in a hurried and ad hoc manner in bad times, the Taskforce feels strongly that employee morale and impact on employee will be greater if cuts are done in an unplanned manner. Companies that put in place systems and structures that allow them to reduce wage costs effectively can respond better to economic downturns. Employees are also more prepared for these cuts. Moreover, wage restructuring should be part of a holistic human capital management framework where both companies and employees benefit. Effective communication between the two parties will result in greater understanding of long-term concerns. Wage restructuring is a mutually beneficial exercise.

ASSUMPTION 4: CEOs AND HR DIRECTORS THINK A NECESSARY UNIONS AND EMPLOYEES WILL OBJECT TO WAGE RESTRUCTURING

Contrary to the belief of CEOs and HR Directors, unions are actually supportive of wage restructuring. In fact, more unionised companies (39.4%) compared to non-unionised companies (3.9%) have implemented the MVC in their wage structures. Effective communication is the key to gaining buy-in from unions and employees. They need to know that wage restructuring is not about cutting wages. Unions and employees understand that wage restructuring is a necessary part of the company's overall strategy to remain competitive in this volatile business environment. They know that wage restructuring will help their companies remain viable during business downturns and save their jobs in bad times. They are motivated to give their best as they now have a stake in the company's performance, and know that they will be rewarded for their good individual performance.

MOVING AHEAD: DIALOGUE AND ARTICULATING ASSUMPTIONS WITH OTHER PARTIES

7 The Taskforce is explicit about the fact that while we can recommend generic models as a guide, each sector faces different challenges and has different cost structures. Hence each sector and each company has to find its own wage model. (We believe that this is eminently doable if you read this report and follow the detailed steps recommended.)

8 In that context, what companies need to set up is a **process** for CEOs and their HR managers to initiate open dialogue with their employees and unions on implementing flexible wages in their companies. And we recommend that each party articulate their unstated assumptions about the process and each other, so that misperceptions can be corrected. This allows the parties to move forward.

9 Effective partner dialogue and staff engagement do require effort and skill. In the story cited by Acting Minister for Manpower, the script ended badly because there was no open dialogue between the CEO and his HR director. The CEO merely "told" his HR director his wish without giving him a chance to articulate his assumptions about why he thought wage restructuring would not work in the company. We thought it useful to refer to Adam Kahane[1], when discussing the "Potential of Talking and the Challenge of Listening", explaining the four ways in which people could engage in conversations and solve complex problems through talking and listening:

a **"Downloading"**, when people, out of politeness or fear, do not speak openly. Those talking would be in the "telling" mode, while those who were listening were likely to be hearing what was already in their heads;

[1] Adam Kahane, founding partner, Generon Consulting and Global Institute for Responsible Leadership.

b **"Debating"**, when there is a clash of ideas and people simply reiterate their objections without engaging others to really understand them;

c More meaningful **"reflective dialogue"** where people can put themselves in the real issues and develop empathy for the situation; and

d **"Generative dialogue"** where there is a connection between all parties, a collapse of boundaries and a sense of "we are all in this together".

10 Kahane explained that people often come to roadblocks in discussions, i.e. get stuck at the "downloading" and "debating" stages, because they fail to develop empathy for the situation they are working on. Most important of all, they do not listen. The Taskforce advises a process that encourages everyone to listen openly, sincerely and intently, and to allow each person to understand the perspectives of all stakeholders.

11 Only then can there be a script with a good ending.

PART II :
RECOMMENDATIONS

CHAPTER 3:

RECOMMENDED WAGE STRUCTURE AND IMPLEMENTATION OPTIONS FOR WAGE FLEXIBILITY

1 Taking into account the need of employers for flexible wage structures, and the need of employees for greater job security, the Tripartite Taskforce on Wage Restructuring has formulated the features of the Competitive Base Wage System (CBWS). This recommended wage model, and recommendations to overcome specific wage rigidities, serve as a guide for implementing wage restructuring. To preserve good labour management relations, companies should consult, and negotiate where appropriate, with unions in implementing wage restructuring.

2 This chapter is in two sections and sets out the following:

a The key features of the CBWS; and

b Implementation options and working examples that companies can adopt in order to move towards the CBWS.

KEY FEATURES OF THE COMPETITIVE BASE WAGE SYSTEM (CBWS)

3 A flexible and competitive wage system will benefit employees, employers and the economy in the following ways:

a **Employee:** The employee should receive the best possible compensation and recognition for his value-added contributions, while looking forward to enhanced income and employability over his career. Although the employee will be called upon to shoulder wage cuts when business conditions are bad, a flexible and competitive wage system will provide upside to reward employees in good times.

b **Employer:** The employer will have a flexible and responsive wage system that can help companies to compete more effectively so as to earn a sustainable competitive return on his capital, while supporting profit growth and rewarding employees.

c **Economy:** The people's standard of living will be enhanced through a virtuous cycle of investment, job creation and enhanced skills.

4 The following wage principles thus guide the features of the Competitive Base Wage System (A detailed write-up is in **Annex G**):

a **Sustainable growth:** The wage system should achieve the best possible compensation and rewards for employees, linked to the performance of the company and individuals. In turn, the wage system should not hinder employers from earning a competitive return on their capital, so as to support business sustainability, investment, job creation and better opportunities for all.

b **Competitiveness:** Employees' remuneration, including the granting of service increments, should reflect the value of the job, their skills and experience, such that the wage structure enables the employer to be competitive in the global marketplace. Wage increase should always lag productivity growth. Employees and employers should work together to constantly upgrade and enhance the skills, capabilities and employability of the workforce.

c **Flexibility:** In order to allow employers to respond quickly to volatile business conditions, employees should allow for a greater portion of their wages to be variable in line with the profitability of the company. Employers in turn should consider wage flexibility as an additional tool and balance it with employees' need for income stability, when managing wage costs.

d **Motivation:** Employers should incentivise employees to give their best and higher value-added services, with rewards for good company and individual performance and opportunities to enhance employees' skills. Employers should reward employees' contributions in good times. Employees should accept wage adjustments as a result of market changes. As leadership behaviour impacts motivation and morale of employees, management should take the lead in bad times in bearing the wage adjustments that need to be made. Employers should have in place good HR systems to appraise performance and enhance employees' skills.

e **Stability:** Employers should structure the compensation system such that employees can enjoy a basic regular income. The fixed portion of the employees' income should be set within a structure that enables the employer to pay competitive wages and remain viable.

Recommended Structures/Features

5 The two goals of the CBWS are **flexibility** and **competitiveness**. **Table 1** below lists the corresponding levers within the CBWS that address these two goals.

6 The implementation of the CBWS should not be restricted to rank-and-file employees. In fact, for many companies, the wage costs of management and executive staff outweigh that of rank-and-file employees. Any adjustment to these costs will only be effective if it is extended to management and executive staff. This will become increasingly so as Singapore seeks to attract high value-added investments. In light of this, wage restructuring should apply to every employee - from rank-and-file to top management.

TABLE 1: LEVERS IN THE CBWS

	Flexibility	Competitiveness
FEATURES	1 Increased variability of wages	1 Salary ranges should be governed by the value of the job and market conditions. The salary max-min ratio should, on average, be not more than 1.5.
	2 Use of non-wage measures	2 Annual wage reviews guided by NWC guidelines.

Flexibility: Increasing the variability of wages

7 Enlarging the variable component of our wage system makes our wages more flexible. It allows employers to cut wage costs in times of poor economic or company performance. It also allows wages to flex upwards in sync with increased company profits in times of economic prosperity. A restructured wage system allows employees to sacrifice part of their earnings in a difficult business climate in order to save jobs, and ensures that employees are appropriately rewarded through higher remuneration when the economy is strong and jobs are created.

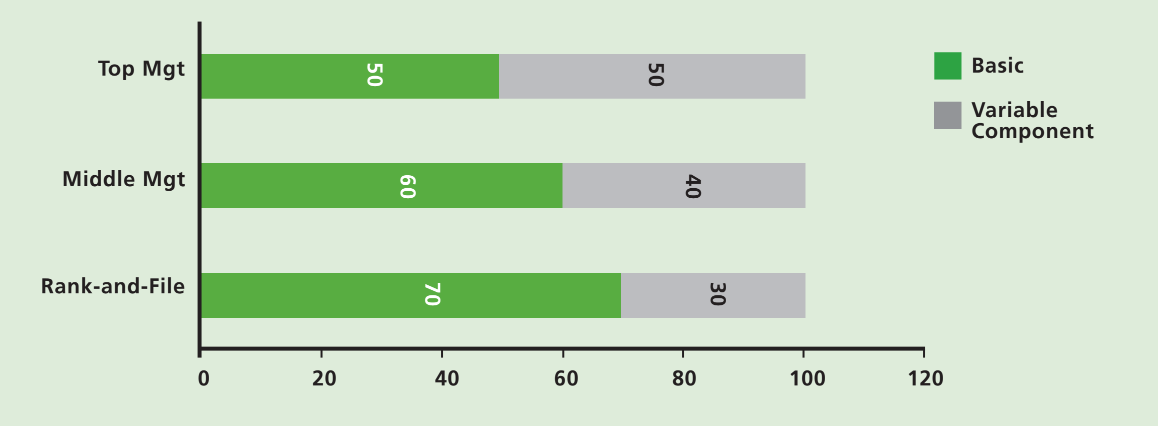
8 For this purpose, the desirable wage structure should comprise a basic wage and a variable component sizeable enough for companies to make quick adjustments in response to changes in business conditions. As executive staff and senior management are directly responsible for the performance of companies, the proportion of the variable component in their wages should be higher. The Taskforce recognises that different industries could have different flexibility needs. As a starting point, the Taskforce notes that at the national level, the basic to variable ratio of wages was 87:13 in 2002 and 85:15 in 2001. The Taskforce proposes the following broad guidelines for variable components in the wage structure, subject to the needs of individual companies and/or industries:

a 70% basic wage, 30% variable for rank-and-file employees
➔ (The 30% variable component should include 20% Annual Variable Component (AVC) and 10% Monthly Variable Component (MVC), as recommended by the NWC guidelines).

b 60% basic wage, 40% variable for middle management
➔ (The 40% variable component should include both AVC and MVC)

c 50% basic wage, 50% variable for senior management
➔ (The 50% variable component should include both AVC and MVC)

FIGURE 2: RECOMMENDED RATIO OF BASIC WAGE TO VARIABLE COMPONENTS



9 **Basic wage** refers to the monthly basic pay before deductions of the employee's CPF contributions and personal income tax. It excludes employer's CPF contributions, bonuses, overtime payments, commissions, allowances, other monetary payments and payments-in-kind.[1]

10 The variable component of the wage structure includes the Annual Variable Component[2] (AVC) and the Monthly Variable Component (MVC). The AVC is usually made up of two components: the Annual Wage Supplement (AWS, or 13th month allowance) and the variable bonus. The variable bonus is the payment given over and above the AWS, and includes incentive payments and "ang pows". The variable bonus is linked to company and/or individual performance and may vary from year to year.

11 The MVC is the component of monthly basic wage that can be adjusted in response to sudden changes in business conditions. It attracts overtime pay. The purpose of the MVC is to allow wages to be adjusted without having to wait till the end of the year to cut the AVC.

12 Companies should discuss with their employees and negotiate with their unions to derive the proportion of MVC and AVC within the broad wage ratio as recommended in paragraph 8, in accordance to their needs and mode of operations.

Flexibility: Additional options

13 As our experience from SARS has shown, other measures that provide companies with flexibility can also be effective tools for lowering costs and saving jobs.

14 The Taskforce proposes that, in addition to wage reform, companies can also adopt the following additional options to adjust wage costs if the need arises:

a shorter workweeks
b temporary lay-off
c taking paid or no-pay leave
d flexible work schedules[3], e.g. credit time, quarterlised working hours

Wage Competitiveness: Market Value of Job and Salary Ratios

15 In order to maintain wage competitiveness, wages must be responsive to market forces and reflect the market value of the job taking into account one's qualifications, skills and experiences. **The salary range should be determined and adjusted upward and downward in line with economic and market conditions.**

16 Movement within the salary range should take into account experience gained on the job (experience and proficiency) and productivity growth. The total increment (service and productivity) should lag behind productivity growth.

[1] Definition source: MRSD, "Report on wages in Singapore, 2002"
[2] The AVC can be paid out more than once a year.
[3] Unlike the other non-wage options listed, flexible work arrangements also address dips and peaks in production.

17 The Taskforce notes that the seniority-based wage system is still entrenched and the salary max-min ratio is currently about 1.7, which is still higher than the 1.5 times or less recommended by the NWC. To ensure that wages better reflect the value of the job, the Taskforce recommends that **companies quickly move away from the seniority-based wage system and bring their average max-min ratio down to 1.5 times or less as soon as possible**. However, the actual max-min ratio for individual jobs should be decided at the company level, taking into consideration the nature of the job, the learning curve, the level of responsibilities, the importance of experience and other relevant factors. An appropriate ratio for each job will not only ensure that companies have a competitive wage system, but will also enable older workers to enhance their cost-competitiveness and stay employable.

Wage Competitiveness: Annual Wage Reviews

18 SARS has shown that business conditions can change quickly and drastically. To be able to respond to sudden changes in the business environment, **the Taskforce advises companies not to lock in pre-determined annual increments in their Collective Agreements (CAs). Instead, companies should move towards an annual wage review that will be guided by the NWC's recommendations**. This will help companies ensure that wage increases are productivity-based and sustainable. Where service increments (increments given to employees on account of experience or years in service) are granted, they should be small. The amount of increment is dependent on how long the employee should take to reach the top of the salary scale. They should only be given to employees who are not already at the maximum point of the salary scales.

Wage Competitiveness: Responding to Global Competition

19 While wage flexibility allows businesses to respond to cyclical business changes, it may not allow a similar response to structural changes in the global labour market. Companies that face wage pressures due to global competition may need to review their wage levels. This may involve adjusting entire salary ranges. They may also need to restructure their wages to respond flexibly to future business cycles. They should do this in consultation with the unions.

IMPLEMENTATION OPTIONS AND WORKING EXAMPLES

20 The challenge in building a flexible wage system is not so much to put the components of the structure in place, but for employers and employees to understand how to operationalise this flexibility when it is needed. For example, assuming a company has introduced a variable wage component into its wage structure, how then does an increase in MVC or AVC actually take place? In this section of the chapter, the Taskforce explains how companies could implement changes for flexibility and competitiveness, with various working examples as illustrations.

Implementing Flexibility

Annual Variable Component (AVC)

21 The AVC usually comprises the AWS and the variable bonus. The AWS, more commonly known as the 13th month payment, is usually provided for in the employment contract or CA. It is a common wage component in about half of all companies in Singapore. MOM's survey of 3,491 private sector companies[4] showed 42.3% of all firms provided for one month AWS, 3.5% had AWS of more than one month, and 46.9% did not pay AWS at all (most of which were in the non-unionised sector). The many years of strong economic performance, coupled with a tight labour market, could have created an expectation among employees that the AWS is part of the basic wage package and should be paid regardless of the company's performance.

TABLE 3: PROPORTION OF FIRMS PAYING AWS BY NUMBER OF MONTHS PAID

	Total	No AWS	<1 month	1 month	>1 to 2 months	>2 months
All Firms	100.0	46.9%	7.4%	42.3%	2.9%	0.6%
Unionised Firms	100.0	7.5%	6.5%	69.0%	14.2%	2.8%
Non-unionised Firms	100.0	48.8%	7.5%	40.9%	2.3%	0.4%

(Source: MRSD survey of 3,491 private sector companies from 18 December 2002 to 3 March 2003)

22 However, the AWS is not a statutory requirement. The Employment Act does not require companies to include the AWS in their CAs or contract of service. But where the AWS is paid, the Act enables employers, with the agreement of the unions, to reduce wage costs in exceptional circumstances by reducing or not paying the AWS for that year. Both parties can also negotiate to remove the AWS from the wage structure. The Act caps any AWS included in CAs after 26 August 1988 at one month's wages[5]. (An extract of the relevant portion of the Employment Act is attached at **Annex H**.)

23 Nevertheless, it is a reality that the AWS is highly "sticky" even though it is variable under the Employment Act. Some companies view the AWS as part of basic wages, while other companies treat it as variable. Yet others do not pay the AWS. **The Taskforce recommends that companies should decide on the level of flexibility they require in their wage structures to allow them to respond to sudden changes in market conditions**. Such an understanding would help companies decide if the AWS should be variable. Where more than one month of AWS is paid, the company ought to convert the excess of one month into variable components. If the AWS is considered to be variable, it should count as part of the AVC.

[4] Source: MRSD survey conducted from 18 December 2002 to 3 March 2003 (see Table 3)
[5] This is provided the employer has not paid any AWS prior to 26 August 1988.

24 In the case of executives and managers, or employees who are not covered by the Employment Act or CAs, and where the AWS is contractually fixed for payment at the end of the year, the Taskforce is of the view that the AWS be treated as part of the AVC.

WORKING EXAMPLE:

A company in the service industry used to give a lump sum payment equivalent to three months' salary to all its employees. The payment was made regardless of the company's profitability and management could seek to curtail the payment only in a loss situation. The company then worked with the union to restructure the lump sum payment into:

- **Built-in wage increase** – all existing staff were given a non-compounded increase in basic salary which was over and above the salary range and held on a personal-to-holder basis;
- **Performance Bonus** – a performance-based bonus ranging from 0.5 to 2 months salary was paid according to pre-determined performance indicators;
- **Lump Sum Payment** – a one-off lump sum payment ranging from 2 to 4 months' basic salary was granted based on the employees' length of service.

25 **To achieve the recommended level of variable component, companies should build up the AVC and link it closely to company and individual performance.** The AVC should serve as a tool to reward employees for their contributions and motivate them to give off their best.

WORKING EXAMPLE 1:

A petroleum company has over the years built up their annual variable payment on a cumulative basis from part of wage increases. The component has now reached two months' salary and can be adjusted downward when the company performs poorly.

WORKING EXAMPLE 2:

An aviation company had to lower wage levels after its business was hurt by the September 11 incident and particularly the SARS outbreak. The senior management led the way with salary cuts of 20%. Unionised staff had to take cuts ranging from 5% to 16.5%. To persuade the unions, the company offered a make-up lump sum payment based on company's profitability in its financial year ending 31 March 2004.

26 **The Taskforce proposes that companies draw up Key Performance Indicators (KPIs) to link the components of AVC to company and individual performance.** These KPIs should be clearly explained to unions and easy for workers to understand. The KPIs provide an objective basis on which unions and employers can agree to formulate the AVC. A suggested list of KPIs that can be used is attached at **Annex I**. **The frequency of AVC payment should be linked with the achievement of KPIs and paid periodically e.g. quarterly or half-yearly.**

WORKING EXAMPLE 1:

An electronics MNC drew up two sets of performance indicators (PIs), based on various targets. When the Level 1 Key Performance Indicators are attained, a 1.5 months funding will be triggered. Upon attaining Level 2 Performance Indicators, another 1.5 months funding will be triggered, making a total AVC funding of 3 months. This will be more than the average 1.5 months AVC received by the unionised staff before the wage restructuring exercise. Once the AVC funding is determined, the AVC will be distributed to employees based on individual performance.

WORKING EXAMPLE 2:

An American MNC declares its variable bonus on a quarterly basis. Its Singapore office is allocated a portion of the overall bonus. The Singapore office will then decide on the allocation of the bonus to its workers based on the following formula:

- Portion based on company performance – this portion is given equally to every worker in the Singapore office;
- Portion based on individual performance – this portion differs based on individual performance.

WORKING EXAMPLE 3:

Local banks have introduced a profit sharing formula for bonus payment. If a bank achieves the minimum threshold rate of return on equity, it will pay a bonus ranging from one week's to a maximum of 2.5 months' salary. This is over and above the two months' AWS given by the bank to its employees.

Monthly Variable Component (MVC)

27 The MVC was introduced in order for companies to adjust wages in response to changes in the business environment without having to wait until the end of the year to adjust AVC. The MVC is part of the employee's basic wage. In this context, the MVC should therefore be restored when business conditions improve. However, the rate and level of restoration of the MVC remains an issue of concern between employers and employees. This has led to a situation where companies prefer to cut basic wages first rather than implement the MVC.

28 **The Taskforce proposes two options to smoothen the implementation of the MVC. Firstly companies should be given greater flexibility in building up and implementing the MVC.** In cases where the companies have yet to implement the MVC, it can be built up either through future wage increases and/or the transfer of part of basic wages. One difficulty of building up the MVC through future wage increases is that, in the present economic climate, many companies are implementing wage freezes or giving only marginal wage increases. Building up the MVC using future wage increases is likely to be slow. The Taskforce thus recommends a combination of both, i.e. **build up the MVC partly from future wage increases and partly from basic wages.**

29 For effective implementation of the MVC, all rank-and-file employees, including new entrants should have the same proportion of the MVC. Executives and managers can have higher proportions of their salaries in MVC.

WORKING EXAMPLE 1:

An MNC builds up the MVC from both annual wage increases and transferring a percentage from basic wages. For example, if the MVC for 2003 is to be built up to 4%, 2% is from the annual increment and another 2% from basic wages. The company intends to use this method to build up the MVC to 10% over 2.5 years.

WORKING EXAMPLE 2:

A company in the aviation maintenance industry implemented the MVC in 2002 for all levels of staff. The MVC was built up from wage increases and amounted to one percent of basic wages. In 2003, management proposed a freeze in built-in wage increases due to weak economic conditions and outlook. In support of the NWC 2003 recommendation to build up the MVC, union and management agreed to set aside four percent of workers' basic pay as MVC to build up the cumulated quantum to five percent.

30 **Secondly, companies should draw up clear and appropriate guidelines showing how cuts or restoration of the MVC could be triggered. These could include KPIs.** The guidelines for cutting or restoration of the MVC should be jointly agreed between union/employees and employer, and may be reviewed over time. Companies should ensure that the KPIs are relevant and closely linked to company's performance so that the MVC will be cut when companies face or expect to face a severe business setback or downturn, and/or when jobs are at stake. A list of possible KPIs for the MVC is shown in **Annex I**.

31 The rate and level at which the MVC is restored should depend on the extent of business recovery and its sustainability and market conditions as per guidelines stated by companies. Companies could conduct quarterly or half-yearly reviews to determine when the cut could be restored.

WORKING EXAMPLE:

An electronics MNC is considering the following triggers for MVC adjustment. MVC cut would be triggered after other cost-cutting measures such as taking annual leave and no-pay leave; shorter workweek have been implemented:

- When the company suffers continuous loss for a period of 6 months; and
- No improvement of business envisaged for another 6 months.

MVC is restored under the following triggers:

- Restore MVC when the company is profitable for a continuous period of 12 months;
- Make discretionary retroactive payment only if the company does very well.

32 Some industries may have unique allowance-based structures that may not fit easily into the recommended basic-variable wage paradigm. **Companies are encouraged to review the nature of their allowances and to rationalise allowances that no longer serve any purpose, and where relevant, transfer such allowances into the variable component of the wage structure.**

WORKING EXAMPLE:

A company used to pay monthly allowances that comprised two components: the market adjustment allowance and incentive payment. The company will cease paying the market adjustment allowance from 1 August 2003, a process that will be spread over four quarterly phases. At the same time, the incentive payment is also being phased out. A one-off lump sum payment of $600 was paid out as compensation for the planned phasing out of the incentive payment.

33 In addition, the Taskforce also proposes the **inclusion of an upside incentive when transferring basic components into variable components, where possible.** This is to reward employees for shouldering more of the employer's business risk. The upside can be in the form of a variable lump sum payment (once-off or several payments over time) which, for example, could be equivalent to a maximum of two or three times the fixed payment that has been converted.

WORKING EXAMPLE:

A manufacturing company introduced a variable performance bonus to replace an unconditional ex-gratia payment. The variable performance bonus will be based on company and individual performance and allow an employee a maximum of 2.4 months salary in performance bonus in exchange for one month's salary in ex-gratia payment.

34 **To facilitate constructive wage negotiations, companies are encouraged to share regularly relevant information on company performance and business prospects with employees and unions.** According to a MOM survey, information sharing was generally more prevalent among firms with a flexible wage system than those without. This was probably due to companies with flexible wage systems having more reasons to share information, as bonuses in such systems were tied to company performance (see **Table 4**). In addition, a combined 44% of firms shared information with their employees and unions on a regular basis while the remaining 56% only did so as and when necessary.

TABLE 4 PROPORTION OF FIRMS SHARING INFORMATION WITH EMPLOYEES BY UNION STATUS AND TYPE OF WAGE SYSTEM, 2002 (PERCENT)

Union status	Total	With flexible wage systems	Without flexible wage systems
All	51.2	54.1	33.7
Unionised	92.2	92.7	81.4
Non-unionised	49.2	51.9	32.9

(Source: MRSD, "Report on Wages, 2002")

WORKING EXAMPLE:

In an American MNC, managers are briefed each year on the trends in the market and how that has affected the company's pay adjustments for their workers. Managers are then expected to help workers understand that the pay adjustments are made against the backdrop of external market trends. As a portion of the variable bonus is linked to individual performance, the company also has an on-line performance review system. The performance review between supervisor and worker usually takes place once a year, but managers are given the autonomy to conduct them as frequently as once a quarter. Both the supervisor and worker sign off on the performance review assessment after the face-to-face session.

35 **Wage restructuring also needs to be supported by effective and transparent Human Resource (HR) appraisal systems,** especially where variable components are linked to individual performance. A clear communications process is also critical to overcoming apprehension and building a common understanding. Unions and employers have to reach a common understanding on the implementation details, such as how wages can be adjusted, and definition of the procedures for implementing the new wage system.

WORKING EXAMPLE:

A petrochemical company wanted to convert its fixed service benefit to a performance bonus. The difficulties in negotiations were overcome when the management explained how the performance bonuses would be calculated and agreed to inform the union of performance targets at the beginning of the assessment period. It also provided information on which groups of workers would be worse off (only a minority with performance rating 1). The management also agreed to highlight the list of non-performers to the union and work with the union to address the performance gaps of these workers.

36 In addition, management can signal its commitment to the task of making wages more flexible by taking leadership and putting a higher portion of their total compensation at risk. This is in line with the NWC's recommendation that variable components should form around 40% and 50% of middle and senior management pay respectively. The implementation of a larger variable component for middle and top management will also address concerns that wage restructuring is targeted only at rank-and-file employees and keep up morale.

Additional Options

37 Additional options like shorter workweeks, temporary lay-offs, enforced no-pay leave and flexitime arrangements have helped firms cope with sudden and drastic deterioration of economic conditions. For example, these options were instrumental in saving many jobs in the hotel sector during the SARS crisis. There is also growing interest by companies to use these additional options before considering implementing a MVC cut. This is largely due to the clear parameters of restoration of these additional options; e.g, shorter workweeks will cease once business returns to normal capacity. **While the Taskforce recommends that companies consider the implementation of such measures to reduce wage costs quickly when encountering macroeconomic or industry-wide economic shocks, these additional options should not reduce the impetus to implement wage restructuring.**

WORKING EXAMPLE 1:

During the SARS crisis, many hotels, after consultation with unions, implemented enforced no-pay leave as a temporary cost-cutting measure. For example, employees working at a major local hotel, who were earning $2000 and below, were asked to take four days of no-pay leave each month from May to June 2003, while employees earning above $2000 were asked to take five days of no-pay leave.

WORKING EXAMPLE 2:

An electronics company implemented shorter working weeks due to a decline in production orders. Employees were required to take four days off in one month for the period June to August 2003. Union and management implemented the measure in accordance with the tripartite guidelines, which meant that the company paid workers for 50% of the enforced leave while the remaining 50% of the leave could be covered by annual leave. Therefore, employees would not see a reduction in their take-home pay unless they ran out of annual leave within the three months.

Implementing Competitiveness

Basic wages: Moving towards an average 1.5 max-min ratio, or less

38 Moving towards an average max-min ratio of 1.5 or less will address the issue of seniority-based wages and maintain the competitiveness of the wage system. The Taskforce proposes that companies should move towards a narrower salary range as soon as possible through a combination of the actions described in the paragraphs below. Such wage ranges should also be sufficiently responsive and move up or down depending on national, sectoral or company productivity growth.

39 **Companies have to decide the appropriate salary max-min ratios for different jobs. There can be variations between ratios for different jobs but ratios should not deviate too far from the industry norm and the market value of the job.** To obtain a better sense of the common salary ranges, companies can learn from best practice examples in the industry to work towards an appropriate job evaluation methodology.

WORKING EXAMPLE:

An American MNC subscribes to the philosophy that job levels are paid according to market value. The job levels in the company structure each have their own market pay band. Each job level is benchmarked annually with a group of other companies that is surveyed by a HR consultant that the companies jointly hire. Based on the findings, the company then benchmarks and adjusts the pay accordingly (25-75 percentile of the total data range). If the market value of the job level increases, then the pay for the job level is adjusted upwards accordingly. If the market value for the job level decreases or stays stagnant, then pay for the job level is stagnant. The pay adjustment for a worker within the job level each year is dependent on the market value of his job as well as his performance.

40 **Companies can raise the salary minimum and/or lower or hold constant the salary maximum.** This is a gradual approach that allows companies to move towards a narrower wage scale through future wage increases. Possible ways to increase the salary minimum include raising the salary minimum and maximum by the same dollar quantum, adjusting salary minimum by a higher percentage/quantum and raising the salary minimum but capping the maximum.

WORKING EXAMPLE:

The banking industry adopted the option of raising salary minimum and capping salary maximum. The maximum salary point of clerical staff was held at $1,500 over three CAs covering nine years from 1983 to 1991 and at $1,680 from 1992 until present, while salary minimum was raised from $450 in 1983 to the present $950. Over a period of about 10 years, the salary ratio of clerical staff in the banking sector has been lowered from more than 3 to 1.76.

41 **Another option to narrow salary ratio is to reduce the maximum points of salary ranges.** Depending on the profile of their workforce and the number of workers affected, the Taskforce suggests four options for employers to handle employees at the salary maximum:

a Give a once-off lump sum payment for employees who are at the new salary maximum point in lieu of built-in wage increment which will be given to employees whose salary is below the salary maximum;

b Allow retention of salary points on a personal-to-holder basis;

c Reward the worker through productivity or performance-related bonuses that are not part of built-in wage increases; or

d Buy out excess salaries for employees who are currently paid beyond the new salary maximum.

WORKING EXAMPLE 1:

A company reduced the salary maximum and converted the excess into special personalised MVP (SPMVP) (similar to MVC) which will be absorbed through future wage increases.

WORKING EXAMPLE 2:

The average salary ratio of the jobs in a company is about 1.7 to 1.8. The company will be implementing measures to reduce the ratio to 1.5 within 3 years. The company will buy out from the existing employees the salaries in excess of the new salary maximum with an amount equivalent to excess salaries multiplied by three years. The payment will be made in two instalments over the three-year period. Employees who decline the buy-out will be offered a "golden handshake" and paid 2-3 weeks' salary for each year of service, capped at a maximum of 25 years.

42 **Companies can also narrow salary scales by truncating long salary ranges into shorter ranges.** This can demarcate job duties more clearly by encouraging employees who want to move from one salary range to another to seek higher responsibilities or promotion, thereby justifying his salary increase. However, this must be accompanied by the implementation of robust and transparent performance appraisal systems and practices to ensure that promotions are based on merit.

WORKING EXAMPLE:

In the 1980s, the average salary ratio in the insurance industry was 2.6. Following the NWC Wage Reform Committee's recommendations that year, the industry truncated the salary ranges for three clerical grades to form five grades. Employees could move between grades upon being promoted. Employees at the salary maximum of a grade could be upgraded to the next (thereby enjoying a higher maximum salary point, but without a promotional wage increase) on a case-by-case basis if they met performance expectations. Employees at the maximum point of the salary scale were given once-off lump sum payments if their performances are good. The average salary ratio for the clerical grade is now 1.6.

Moving towards annual wage reviews

43 To ensure that wages remain competitive and flexible, **companies should endeavour to conduct wage reviews on an annual basis.** This is to encourage companies to move away from the current practice of pre-determining the level of annual increments by locking such increments for three years in the CAs.

44 Singapore wages are generally higher than the wages of our competitors, particularly those in the region. To ensure that our workers will not be priced out of the market, wage increases should only be given if they are sustainable in the long run. While a small service increment (fixed wage increases that are paid to employees every year for being with the company) can be paid to reward company loyalty and job experience, this should be paid only to employees who are not at the maximum point of the scale. **The overall wage increase that includes the service increment should not exceed the productivity gains in the company.** To motivate employees, including those who are at salary maximum, companies are encouraged to pay employees their share of productivity and performance gains through once-off lump sum payments or variable bonus.

45 Finally, annual wage reviews should continue to be guided by the recommendations of the NWC each year.

Motivational aspects of wage reform

46 While the restructured wage system is designed to ensure that employees remain competitive in terms of their wages, companies should also ensure employees are given every opportunity to be trained and upgraded in their skills so that they can make progress in their careers. They should also work with employees to draw up career development paths that will motivate employees to upgrade themselves and to put in their best.

Conclusion

47 With the successful implementation of wage restructuring, companies will have flexible wage structures that enable them to make quick adjustments to wage costs in response to changes in business conditions, and hence enhance the job security for their employees and their own ability to retain human capital. Companies will also have competitive wage structures and be able to reward employees for their experience and contributions. The Taskforce does not prescribe the order of triggering MVC or AVC adjustments, or the use of alternative measures to deal with exceptional circumstances. Nor does the Taskforce see success of wage restructuring as the achievement of the ratios recommended in the wage model. Instead, the success of wage restructuring should be seen in the ability of companies to implement wage structures that meet their needs of flexibility and competitiveness, and reward and motivate employees, and ultimately leads to sustainable growth for the economy.

48 The Taskforce's recommendations are summarised as follows:

a The wage principles as listed in **Annex G**;

b Basic features of the Competitive Base Wage System as follows:
   i) The wage structure should include basic wage, AVC and MVC. Employers and employees should agree on the variability of AWS where applicable, and to treat AWS as part of AVC if the AWS is understood to be variable.
   ii) While recognising that wage variability needs may vary across industries, the Taskforce recommends that, as guidelines, basic wage to variable ratio of 70:30 for rank-and-file employees (with 20% AVC and 10% MVC), 60:40 for middle management and 50:50 for senior management.
   iii) The variable component includes MVC and AVC, and companies and unions have the flexibility to allocate the proportion for the two.
   iv) Basic wage to be pegged to the value of the job, with a recommended average max-min ratio of 1.5 times.
   v) Annual increments should be given only if they are sustainable based on company's productivity and performance. Annual increments should make reference to the NWC guidelines.

c Implementation options for companies to move towards the CBWS, as listed in **Annex J**; and

d Adjustment of costs through additional options as listed in paragraph 37.

CHAPTER 4:
REVIEW OF WAGE COMPONENTS

1 This chapter looks into issues surrounding three key components in the current wage structure: I) Annual Wage Supplement, II) Annual Increment and III) Monthly Variable Component. In doing so, it looks at their historical evolution and scans current practices. It also presents recommendations for the three components, along the recommendations laid out by the Taskforce as part of the Competitive Base Wage System (CBWS).

ANNUAL WAGE SUPPLEMENT (AWS)

Definition of AWS

2 According to the "Report on Wages in Singapore, 2002" produced by MOM's Manpower Research and Statistics Department (MRSD), the AWS is defined as "the fixed annual payment usually paid at year-end. It is also commonly known as the 13th month allowance". This, together with the variable bonus (defined as the payment/s over and above the AWS), forms the Annual Variable Component (AVC).

Historical Evolution of the AWS

3 The AWS was first introduced in 1972, when Singapore was experiencing high economic growth, in a bid to solve the problem of inconsistent and arbitrary bonus payments, and to narrow the scope for arbitration and negotiation between unions and employers. The need for stability meant that the AWS was therefore "frozen" or "fixed" in Collective Agreements (CAs) or contract of service when it was introduced in the Employment Act in July 1972. It was also capped at a maximum limit of three months. However, a provision was also made for companies to pay another negotiable bonus of an amount not exceeding three months' wages.

4 Set within the context of the 1985/86 economic recession, the 1986 NWC Sub-committee on Wage Reform recommended that one month's worth of AWS should be a feature in the flexible wage structure, and that it could be adjusted downwards under exceptional circumstances. The Sub-committee also recommended ways in which companies with more than one month's AWS could bring the quantum down to one month[1].

5 In line with this recommendation, the fixed AWS was taken out of the Employment Act in August 1988. The 1988 amendment allows companies that had committed the AWS in their CA or contract of service prior to 26 August 1988 to vary and remove the AWS based on negotiations between the employer and the employees or union. The 1988 amendment also caps any AWS included in the CA after 26 August 1988 at one month's wages[2].

6 In the case of exceptionally poor business results for any year, the Act also allows employers to lower or not pay the AWS for that year, subject to negotiations with their employees or unions. (A chronology of the amendments to the AWS in the Employment Act is attached at Annex K.)

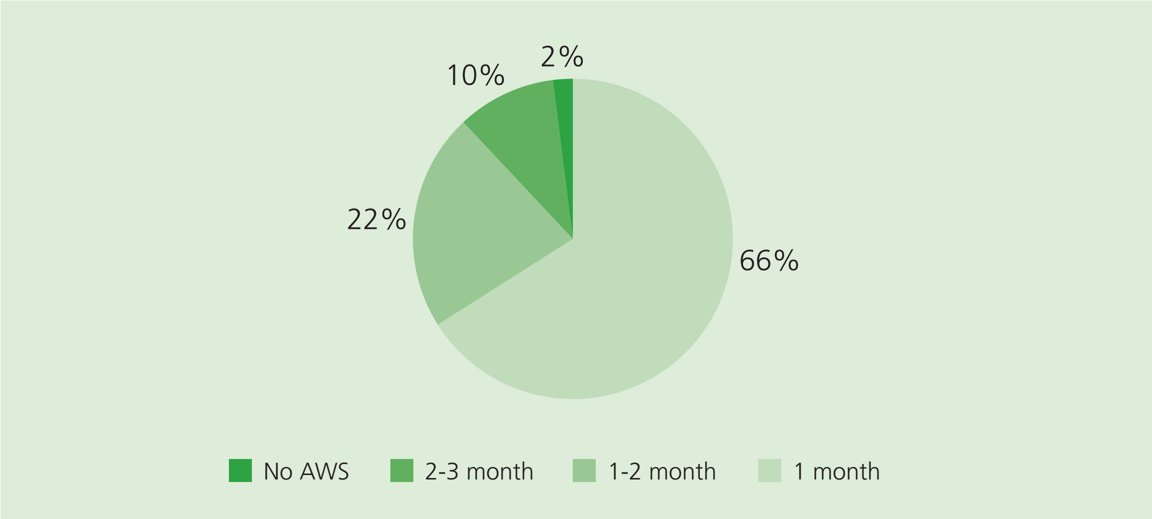
[1] The three options recommended by the report are as follows: 1) to consolidate any excess AWS above one month into the basic wage; 2) to pay any excess AWS above one month on a personal-to-holder basis for existing employees, and for new employees only to receive a fixed AWS of one month; 3) to convert any excess AWS above one month into the variable component of employee's wages.

[2] This is provided the employer has not paid any AWS prior to 26 Aug 1988

Cultural Expectations of the AWS

7 The manner in which the AWS was initially implemented (i.e. in its "fixed" form) could have led to an expectation among many workers that it is part of their basic wage and is a deferred payment. This would probably have been compounded by the years of strong economic growth, which meant that companies not only paid AWS, but in sizable quantum. **Chart 1** below shows that in 1985, only 2% of companies surveyed did not pay any AWS, while some 32% of companies paid AWS of more than one month.

CHART 1: DISTRIBUTION OF COLLECTIVE AGREEMENTS BY QUANTUM OF AWS, 1985



Source: Report of NWC Sub-committee on Wage Reform, 1986

8 The AWS has been particularly beneficial to low income workers. The payment of the 13th month has helped the low income workers with their seasonal expenses through this form of deferred fixed payment. This is useful as low income workers typically have little or no discretionary savings.

9 The resistance that both companies and workers have towards changing the AWS was reflected in the Report of the Flexible Wage System Review Committee in 1993. The report noted that few companies who paid more than one month's AWS had effected the 1986 NWC Sub-committee on Wage Reform's recommendations to reduce the AWS to one month. The cultural practice in Singapore has been that the AWS is part of the worker's fixed annual income. It is common for companies to regularly market jobs using annual wage packages that include the AWS.

10 The 1988 amendment to the Employment Act enables employers, with the agreement of the unions, to reduce wage costs in exceptional circumstances by reducing or not paying the AWS for that year. Both parties can also negotiate to remove the AWS from the wage structure. To the extent that workers expect at least one month's AWS as a norm, and that companies are unwilling or unable to unilaterally reduce or not pay out the AWS, it appears that the AWS is highly "sticky".

11 Even so, the quantum of AWS given out has reduced over the years. As of 2002, 46.9% of all companies do not pay AWS, and only 3.5% pay AWS of more than one month.

TABLE 1: QUANTUM OF AWS PAID BY COMPANIES, 2002

	TOTAL %	NO AWS	<1 MTH	1 MTH	>1-2 MTHS	>2 MTHS
All firms	100	46.9	7.4	42.3	2.9	0.6
Unionised Firms	100	7.5	6.5	69.0	14.2	2.8
Non-unionised Firms	100	48.8	7.5	40.9	2.3	0.4

Source: MRSD survey of firms for "Report on Wages in Singapore,2002"

Recommendations

12 In practice, the extent of variability of the AWS varies widely from company to company. Our survey of companies shows that they have a range of different interpretations of the AWS and how to apply it. For example, some companies and workers view the AWS as fixed wages that are deferred until the end of the year. A second group views the AWS as a "sticky" variable component, where the AWS is variable in the sense that it is cut only in extreme circumstances. A third group sees the AWS as a variable component that can be easily adjusted while a fourth group has even stopped paying AWS and replaced it with other forms of variable payment. The differences in the variability of the AWS are not inherently problematic, as they may reflect cultural differences across industries, or accommodate the unique needs of companies or employees within industries.

13 The Taskforce recommends that companies should decide on the degree or level of flexibility it requires in its wage structure to allow it to respond to sudden changes in market conditions. This will help companies decide if the AWS should be variable. **Where the AWS is regarded as part of the basic wage but with payment deferred to the end of the year, the Taskforce recommends that employers and employees consider the AWS as separate from the AVC. These companies should endeavour to build up the AVC from future wage increases, excluding the AWS, to 20% of wages.** Where more than one month of AWS is paid, the company should convert the excess of one month into variable components.

14 This arrangement would address the concerns of many lower income workers, for whom the AWS is an important wage supplement. Where the AWS is regarded as a "sticky" variable component that is cut only in exceptional circumstances, companies should also regard the AWS as distinct from the AVC and build up the 20% separately.

15 The Taskforce recognises the concern that defining the AWS separately from the AVC makes it difficult for companies in certain industries to build up the AVC per se to the target level of 20%. Companies and unions/employees that are in this group should therefore recognise explicitly that the 20% AVC target cannot be met at present, but continue to work towards the target.

16 **In the case of executives and managers, or employees who are not covered by the Employment Act or CAs, where the AWS is contractually fixed for payment at the end of the year, the Taskforce is of the view that the AWS be treated as part of the AVC.**

17 For companies that decide with unions and employees that AWS is variable, they should treat the AWS as part of the 20% AVC.

ANNUAL INCREMENT (AI)

Definition of AI

18 The current working definition of the AI is the increase in an employee's basic wage after a year's work. Because of its cumulative nature, it is also referred to as a "built-in wage increase". It is thus a key factor in increasing wages. The AI is traditionally given out to almost all employees, and goes into the basic wage.

19 For companies which have implemented the Base-Up Wage System, the AI comprises two components - a Service Increment and a Productivity Increment. The Service Increment is the wage increase given in recognition and reward for the employee's gained experience, service and loyalty in the job. It does not take into account productivity or profit gains made by the company. The Productivity Increment is the wage increase given in recognition of the productivity gains made by the company.

20 A third possible AI component is the Merit Increment, which is the wage increase given in recognition of the employee's meritorious performance in the last year. These three components are distinct from each other. Companies can give AIs based on various combinations comprising one or all three components. For companies that have yet to implement the Base-Up Wage System, there is sometimes no distinction between the three components in the AI given by the company. Employees who are promoted could also be granted promotional increments which form part of the basic wage, but are not part of AI.

21 The NWC has guidelines for wage increase (where relevant) every year since 1972. The NWC wage guidelines take several factors into account, including Singapore's economic performance for the year, the labour market, labour productivity, existing wage levels and cost competitiveness. The AI stipulated in the CAs is usually offset against the recommended wage guidelines for the year. In practice, the AI is lower than the guidelines, and are topped up accordingly. These additional amounts are built into the basic wage. If the annual increments are above the guidelines, adjustment downwards is usually not made. As AI constitutes the main source of wage increases, the NWC guidelines seek to contain wage increase and maintain competitiveness by adopting the principle that wage increase should always lag behind productivity.

Background of Annual Increments
Unionised Private Sector

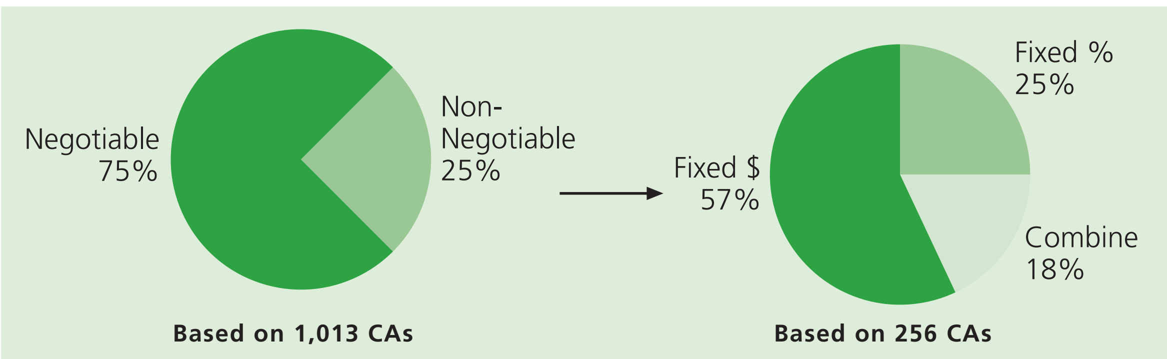
22 In the earlier years, Collective Agreements (CAs) in the unionised private sector often provided for pre-determined AIs in each salary scale or range for their duration, which range from two to three years. AI is automatically given to almost all employees, and is increased in absolute quanta progressively up to a salary range or scale but decreased marginally in percentage terms. AI is typically reviewed upwards when the CA is re-negotiated, and the end-points of salary scales or ranges are also extended. Outstanding employees may be granted merit increments in addition to the normal AI. The AI, merit increment and NWC wage adjustments, once given, are regarded as part of the basic salary and continue to be given in subsequent years.

23 Before 1985, the average AI was about 8% each year. From 1987 to 1992, the quantum was moderated to about 5% per annum. The 1986 NWC Sub-committee on Wage Reform recommended a small AI of 2% of basic wage in recognition of length of service, loyalty and experience. In addition, the 1993 Flexible Wage System Review Committee recommended that AI should lag behind productivity growth to ensure that our competitiveness will not be eroded by unsustainable wage increases. It was also recommended then that the fixing of AI for one, two or three years in the CA should be left to companies and unions to decide. Where companies preferred to have yearly negotiations on wage increase, they should take into consideration company performance, NWC recommendations and other relevant factors.

24 A comparison of wage data on current CAs and those in 1985[3] shows that unions and management had introduced more flexibility into the AI component of companies' wage systems. For example:

a 75% of CAs now state that the quantum of AI is negotiable yearly. Of the remaining 25% that are pre-determined, 43% have either locked-in percentage AI or a combination of locked-in percentage and/or dollar AI (see **Chart 2** below):

CHART 2: COLLECTIVE AGREEMENTS BY WHETHER AI IS PRE-DETERMINED AND TYPE, JUN 2002

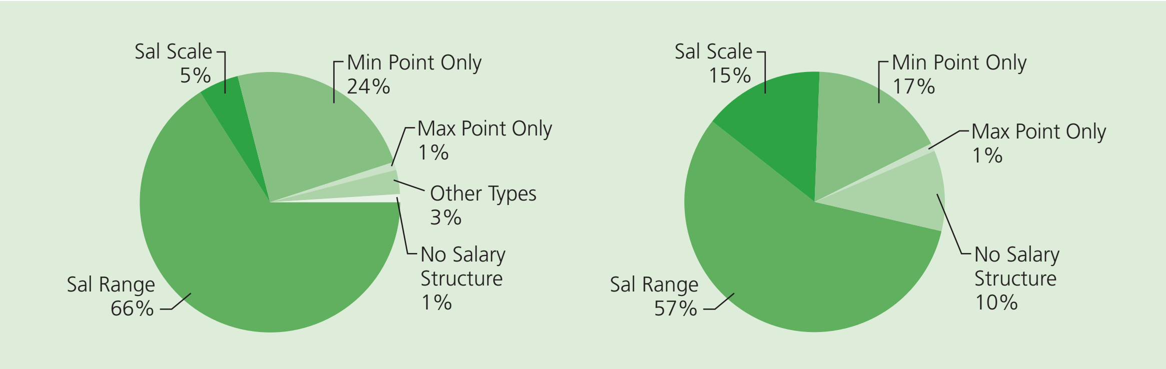


Source: NTUC CA System

[3] Data on CA provisions in 1985 are from the Report of the National Wages Council Sub-Committee on Wage Reform, 1986.

b Only 5% of CAs now have salary scales with automatic AI based on seniority alone, as compared to 15% in 1985 (see **Chart 3** below):

CHART 3: TYPE OF SALARY STRUCTURES IN COLLECTIVE AGREEMENTS, JUN 2002 & 1985



Source: NTUC Collective Agreement System

Source: Report of the NWC Sub-Committee on Wage Reform, 1986

TABLE 2: 2002 SNAPSHOT – SUMMARY OF THE CURRENT PRACTICE OF AI

- 75% of companies negotiate AI annually.
- Of the non-negotiable CAs, 25% have locked-in percentage AI for the duration of the CAs., and 18% have either a combination of locked-in dollar and/or percentage AI.
- CAs with locked-in AI are more common among banks, some airlines/transport and wholesale/retail companies. The majority, or 57%, of these 256 CAs have fixed dollar quantum AI.

Source: NTUC CA system

Public Sector

25 The public sector has implemented a flexible wage system since July 1988. In the Civil Service before 1986, public officers were appointed to salary scales with pre-determined AI, except for superscale officers. AI was expressed in fixed dollar quantum, with the average AI amounting to about 4% of the basic wage. Employees then virtually enjoyed these increments automatically. Only in a minority of cases[4] were increments withheld. The pay-performance link in the Civil Service was further reinforced in 2002 with the introduction of merit increments. The AI is no longer guaranteed, but is instead based on the officer's performance and potential.

Non-bargainable employees

26 Non-bargainable employees generally do not enjoy pre-determined AIs. Their wage increases are decided annually and take into account the performance of the company and individual, as well as labour market conditions. Once given, the wage increase is

[4] E.g. non-confirmation of appointment or breach of discipline.

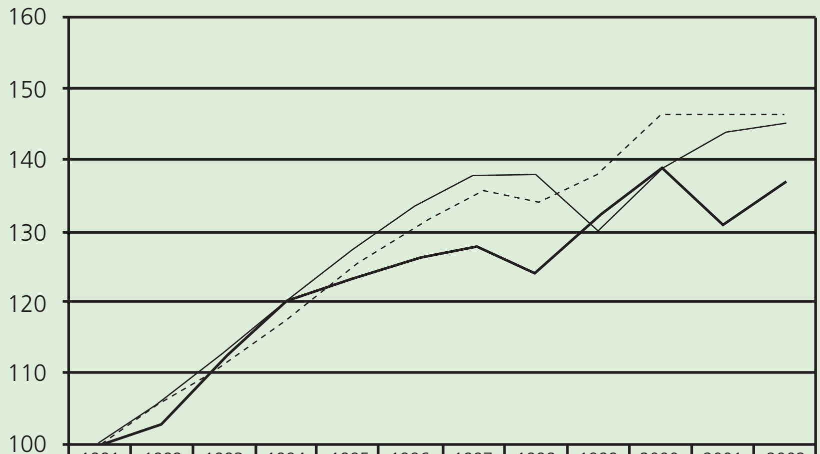
built into an employee's basic pay. Merit increments are also given to non-bargainable employees. As in the case of the bargainable employees, such increments, once given are also built into the basic pay of employees. Many companies in Singapore have some form of performance appraisal system to determine the individual performance of non-bargainable employees for the purposes of awarding AI, merit increments and other incentives.

Problems of Current AI System

27 The AI is a major factor in determining wage increases, and therefore is a key lever in maintaining wage competitiveness. It contributes towards seniority-based wages because it is built into the basic salary, causing a "snowball" effect. This is particularly in the case of the Service Increment, since it rewards seniority in service rather than individual merit or company performance. In situations where the same percentage of AI is applied to all employees, it also contributes to seniority-based wages because it lengthens the maximum point of the salary scale when applied to employees already at that point.

28 The existing AI practices may not be sustainable in the long term. Even with the NWC's recommendations, the overall wage increase has exceeded national productivity growth rate over the last ten years. (see **Chart 4** below)

CHART 4: RELATIONSHIP OF REAL WAGES TO PRODUCTIVITY GROWTH, 1991-2002



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Real Total Wage Index (Eclude Employers' CPF)	100	106	111	117	124	130	135	134	138	146	146	146
Real Total Wage Cost Index (Iclude Employers' CPF)	100	106	113	120	127	133	138	138	130	139	144	145
Real Basic Wage Cost Index	100	105	111	117	123	129	134	138	141	146	149	152
Productivity Index	100	103	112	120	123	126	128	124	132	139	131	137

Note: Total and basic wage change data pertain to all employees from 1998 onwards. Prior to 1998, data pertain to bargainable employees who were also mainly rank-and-file.

Source: Response of Firms to the NWC Wage Guidelines, 2002 (internal report), and Report on Wages in Singapore 2002

Proposed Wage Increase Model

29 If AI is given every year to every employee, this will have the effect of lengthening salary ranges. Salary ranges that are too long may not be reflective of the value of the job. AI should only be given if it is supported by productivity improvements so that the increase is sustainable. To move away from the seniority-based wage system, the Taskforce recommends that **the salary max-min ratio should be on average 1.5 times or less** so that wages could closely reflect the value of the job and individual performance. For high achievers, they will be able to reach the maximum point much faster than the average performers. They should also be provided with career development plans to move further onto a higher grade within the organisation and hence enjoy a larger salary package. The proposed wage model is described graphically as follows (see **Charts 5A** and **5B**):

CHART 5A: DEMONSTRATING THE EFFECT OF HIGHER AI FOR GOOD PERFORMER

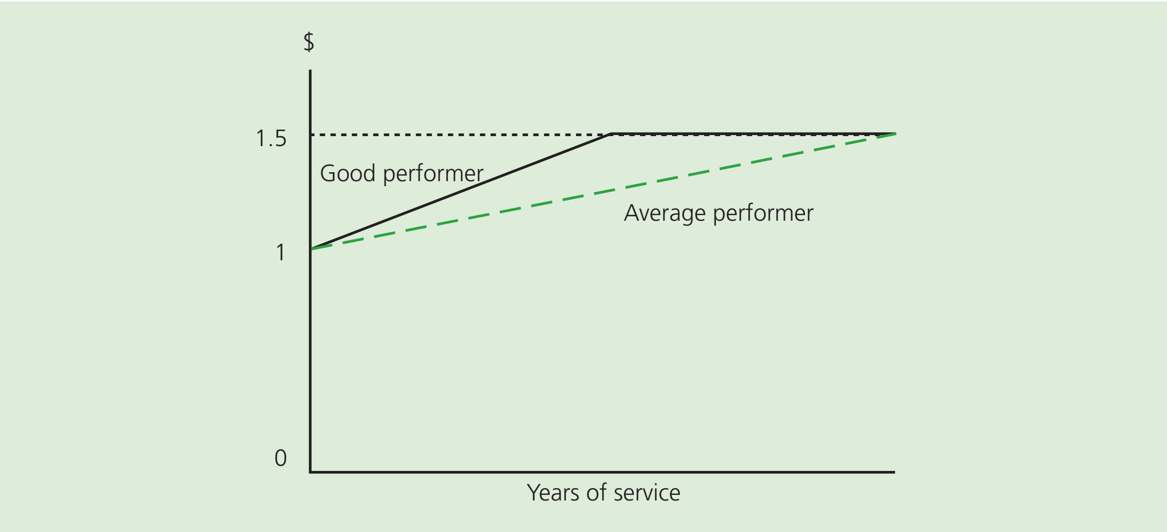
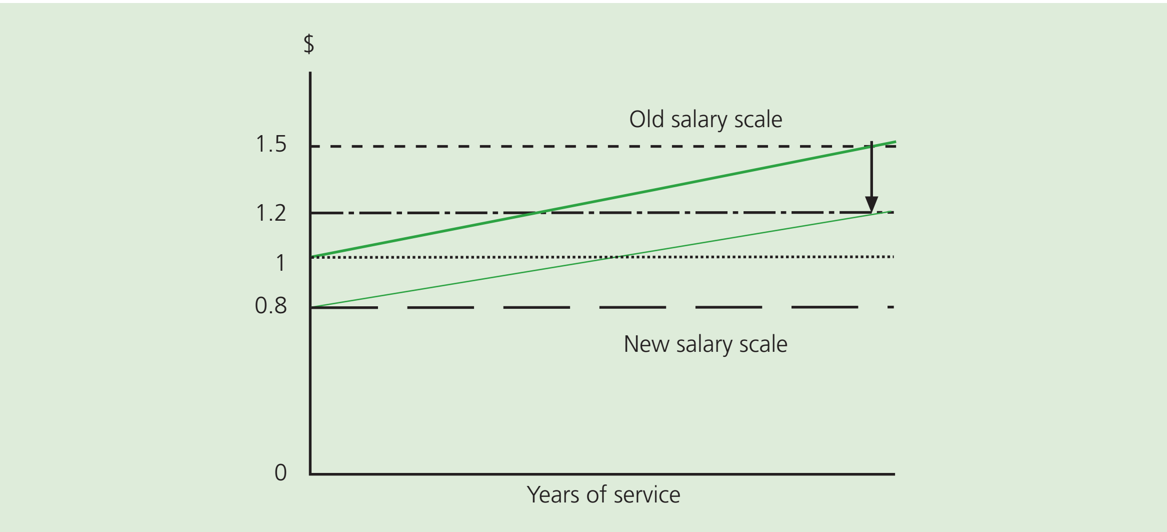


CHART 5B: DEMONSTRATING THE EFFECT OF ADJUSTING THE SALARY SCALE



30 The draft wage model proposes that **companies draw up salary ranges with maximum and minimum salary points that are pegged to the market value of the job.** The differential of maximum and minimum salary points will depend on the learning curve and the importance of experience gained in performing the job. The gradients of the salary scales in **Charts 5A & 5B** above are determined by the max-min ratio and the length of service. Having determined the salary range, the AI within the range is based on the number of years that the company feels are required for an average employee to move from the bottom to the top of the scale. This model allows the average employee to move along the gradient of the salary range and be rewarded each year with a negotiated AI that rewards experience on the job, within the defined salary range.

31 How fast an employee moves up the salary range would depend on his performance and potential. This means that each year's quantum of AI does not have to be pre-determined as the steps up the gradient of the salary range do not have to be equal in quanta and percentage. An average employee could move up the range through the normal increment which is granted taking into consideration his experience, performance and the company's productivity growth, while better performers could be rewarded with a higher quantum.

32 The better-performing employee will also move up the same salary range but at a faster rate (i.e. steeper gradient, see **Chart 5A**) as he will receive both the normal increment as well as the merit increment for his meritorious performance. **However, the overall wage increase including the increment granted on the basis of experience and meritorious performance should not exceed the productivity gains in the company.** Such employees will therefore reach the maximum salary in a shorter time. For these employees, companies should provide them with career development plans so that they can advance to a higher job grade within the organisation. As for employees who are already at the maximum points of the salary range, they can be rewarded with a once-off variable payment instead of built-in wage increment for his contributions in a particular year so that he can be motivated to perform his best whilst staying within the salary range.

33 Companies may need to adjust their salary ranges in response to wage pressures due to global competition. This will affect all employees on the salary scale, regardless of seniority (as shown in **Chart 5B** above). The max-min ratio should be maintained in such circumstances. Companies may move the salary range up or down by increasing or cutting the MVC, which is applied evenly throughout the range. The triggers for cutting or restoring the MVC (such that the range moves up or down) could be based on KPIs drawn up between the company and its union or decided in consultation with employees in non-unionised companies.

34 The above model also means that **the quantum of AI should be negotiated yearly instead of being pre-determined for the entire duration of the CA** ranging from two to three years. Yearly negotiations between management and unions will ensure that wages are closely linked to market conditions, company performance and productivity. It ensures that wage increases are sustainable in the long run besides the flexibility of adjusting the MVC and AVC.

MONTHLY VARIABLE COMPONENT (MVC)

Definition of the MVC

35 Conceptually, the MVC is so called because it is the component of basic monthly wage that can be adjusted downwards immediately to help companies remain cost competitive and to save jobs that would otherwise be lost due to a sudden adverse change in business conditions. Putting in place the MVC also prepares employees to accept more readily any cuts to basic wages in times of adversity. The MVC is part of basic wage, and it attracts overtime pay. MVC is a key component in wage variability because it allows wages to be adjusted immediately without having to wait till the end of the year to adjust the AVC.

Historical Evolution

36 In 1986, the Tripartite Committee on Flexible Wages recommended a wage structure comprising 80% fixed salary and 20% variable component. Following the Asian Crisis in 1997 - 8, the NWC recommended the introduction of the MVC in 1999 to further enhance the flexibility of the wage system. The MVC was therefore named as such in order to distinguish it from the existing variable component that was paid yearly or half-yearly, which was also renamed as the AVC. The MVC was to be built up from future wage increases until it formed 10% of total wages. With the inclusion of the MVC, the proposed components of the wage structure evolved into: 70% basic salary (excluding MVC), 10% MVC, and 20% AVC. Together with the 20% AVC, this meant that the total variable component of an employee's wages amounted to 30%.

37 The overall progress in implementation of the MVC has been slow. Only 5.6% of firms have implemented MVC as of 2002, with 39% of unionised firms having adopted MVC, compared to only 3.9% of non-unionised firms. At the industry level, the adoption of MVC was led by financial services, followed by manufacturing (see **Table 3** below).

TABLE 3: PROPORTION OF FIRMS WITH MVC BY INDUSTRY AND UNION STATUS, 2001 AND 2002

Industry	2001	2002		
	Total (%)	Total (%)	Unionised Firms (%)	Non-Unionised Firms (%)
All industries	4.8	5.6	39.4	3.9
Manufacturing	6.5	7.3	44.5	4.0
Construction	0.9	1.1	40.9	0.8
Services	5.2	6.3	36.3	4.7
Wholesale & Retail Trade	5.6	5.3	29.0	4.4
Hotels & Restaurants	2.4	5.2	37.7	3.1
Transport & Communications	5.2	6.2	27.1	4.3
Financial Services	8.5	12.8	45.7	6.7
Business & Real Estate Services	4.5	5.7	34.8	4.9

Source: Report on "Response of firms to the NWC Wage Guidelines, 2002", MRSD, MOM

38 It was found that 56% of firms were aware of the MVC, but had no intention of implementing it. **Table 4** below outlines the main reasons cited by firms for not wishing to implement the MVC.

TABLE 4: DISTRIBUTION OF FIRMS WHICH WERE AWARE OF MVC BUT DID NOT WISH TO IMPLEMENT IT BY MAIN REASON AND UNION STATUS, 2002

	Main reason for not introducing MVC	All firms (%)	Unionised firms (%)	Non-unionised firms (%)
1	Wage structure may be made too complex	27.5	27.0	27.5
2	Employees may not be receptive to the introduction of the MVC	18.2	11.7	18.4
3	Implementation and monitoring work are administratively burdensome	12.9	11.1	13.0
4	Difficult to work out implementation guidelines	11.9	10.5	12.0
5	Company can implement wage cuts without introducing MVC	11.4	8.6	11.5
6	Introduction of MVC is not in line with HQ's wage structure	10.6	19.4	10.3
7	Others	7.5	11.7	7.4
	Total	100.0	100.0	100.0

Source: Report on "Response of firms to the NWC Wage Guidelines, 2002", MRSD, MOM

39 From this survey, as well as employers' feedback to the Taskforce, it appears that the main stumbling block for most companies is their perception that the MVC is complicated and difficult to implement. Companies are unclear on the criteria and guidelines for cutting and restoring MVC. Companies are also concerned about managing employee morale.

The Controversy

40 Without doubt, the structuring and use of MVC is one of the big issues in implementing flexible wages. The **theory** of having a variable component in basic monthly wages is sound: taking the example of the recent SARS outbreak, the MVC could have been

cut to reduce the wage costs of hotels, airlines and retail firms in order for them to remain viable and to preserve jobs. The cut in MVC could be gradually restored when business recovers. In other words, if business conditions are volatile, companies need cost structures that can be contained if necessary so that the company is better able to ride the entire cycle. A company's costs of course comprise more than wages. Companies also need to be able to manage their non-wage costs more flexibly. But for companies where wages are a sizeable component of their costs and the nature of business requires the ability to manage costs from month to month, having a variable component in monthly wages is valuable.

41 In practice, however, the ability to cut the MVC when needed has been hampered as many companies have yet to implement MVC, have low levels of MVC for adjustment, or do not know how to trigger the cut. More importantly, companies have been reluctant to move on addressing this. Some of the perceptions include:

a Employees' expectations and morale - despite it being termed "variable", employees do not expect MVC to be cut and plan their expenditure/lifestyle assuming it will not be. For rank-and-file employees, employers are concerned that implementing the MVC and building it up will dampen morale. Since cutting it may never be needed, employers are reluctant to introduce an issue that hurts morale.

b It is complex, and there are many constraints to implementation - because of its historical evolution, it is not easy to implement.

c If needed, companies can and have cut basic wages (or retrenched staff). When the crisis is obvious, it is easier to explain to employees why basic wages have to be cut.

d If needed, government will introduce national-level cost reductions such as through the CPF.

For these reasons, the cost of implementing the MVC appears to exceed its benefits.

42 The Taskforce would like to point out that the business environment will almost certainly be more volatile than the past. More companies will need wage flexibility. The Taskforce believes that it is better to implement a system when there is time to do so, than react on-the-run in hard times. Most importantly, employees will be better off if their expectations are indeed managed, so that they do not make commitments they cannot sustain. This is preferable to cutting wages or retrenchments in hard times because they will have an even harder time meeting their commitments in this event. The Taskforce firmly believes that morale can be managed, and that it is the responsible thing for employers who need short-term wage flexibility to do so when they have time to implement it well and explain the logic to their employees.

43 With regards to the CPF, the Government notes that following the lowered rate of employer's CPF contribution from the recent changes in CPF policy, there is not much room left to use CPF as a macro-economic tool to help companies reduce wage cost in future economic downturns. Besides, CPF is meant to support social objectives any cuts will eat into the mortgages, medical and retirement needs of employees. On the other hand, the MVC which can be cut as and when companies face severe downturns will better help them to survive and save jobs. Companies must shoulder this responsibility and not expect help to come from the Government.

44 In view of the perceptions and concerns of employers, the Taskforce believes that the primary need is to help companies with implementation. It has come up with the following recommendations for the implementation of the MVC.

Recommendations for Implementation

Building up the MVC

45 As part of the CBWS, the Taskforce recommends the following broad wage ratios as a **general** guide for variable components in the wage structure:

a 70% basic wage, 30% variable for rank-and-file employees (20% AVC and 10% MVC, as recommended by the NWC guidelines).

b 40% variable for middle management (comprising both AVC and MVC)

c 50% variable for top management (comprising both AVC and MVC)

46 To expedite the implementation of the MVC, the Taskforce also recommends that **the MVC be built up partly from future wage increases and partly from basic wages.** This is because many companies are implementing wage freeze or giving only marginal wage increases in the current economic climate. To do so, companies can grant wage increases as MVC and convert the same percentage/quantum from employees' basic wages until the component reaches the desirable level, say 10%. For parity, companies should also set aside the same percentage of MVC in the wage structure for new employees. This is to ensure that in an event of adjustments to the MVC, the proportion of MVC is uniform for all employees, including new employees. The Taskforce recommends that **companies review the nature of existing allowances in their wage packages, with a view to rationalising allowances which no longer serve any purpose. Such allowances can also be incorporated into the MVC.**

WORKING EXAMPLE

An MNC has built up MVC using a combination of Wage Increases and a portion of basic wages. Their formula was wage increase (WI) + equivalent amount from basic wages for rank-and-file employees, and WI + 2 x equivalent amount from basic wages for executives and senior management. This formula will be used until MVC is built up to the desired level for each category of employee (e.g. 10% for rank-and-file employees and more for executives and senior management).

Triggering MVC Cuts

47 **Being able to actually trigger MVC cuts and restoration is the critical success factor in implementing MVC in companies.** If not, the MVC is no different from basic wage. As part of the CBWS, the Taskforce recommends that **companies should draw up clear and appropriate guidelines showing how cuts or restoration of MVC could be triggered. These guidelines should enable the MVC to be easily cut and restored** according to changes in business conditions affecting the company. Companies will have little difficulties implementing the MVC cut, as the cut would have been accepted as part of the wage system. It would save companies the process of negotiating cuts in MVC with unions at every point of a business downturn, allowing companies to respond quickly and effectively.

48 Implementing cuts in the MVC would require the following:

a **KPIs or guidelines that can trigger MVC cuts and restoration.** These KPIs or guidelines should provide a clear signal for cutting or restoring MVC. The KPI or guideline chosen for MVC should be forward-looking and be able to accurately reflect and provide an early signal of the financial health of the company. In light of this, KPIs or guidelines for triggering of MVC cuts are likely to be closely linked to profitability measures such as monthly profit, return on equity or revenue of the company. The hotel industry, for example, can use the KPI of the monthly Gross Operating Profit (GOP) for MVC adjustments. (More details on KPIs in a separate chapter)

b **Benchmarks or trigger points and the corresponding quantum of MVC cut or restoration.** Clear benchmarks and trigger points would reduce the need for lengthy negotiations before cuts can be made to wages in bad business conditions. These benchmarks or trigger points should be the actual levels of the KPIs or guidelines for MVC cuts or restoration. If the performance level of the company falls below the benchmark or trigger point, the MVC can be cut by a corresponding amount. However, in some circumstances, companies may choose not to cut the MVC even though the trigger point is reached, by adopting other non-wage-related cost cutting measures if they are more appropriate for the situation. After the cut, the MVC should be restored by an agreed amount once the performance of the company returns to the benchmark or exceeds it. The company can work in a regular review process (every few months) to determine the level of restoration, based on how well the company performs against the trigger point or benchmark.

49 Management and unions will need to work together to implement the KPIs, benchmarks and trigger points. The roles and responsibilities of management and unions in this process are summarised in **Table 5** below. The company management should define the suitable KPIs and guidelines for MVC cuts. They should also determine the benchmark or trigger levels at which the company's financial health and jobs are threatened, thereby requiring a cut in the MVC. Similarly, they should also determine the trigger levels at which the MVC is restored when business conditions improve. However, the quantum of MVC to be cut and restored when these trigger points are reached should be derived through negotiations with the unions.

TABLE 5: ROLES OF MANAGEMENT AND UNION IN IMPLEMENTING KPIS FOR MVC

s/n	Process of Implementing KPIs for MVC	Responsible Party
1	Identifying suitable KPIs or guidelines for MVC	Company management with inputs from employees
2	Determining the trigger point or benchmarks that will trigger an automatic MVC cut and restoration	Company management with inputs from employees
3	Corresponding quantum of MVC to be cut from various ranks	Negotiated between union and company management
4	Corresponding quantum of MVC to be restored when benchmarks are reached	Negotiated between union and company management

WORKING EXAMPLE

A large company has agreed with their union that MVC will be cut if the agreed KPIs were down for two consecutive quarters, and that MVC will be restored if the KPIs were up for two consecutive quarters. The company is still in the process of discussing with their union on the possibility of a separate special bonus if the company performs very well.

Managing Employee Morale

50 Management commitment to implementing the CBWS is key to its success, particularly in managing employee morale. Management can signal its commitment by taking leadership and putting a higher portion of their total compensation at risk. They should also take the lead should MVC cuts be required, by cutting their own MVC first, and taking a higher quantum of cuts. If management has only the same quantum of MVC as the other employees, they may have to consider also cutting other variable components or basic wages. This will address concerns that wage reform is targeted only at the rank-and-file employees and keep up morale. In situations where the company does not implement MVC for management staff, they should ensure that in the event of MVC cut for rank-and-file employees, the same or higher quantum of cut be effected from the management staff's basic wages.

WORKING EXAMPLE

A company had built up only 3% MVC for all its employees, but needed to cut a larger portion of its wage costs as its business was doing poorly and jobs were at risk. It therefore implemented a tiered cut as follows:

- Rank-and-file employees 3% (3% from MVC)
- Executives 6% (3% from MVC and 3% from basic wages)
- Senior management 9% (3% from MVC and 6% from basic wages)

The company has informed its employees that when business conditions improve, the cuts will be restored gradually.

51 Having strong and effective internal communications is another key factor for success in implementing the MVC. A clear channel of communication during the process of identifying KPIs will help employees understand how they can contribute towards achieving the KPIs. A clear understanding of why the trigger points are selected and how these will help keep the company financially viable, will also help employees to understand how these triggers can benefit the company and enhance job security for them. At the same time, employees need to know that putting wages at risk does not necessarily mean a wage cut, and that the MVC also attracts CPF and overtime pay. All these will contribute towards greater employee engagement and buy-in, which in turn will lead to higher staff morale and greater productivity.

WORKING EXAMPLE

A multinational company worked together with its union to develop communication materials when the MVC was implemented. The management, in partnership with the union, issued a joint announcement and organised communication sessions to explain to all supervisors and employees the objectives and rationale of the MVC.

Other Options for Wage Flexibility

52 The Taskforce has received feedback that some companies were able to achieve wage flexibility through other means. This could include a variable component, linked to company and/or individual performance that is paid out on a more regular basis than the AVC (e.g. quarterly or half-yearly). Whether flexibility in, say, quarterly payments is adequate or even better than the MVC really depends on the nature of business in individual sectors. The sectoral working groups' reports will illustrate this point: some sectors need the monthly flexibility; some companies find flexibility to adjust on a quarterly basis more useful. The taskforce recommends that companies consider carefully if their existing models of wage flexibility provide an effective way of adjusting wages effectively and quickly in the event of a sudden business downturn. If they do, they should retain their existing models. If not, they should modify them.

CHAPTER 5:
KEY PERFORMANCE INDICATORS

1 Wage variability is key in providing companies with enough structural flexibility to adjust to sudden changes in the business environment. This involves linking pay to company and/or individual performance. Key Performance Indicators (KPIs) provide companies with that link between company and/or individual performance and rewards.

DEFINITION OF KEY PERFORMANCE INDICATORS (KPIS)

2 KPIs are essentially a performance management tool that helps a company to track and measure factors that contribute to its success over time. KPIs therefore need to be aligned to the strategic goals of the company and be well integrated with the company's structure in order for them to be effective. As such, KPIs can provide concrete goals to employees, and shape employee behaviours. They can be used to communicate and direct a change from an entitlement culture, to a performance-oriented culture in the organisation. Employees will be motivated as they are able to see how they can contribute to the company's goals and share in the fruits of success.

GENERAL PRINCIPLES FOR KPIS

3 The KPIs for each company are likely to be unique, since they should be aligned to individual company's strategic goals and organisational structure. Some general principles that companies can consider when drawing up KPIs are as follows:

a **Relevance to the company.** The KPIs drawn up should be relevant to the type of business the company is in. For example, a hotel may want to use customer satisfaction or customer loyalty as a KPI. A manufacturing company may want to measure the efficiency of its factory line, or the number of defects in production. KPIs should also be reviewed regularly to ensure they remain relevant to the company's strategic goals, as the system of measuring KPIs may take a while to stabilise.

b **Quantifiable and transparent.** KPIs should be clearly defined and measurable. Targets and trigger points, and the corresponding rewards linked to the achievement of these targets should also be clearly stated at the start of each year.

c **Challenging yet realistic.** Companies will have to strike a balance in setting KPIs to ensure that they are challenging yet achievable, so that employees will be motivated to strive for better performance.

d **Responsive and timely.** KPIs should be responsive enough to track the actual business conditions and performance. Ideally, there should be minimal time lag between the occurrence of the performance measured and the actual reward, allowing companies to adjust with business conditions.

e **Allow for upside and downside.** The Taskforce strongly recommends that since employees are putting more of their wages at risk, companies should provide an upside to give them additional rewards in good times.

f **Consistent.** While KPIs should be reviewed periodically to ensure that they remain relevant to the company's business, the application of KPIs should be as consistent as possible. KPIs should not be changed arbitrarily to accommodate the company's bottom line, as this will adversely affect the credibility of the KPIs as a reward management tool.

g **Employees ability to influence outcomes.** The chosen KPIs should, as far as possible, be outcomes that can be influenced by the work or behaviour of employees.

KPIs for MVC

4 The Taskforce recommends that companies draw up KPIs in relation to the MVC and the AVC. The MVC is a tool for employers to make quick wage cost adjustments in response to sudden changes in business environment. In other words, MVC is about company performance, not individual performance. The KPIs linked to the MVC should therefore be those that reflect the financial health of the company in the short term. It is also important that KPIs linked to MVC should be timely in order to allow companies to make adjustments quickly. Some possible KPIs for MVC include Revenue and Gross Operating Profit (GOP).

KPIs for AVC

5 The Taskforce recommends that companies link payment of the AVC to company and/or individual performance. In reality, the AVC covers a broad spectrum of variable bonuses, paid out to employees at the end of the year. It is therefore possible to link a wider range of KPIs to the payment of AVC. Conceptually, these KPIs should be aligned with what the individual company wishes to reward. Some broad categories of KPIs are as follows:

a **Financial Indicators.** These include profit-related indicators, EVA, revenue-related indicators, and indicators that measure asset productivity.

b **Operational Indicators.** These indicators measure the performance of departments, teams and individuals on a day-to-day basis and should be relevant to the business of the company. These can be service-related (e.g. customer satisfaction), output-related (e.g. number of units produced by a production line) and quality-related (e.g. purity level of product or number of defects per production line).

c **Organisational Strategy and Development.** These indicators measure the organisational factors which contribute to the success of the company. These could be in terms of strategy development, or people-related issues e.g. staff turnover, staff training.

6 Unlike the MVC, KPIs for the AVC will tend to reflect performance in the medium or long term. KPIs like EVA, for example, are linked to a long term strategic objective of sustained value creation. In practice, companies can choose to draw up KPIs that provide a mix of short, medium and long term indicators. It is also a common practice

for group bonuses to be determined by group-based KPIs, and then further allocated to group members based on other KPIs, including those linked to individual performance. (Although this report does not cover KPIs for individual performance, it follows that for this system to be robust, companies also need effective systems to assess the performance of individual employees.)

WORKING EXAMPLE

A company has a comprehensive rewards system that includes short and long term incentives. A summary, together with some broad categories of their KPIs are as follows:

Base Salary – The company's base salary is 13 months, including one month AWS that is included in the CA.

Short Term – Performance Incentives
The annual performance bonus of this company is capped at 2 months, with another 1/2 month bonus being discretionary. The performance bonus is allocated on a group basis, and measured using group-based KPIs within the broad categories of Revenue, Strategic Development, Operations, Asset Productivity and People Development. The actual bonus for each group member is determined by the individual work performance.

Long Term – EVA-based incentives
This incentive serves to align the interests of employees with that of shareholders. 10 – 30% of the EVA achieved by the company goes to staff in the following manner:

- **CEO and key management:** 5-10% in an individual bonus plan
- **Senior management:** 10-30% goes into a bonus pool, which is allocated based on the individual's performance.
- **Rank and file:** 60-80% goes into a bonus pool, which is allocated based on the individual's performance

Targets and Triggers

7 Clear targets and automatic trigger points are essential for the implementation of KPIs. Companies could set staggered targets that provide different levels of rewards. The maximum point could be a stretched target with a corresponding upside reward. A fictitious example is in Table 1 below:

TABLE 1: EXAMPLE OF COMPANY X (FICTITIOUS)

Gross Operating Profits ($)	Months of AVC
>100,000 & =<150,000	1/2
>150,000 & =<300,000	1 1/2
>300,000 *	2 1/2

* *Achieving the stretched target would allow employees to obtain the maximum amount of 2 1/2 months AVC.*

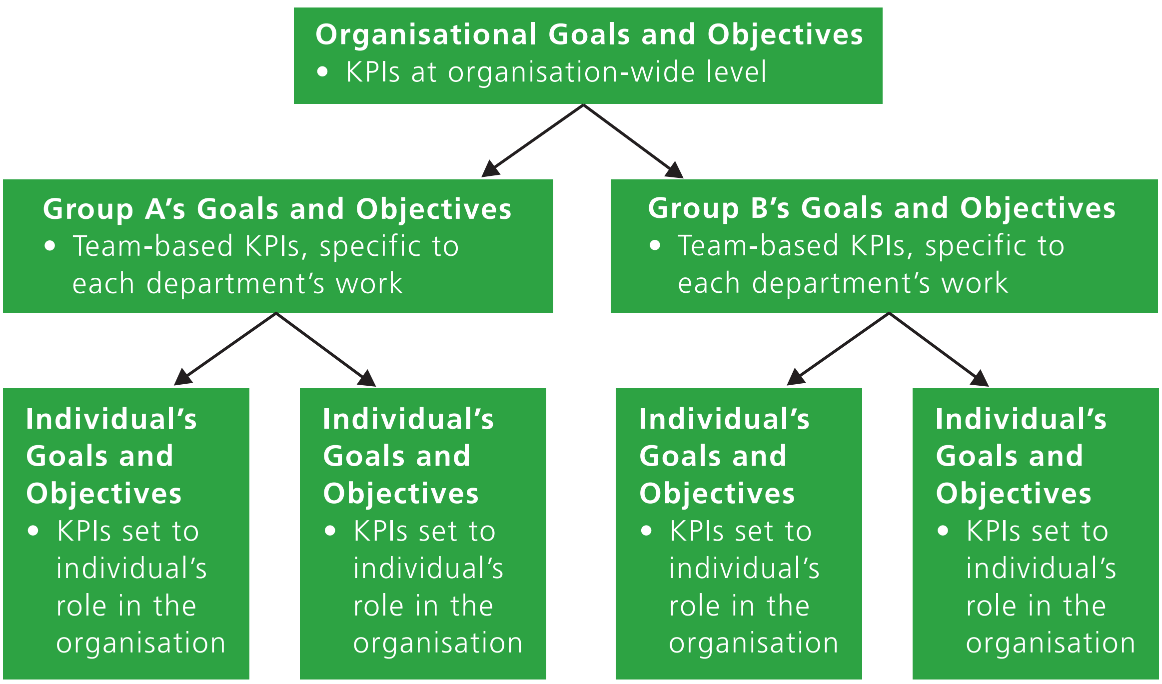
8 Clear targets and trigger points for the AVC will help motivate and engage employees towards achieving the set targets. Companies can also consider linking the actual payout of these rewards with the achievement of the KPIs in order to reduce any time lag between KPI targets and rewards. For example, companies can pay out a quarterly variable bonus if the KPI target is measured and announced on a quarterly basis.

9 In the case of MVC, having clear and automatic trigger points would reduce the need for negotiations before cuts can be made to wages in adverse business conditions and restoration to be effected when business recovers. The benchmarks or trigger points should be the actual levels of the KPIs or guidelines for MVC cut or restoration. If the performance level of the company falls below the benchmark or trigger point, the MVC would be automatically cut by a corresponding amount. Similarly, the MVC will be restored by an agreed amount once the performance of the company returns to the benchmark or exceeds it. The company can work in a regular review process (every few months) to determine the level of restoration, based on how well the company performs against the trigger point or benchmark.

Implementation Options

10 KPIs can be set at various levels, depending on the size and structure of the company. Companies should determine the level at which they wish to drill down KPIs, as well as the corresponding reward structure. A summary is shown in Figure 1 below:

FIGURE 1: DIFFERENT POSSIBLE LEVELS OF KPIs



Adapted from "Variable Pay: How to manage it effectively" by Robert J. Greene

Role of Management and Unions

11 Management and unions will need to work together to implement the KPIs and trigger points. The roles and responsibilities of management and unions in this process is summarised in Table 2 below.

TABLE 2: ROLES OF MANAGEMENT AND UNION IN IMPLEMENTING KPIS

s/n	Process of Implementing KPIs	Responsible Party
1	Identifying suitable KPIs and relevant reward structure for AVC and MVC	Company management with inputs from employees
2	Determining the targets for the KPIs	Company management with inputs from employees
3	Corresponding quantum of rewards linked to different levels of KPIs	Company management and union, if company is unionised

12 KPIs are closely linked to a company's corporate strategy for success. The selection of KPIs is therefore a strategic decision that needs to be made by senior management in the company. In many cases, this power lies with the CEO, although he would need to be supported by the relevant Human Resource, Finance and Corporate Development arms. Figure 2 gives an idea of the dynamics between the different arms of an organisation.

FIGURE 2: ORGANISATIONAL CONTEXT OF KPIS

Adapted loosely from "Variable Pay: How to manage it effectively" by Robert J. Greene

13 Management should determine the KPIs to be used with inputs from employees. For the quantum of rewards to be linked to different levels of KPIs, they should be derived through negotiation with the unions. This process should also be supported by strong internal communications. Employees should be made aware of the targets set for KPIs before the time period of measurement starts. Ideally, they should be given feedback on their progress in achieving the targets on a regular basis. This will give employees a direct influence on the achievement of the KPI targets, enhancing staff engagement and morale. Transparency of KPI targets and their achievement will also remove any element of surprise (pleasant or otherwise) when the variable bonuses are paid out. A robust performance management system is also necessary to the successful implementation of KPIs. This is because in practice, a group bonus pool is decided based on corporate indicators, and then allocated to individual employees based on KPIs that measure organisation and/or individual performance.

CHAPTER 6:

FLEXIBLE WAGE SYSTEM – AN INTEGRAL PART OF A HOLISTIC HUMAN CAPITAL MANAGEMENT SYSTEM

1 Companies which have implemented a flexible and competitive wage system are in a better position to respond to changes in the business environment, remain cost competitive and help preserve jobs for their employees. The implementation of flexible wage is only one critical factor in Human Capital Management (HCM) and the implementation could only be successful and sustainable if companies adopt a holistic approach in developing other aspects of HCM practices. This chapter focuses on four key areas - performance management system, communication, skills upgrading/training as well as career development, which are essential in establishing and strengthening HCM holistically to help companies better achieve their corporate objectives.

PERFORMANCE MANAGEMENT

- rewarding and motivating the individual employee

2 Motivating employees to achieve high performance goes beyond providing a competitive compensation package. A good performance management system should enable the company to effectively assess the performance of its employees and provide appropriate rewards to motivate them to continue to improve themselves and give their best. It should take into consideration performance planning, assessment and reward, establishing a close linkage between performance and reward. It should also recognize and reward employees based on both company and individual performance. To achieve this objective, it is important to set clear and realistic targets or key performance indicators at both the company and individual level for the assessment of employees' performance.

3 For employees, the key concern is "what's in it for me". They need to understand the mechanics of the performance management system which is put in place, as they would be assessed and rewarded based on the system. Hence, the targets, the appraisal format and the modes of incentive payout - in the form of merit allowance, variable bonus, etc - should be clearly spelt out and conveyed to the employees.

4 Above all, the performance appraisal/review system should be transparent and enable the management to assess an employee's performance objectively. Without such a system, an employee may not be assessed fairly and appropriately rewarded. A good performance management system would not only help motivate employees to give their best and seek improvement but would also enhance the morale of the employees, thereby encouraging them to strive for greater achievement.

PERFORMANCE MANAGEMENT AT SBS TRANSIT

SBS Transit aims to provide world-class public transport which is safe, comfortable, affordable, reliable and friendly. Key to achieving this mission is the quality of its workforce. Performance management at the SBS Transit is based on 3 principles - Performance Planning, Performance Measurement and Rewards.

Performance Planning is carried out on a yearly basis using the Balanced Scorecard Framework. Business goals and focus may differ from year to year but are centred on 5 strategic perspectives: Customers, People, Safety, Financial and Boundary-less. Based on the goals and focus, separate key performance indicators (KPIs) are identified for 3 different categories of staff, namely the Executive, Non-Executive and Bus Captains. For instance, KPIs of Captains include attendance, traffic safety, decorum, service reliability, bus care and customer service.

Different approaches are adopted to measure the performance of the 3 groups of staff. Depending on the staff category, assessment is based on either key competencies or KPIs. For the executive level, peer appraisal is also used.

The reward system is closely linked to both individual and company performance. For rewards distribution and allocation, employees are grouped into different bands based on their performance rating. For example, executive staff are divided into the 10-20-40-20-10 performance bands, that is, top 10%, followed by 20%, 40%, etc. Variable bonus distribution is based on a pre-determined formula. If the 40% band executives get x months of bonus, the next 20% above will get 2x months, and the top 10% will get 3x months, etc.

Fair Treatment Policy

As part of the performance management system, SBS Transit has also put in place channels for employees to address grievances that may arise from performance assessment. Any employee who does not agree with the assessment may bring the grievance concerning his performance to the immediate supervisor, to his manager and finally to the Fair Treatment Committee - comprising the CEO, the respective Executive VP and Head of Department; and the Director of Human Resources.

COMMUNICATION

- buying in employees' support and commitment

5 Communication plays an important part in the successful implementation of a holistic HCM policy. Specifically on wage restructuring, companies would need to explain the rationale for the restructuring and how such changes are necessary to help the company to be more nimble and responsive to changing business conditions so as to preserve jobs.

6 Employees will be concerned and would want to know how changes to the wage system affect their remuneration packages and how company and individual performance is translated into recognition and rewards. Open and effective communication between the management and the employees fosters mutual understanding and trust. It allows the management to explain the rationale for the change and at the same time provides a platform for employees to seek clarification of any doubts that they may have. By addressing employees' concerns, companies are more likely to secure their support and acceptance of the changes in the wage system.

7 To ensure that the changes would be well accepted by employees, management should also regularly communicate with and update employees on the company's performance vis-à-vis its corporate targets and the impact on their rewards. Companies should also encourage feedback from employees on the new system and make refinements as part of its overall communication policy. This would encourage two-way communication, increase staff engagement and strengthen labour-management partnerships within the company.

THE HEWLETT-PACKARD WAY

When HP introduced the Monthly Variable Component (MVC) - as part of its effort to increase wage flexibility - to its non-exempt staff in Jul 2003, it worked closely with the union to draw up a plan to communicate to the employees.

By developing a set of information material with the union on MVC, HP also conducted separate rounds of communication sessions for the supervisors/managerial staff and the general employees. The sessions allowed the management to explain its position and the rationale for implementing MVC. The sessions also gave employees the opportunity to seek clarification. A comprehensive list of issues was covered to bring about a better understanding of MVC and to address any concerns that the employees may have. Some key issues covered are (i) concept of MVC, (ii) rationale for implementing MVC, (iii) computation of MVC - with respect to CPF contribution, overtime payment and future increments, Annual Wage Supplement, bonus and benefits. The communication process proves to be effective in getting employees to accept the implementation of MVC as part of the wage restructuring efforts by the company.

SKILLS TRAINING AND CAREER DEVELOPMENT

- upgrading the workforce for higher productivity and better performance

8 One of the key principles of a flexible wage system is the narrowing of the salary max-min ratio of a salary range to better reflect the worth of the job. Instead of being rewarded principally according to seniority in service, employees should be compensated based on the value of the job and their contribution to the organization. Towards this goal, companies should design appropriate training and development

programmes to help employees upgrade themselves so that they could enhance their earning capacities and bring about career advancement. Training and upgrading will reduce the risk of employees' skills becoming obsolete and they would be able to take on tasks with greater responsibilities and in other areas of work within the organization.

9 If employees are not given the opportunities to upgrade their skills and enhance their capabilities, they could only stay on the same job and remain stagnant at the salary ceiling. Over time, they will also not be able to cope with the new demands when business conditions and the nature of the jobs change. This will not only affect their morale but will also have an adverse impact on the overall performance of the company and its future viability.

10 Training can take the form of on-the-job training, in-house and off-site training. Companies could tap on national assistance schemes such as the Skills Development Fund and the Skills Redevelopment Programme to defray the cost of providing employee training.

THE SINGAPORE FOOD INDUSTRIES' CONVICTION

When a vacancy arises, the Singapore Food Industries (SFI) deploys manpower from within and provides the necessary training rather than hire directly from the market. SFI takes a long term view on providing workers' training and preparing them to take on greater challenges. It believes that such an approach would earn employees' commitment and loyalty to the organization.

SFI's workforce comprises largely mature employees and employees with secondary and lower education level. While the basic pay is low, employees are compensated with a relatively large variable component based on individual and company performance. It puts in great effort on systematically developing and equipping every employee with skills to allow for job enlargement or to move on to other parts of the business which are viable.

"The best gift we can give to our employees is not their jobs but their employability. For we can't guarantee their jobs but we can say that for sure if they stay employable through learning, they will be employed."

Peter Tay, President & CEO Singapore Food Industries

The people-centred philosophy in SFI and the strong commitment to provide employees with meaningful jobs and equip them with employable skills has won SFI the award of the Best Employer in Singapore 2003, based on a survey conducted by Hewitt Associates.

OTHER GOOD HCM PRACTICES

11 It is often said that 'human capital' is the most important resource of a company. Management of human resources is therefore critical to its success. Companies should seek to understand what motivates their employees and put in place good HCM practices to encourage and enhance employees' performance, thereby helping companies to achieve their goals and excel. This would involve building the organization into a great place to work, one where employees are actively engaged, valued and have a strong sense of belonging to the company. What differentiates great companies from others is their people-oriented philosophy and practices.

Recruitment
- *attracting and retaining the right candidates*

12 According to Hewitt's Best Employer in Asia 2003 study, the best employers, on the whole, generate better business results. A common trait of these 'best employers' is that they adopt good and enlightened HCM practices. This includes the adoption of fair and non-discriminatory employment practices such as hiring candidates based on merit, experience, capability and other job requirements. Using objective criteria that are relevant to the job requirements would provide the company with a wider choice of candidates for the job.

Benefits
- *meeting employees' needs in a changing work environment*

13 Many companies invest heavily in manpower resources by offering comprehensive compensation and benefits packages only to find that they are not reaping the fruits of their investment. Choice companies distinguish themselves from others with flexible benefits plans which could better meet the different needs of the employees. Increasingly, companies are making efforts to tailor their benefits plans to cater to the needs of a diverse and aspiring workforce. Benefits that are relevant to and valued by individual employees would contribute to stronger staff engagement, which in turn would motivate them to make greater contributions to the organization.

Work-life Practices
- *creating a balance*

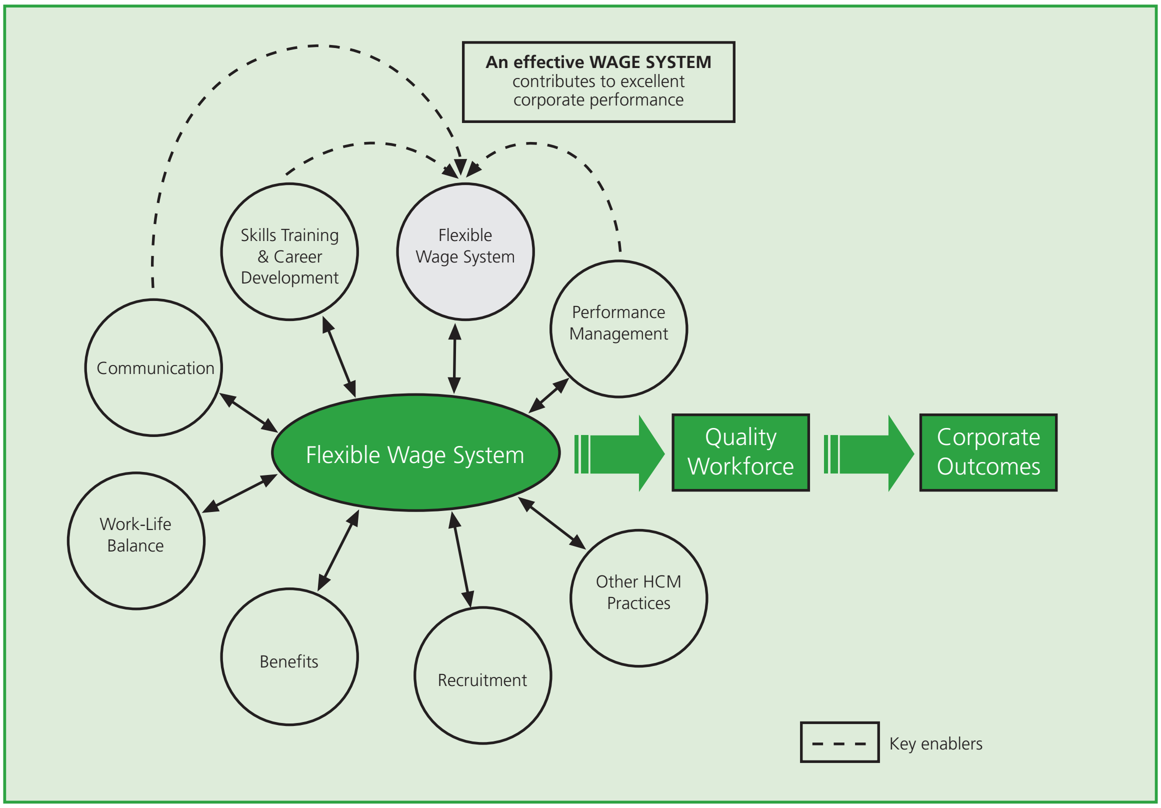
14 A great workplace is one with a conducive and supportive work environment where employees feel they belong to. In this regard, there is a need for companies to help employees balance career and family responsibilities. Employees who are in control of their own time and also meet the needs of their employers are happier and better performers. Consequently employee morale, job satisfaction and commitment to the company will then increase. Companies which implement flexible work practices are generally better able to attract and retain good workers, and tap into a wider pool of manpower resources.

15 This calls for the adoption of work-life programmes which includes flexible work practices. Flexible work arrangements could take the form of part-time, telecommuting, flexi-time, compressed workweek and job sharing. Such practices often require little or no cost involvement to implement. However, the benefit it brings to the organization, in terms of talent retention and satisfaction, is immense.

AN INTEGRATED APPROACH TO ACHIEVING EXCELLENT CORPORATE PERFORMANCE

16 The implementation of a flexible wage system within a company has to be supported by good HCM practices in a holistic manner. The wage restructuring initiative should therefore support a performance-based reward system which would incentivise employees to produce outcomes that would contribute to business objectives.

17 The diagram below illustrates the link between flexible wage system in the total HCM framework and the alignment of various HCM practices for the development of a quality workforce to better achieve corporate goals.



18 A well implemented HCM with a flexible and competitive wage structure would motivate employees and improve job satisfaction. Such companies are better able to attract, develop and retain committed and high-performing employees. This offers an edge over other companies in the quality of its workforce and would enable companies to compete effectively, remain viable and reach greater heights in a highly competitive global market.

PART III :
CASE STUDIES

CHAPTER 7:

WAGE RESTRUCTURING IN THE CIVIL SERVICE - INCREASING FLEXIBILITY IN WAGES

INTRODUCTION

1 The Civil Service today has in place a flexible wage system, comprising fixed and variable components in monthly and annual salaries. The variability in the wages allows the Civil Service to respond appropriately to economic conditions and continually adjust the pay levels to stay aligned with the market. In addition, it has moved away from a seniority-based system to one that is performance-driven through the introduction of performance bonuses and merit increments. Today, the Civil Service's wage system fully meets, and in some cases exceeds, the guidelines of the NWC, as well as the recommendations of the Economic Review Committee (ERC).

2 Significant milestone changes have been made to restructure the Civil Service wage system into a more progressive and competitive one. The main thrusts of the wage restructuring efforts are:

a To adopt a **flexible wage system** to ensure a timely response to varying economic conditions;

b To pay **competitive salaries** that are aligned to the market so as to attract a fair share of talent; and

c To strengthen the link between **pay and performance**, where officers who perform above their job requirements are equitably rewarded.

DEVELOPING A FLEXIBLE WAGE SYSTEM

3 The Civil Service has a flexible wage system, comprising variable monthly and annual components. The current wage system exceeds the ERC's recommendation[1] on the desired level of variable pay. All civil servants have at least 40% of their annual salaries variable, while senior civil servants have more than 40% of their annual salary variable. Through the variable components, the Civil Service is able to make timely wage adjustments in response to volatile economic conditions.

4 Before 1986, wage increases were paid directly to civil servants through their base salaries, without any consideration for variability. Then, civil servants also received a fixed one-month Non-Pensionable Annual Allowance (NPAA), more popularly known as the 13th month payment[2].

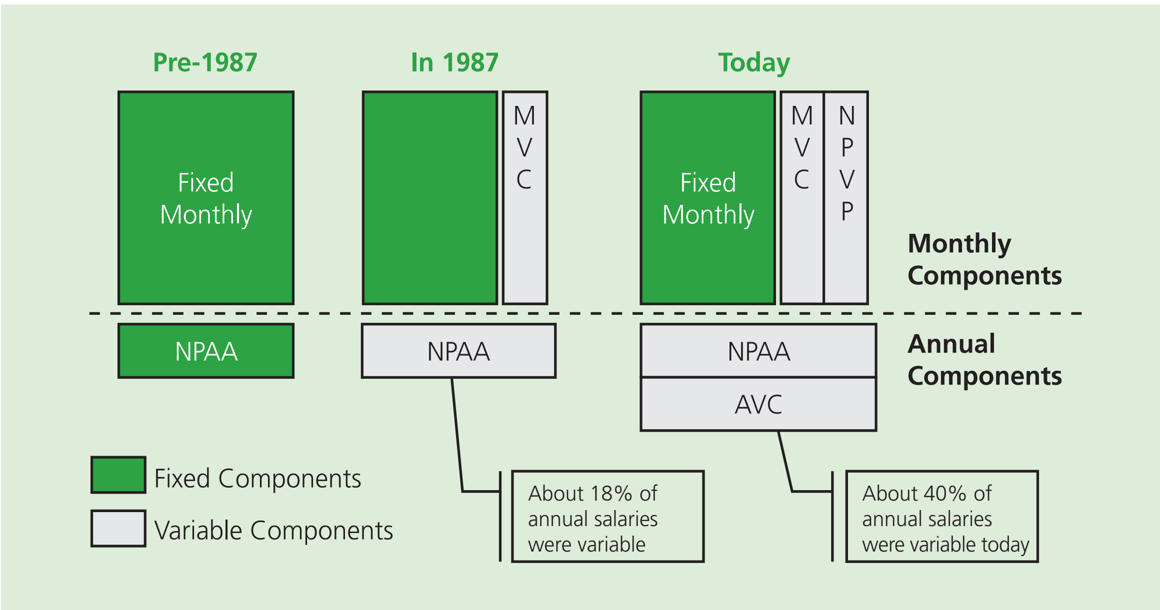
5 In 1986, in recognition of rising wage cost pressure and fluctuations in the market, the NWC appointed a Sub-Committee on Wage Reform to encourage employers to adopt a more *flexible wage system*. In response to the national call, Dr. Richard Hu, then Minister for Finance, appointed a Taskforce on Public Sector Wage Reform to examine the NWC recommendations and propose a suitable flexible wage system for the Civil Service. The Taskforce consisted of both senior civil servants and union representatives. This was critical in ensuring that the proposals were acceptable to key stakeholders.

6 While the taskforce was mandated to restructure wages, they were careful not to adversely impact the monthly take home pay of officers. The emphasis was future-focused, aimed predominantly at structural change. Completing its work within a year, in December 1987, the task force made far-reaching proposals. From 1987 onwards, civil servants' monthly salaries consisted of two parts: a basic fixed salary and *MVC*. The MVC then comprised the wage increases implemented from 1982 to 1984. The NPAA (13th month payment) was positioned as a variable component that could be reduced under exceptional circumstances. In addition, the taskforce laid a clear direction to build up an additional variable component termed as the AVC. The intention was to grow the AVC to about two months' income which could be adjusted annually in line with national economic growth. At that time, as a result of the changes, approximately 18% of public officers' total remuneration was made variable.

7 From 1987 onwards, instead of increasing monthly salaries, all wage increases were accumulated through the AVC component. After meeting the target of two months' AVC in 1993, wage increases were no longer added to the AVC. Instead, a third variable monthly component was created, termed the *Non-Pensionable Variable Payment (NPVP)*. Since 1993, all further salary increases have been paid into this component.

8 Today, about 40% of a civil servant's annual salaries are variable. Future wage adjustments would be first made through the variable components, i.e. NPVP and AVC, minimising the impact on the fixed components. 8 Figure 1 shows the evolution of the Civil Service wage structure.

FIGURE 1: EVOLUTION OF CIVIL SERVICE WAGE STRUCTURE



The First Test of the Flexible Wage System: The Asian Financial Crisis

9 The 1998 Asian Financial Crisis was a key test of the soundness of the Civil Service's Flexible Wage System (FWS). The Civil Service was able to quickly react to reduce wage cost, cutting the AVC from two months to 0.75 month in response to the grim economic climate. In 1999, as the reductions to annual components were not sufficient, cuts to the gross monthly salaries of the civil servants were further implemented. Public officers in the higher divisions were given wage cuts of up to 3%, with Ministers taking the lead with a 5% cut. These wage cuts were effected using the variable NPVP component, and would not have been possible without close consultation with the unions and their support. When Singapore's economy made a quick rebound in 2000, the Civil Service was able to restore the wage cut made in 1999 quickly, and to pay a 1.75 month AVC. It was a strong endorsement of the FWS.

September -11, Iraq War and SARS

10 The FWS continues to prove an important tool that is able to weather the impact of other storms, such as the economic uncertainties arising from the September 11 attacks, war in Iraq and SARS. It allowed the Civil Service to make rapid and timely adjustments to Civil Service pay in response to crises. In November 2001, in response to the economic uncertainty, Ministers and senior civil servants again led by example, taking wage cuts of up to 10%. More recently, in July 2003, a further 10% wage cut was taken off the gross monthly wages of Ministers and senior civil servants.

11 In November 2003, in view of declining private sector salaries as shown by our benchmark analysis, the Civil Service rebased the AVC rate from 3/4 month to 1/2 month. Bearing in mind a monthly salary cut would more directly affect the daily livelihood of officers, it decided to implement the cuts through the AVC. As wage levels vary with the economy and labour conditions, the FWS will continue to be an important tool to be used to respond quickly to the changing conditions.

KEEPING SALARIES COMPETITIVE

12 To continue to deliver quality services to the public, the Civil Service needs talented and capable officers. In order to attract and retain able and committed officers, the pay levels are pegged at competitive market rates. As the largest employer in Singapore, the Civil Service is also aware that it should keep pace with, but not lead, the market, even as it pays fair wages. This is to prevent unintended wage spirals. Since 1995, Civil Service salaries are benchmarked annually to market rates. Salaries are reviewed annually and adjusted, both upward and downward, to ensure that they are aligned to the market without being over-generous.

13 In line with the move to keep wages flexible and linked to performance, wage adjustments justified by salary reviews are implemented through the MVC or the performance bonus component. A recent example to stay aligned with market salaries was the downward revision of starting salary rates by up to 20%. The cuts were determined based on the extent to which each scheme exceeded its benchmark levels.

14 Over the next year, in order to make salaries more responsive to changes in private sector conditions, the Civil Service will study how it can benchmark wages for specific jobs in the Civil Service to equivalent private sector jobs.

LINKING PAY WITH PERFORMANCE

15 Through the years, the Civil Service has moved away from a seniority-based wage system to that of a pay-for-performance model, through the application of performance bonus and merit increments. In addition, in line with the NWC and ERC guidelines to move away from seniority based pay, the Civil Service has today achieved an average salary maximum-minimum ratio of 1.5.

16 The performance bonus framework was implemented for all officers in 2000. A performance bonus is only given to officers who have exceeded expectations in their performance and are contributing at higher levels than required by their present jobs. Officers who perform only satisfactorily or under-perform are not recommended for a bonus. This gives an incentive to officers to strive harder in their work and benefits the organisation as a whole.

17 Throughout the implementation process, union representatives were consulted before the final rollout of the scheme. The unions' endorsement helped ensure a smooth adoption of the scheme. The unions' feedback on the scheme is regularly sought to get a better understanding of performance management issues from the employee's perspective.

18 The pay-for-performance link has been further reinforced with the introduction of merit increments. This was implemented for a majority of the graduate schemes in 2002. Under the merit increment framework, annual increments are no longer guaranteed, but are varied based on the officer's performance and calibre. This ensures that officers receive salaries that are proportionate to their contributions and abilities.

LOOKING AHEAD

19 The Civil Service is committed to continually improving its wage system to make it more flexible, market and performance-driven. In line with this, it is studying ways to build up the performance bonus component, refine the performance management system and enhance its benchmarking methodology. It will continue to closely monitor the private sector and make prompt adjustments to wage levels where necessary, in the spirit of having a flexible and competitive wage system.

CHAPTER 8:

PHILIPS ELECTRONICS SINGAPORE PTE LTD - TOTAL REWARDS MANAGEMENT

INTRODUCTION

1 Philips Electronics Singapore Pte Ltd was established in 1951 and has grown in tandem with the Singapore economy to become one of the top multinational corporations here. It has a 4,000 strong workforce and is committed to human resource development.

2 Philips aspires to be the employer of choice. It aims to give employees sustainable rewards and attract manpower to meet its business objectives. With this in mind, the company works hand-in-hand with the union to restructure its wage system with a view to achieving the following objectives:
- building a performance-oriented culture
- providing market driven rewards
- be holistic in approach, "think total rewards"

COMPONENTS OF A FLEXIBLE AND PERFORMANCE-ORIENTED WAGE STRUCTURE

3 The management and union reach consensus that Philips should implement a flexible and performance-oriented wage structure that has the following components:

a 13 months of **Base pay** (inclusive of AWS). The base pay should reflect the market value of the job.

b **MVC** which is targeted at 10%. The initial kick-start will comprise 2% from the base and 2% from wage increase of 2003. The subsequent build-up will come from future wage increases, the same percentage of MVC will be implemented for all staff (inclusive of Management) on 1 April 2004.

c **AWS** is one month's basic pay.

d **AVC**. When the Level 1 Key Performance Indicators are attained, a 1.5 months funding will be triggered. Upon attaining Level 2 Key Performance Indicators, another 1.5 months funding will be triggered, making a total AVC funding of three months. This will be more than the average 1.5 months AVC received by the unionized staff prior to the wage restructuring exercise. Once the AVC funding is determined, the AVC will be distributed to employees based on individual performance.

e **Spot Awards:** A one-time payment to reward individuals/teams for making contributions to increase efficiencies, reduce risks and save costs. The quantum of Spot award varies from $50 to one month's base pay. They are not meant to replace regular merit or bonus payout nor meant to compensate for overtime work.

COMPETITIVE BASE PAY

4 To ensure that its base pay is competitive, Philips will peg the mid point of each salary band at the market median i.e. market 50 percentile of similar position. For top/key performers, it will strive to peg their pay at market 75 percentile. The progression and spread of the salary band will be justified by pay practices in Singapore, specifically the electronics industry.

5 The company will also continue to make an effort to narrow the salary max-min ratios for all levels of staff. From 2004 onwards, all employees whose salaries are at or above the maximum point in the salary grade will be paid the productivity increment (based-up increment).

ANNUAL VARIABLE COMPONENT LINKED TO COMPANY AND INDIVIDUAL PERFORMANCE

6 To motivate employees to give off their best to contribute to company's business objectives, Philips links the payment of AVC to company as well as individual performance. KPIs and individual performance rating are introduced to determine the AVC payout. The KPIs include:

a Economic Profit Realized (EPR) at Business Unit Level
- ➔ Net Profit after tax and deduction of capital financing cost

b Cash flow

c Site Income from Operations (IFO)
- ➔ Direct impact on output, productivity and quality

d Personal Contribution Agenda
- ➔ Applicable only to Exempts, focus on key performance indicators e.g. Field Call Rate, Inventories turns, Process Survey Tool score, Patents filed, etc

e Customer Satisfaction
- ➔ External key customers' perception of company's performance

f Requested Line Item Performance
- ➔ Operational parameter that indicates the degree to which an organization is capable of meeting the original demands of her customers

7 Each business unit formulates KPIs according to their needs and drivers. The AVC payout is computed based on the level of achievement of the KPIs and the weightage assigned if there are more than one KPI. Once the AVC payout for a level of staff is determined, individual employees will be rewarded their share of bonus based on their performance rating.

TRIGGERS FOR ADJUSTMENT OF MVC

8 To trigger any discussion with the union regarding adjustment of MVC, the management will lead by example and ensure that the sense or fair play will prevail.

PERFORMANCE MANAGEMENT AND ANNUAL INCREMENT

9 Philips will negotiate wage increases with the union annually. The annual increment will be closely tied to the performance of company and individual.

KEY TO SUCCESS - COMMUNICATION AND STRONG PARTNERSHIP

10 Communication is a key success factor for the implementation of the flexible and performance-oriented wage system in Philips. The strong partnership between the company and the union helps facilitate the wage restructuring process. Recognising that communication is a two way process, Philips will listen to employees' needs and preferences as well as educate and inform employees about the changes in the wage system. It will also conduct frequent communication of business results and company directions under the pay for performance culture in order to facilitate timely corrective actions to be taken by the employees and to ensure a high degree of employee engagement.

11 The company will evaluate the effectiveness of the reward policy and programme periodically as well as obtain feedback from employees on their understanding and support of the rewards programs. Besides, it will audit the rewards programs and processes at least bi-annually to ensure that the rewards climate is positive and aligned with business needs.

CHAPTER 9:

GLAXOSMITHKLINE - CONVERTING SENIORITY-BASED COMPONENT TO PERFORMANCE-BASED BONUS

BACKGROUND

1 GlaxoSmithKline is a leading pharmaceutical company. In 1993, the company incorporated its variable bonus and AWS into employees' basic salary in order to attract and retain employees. In addition to the basic wages, all employees were given service benefits annually. The service benefits were computed based on the seniority of service. It ranged from $100 for employees with one year service up to $2,150 for those who had served the company for ten years or more.

2 In the last few years, there was a realisation that the fixed service-based benefits, which were paid to all employees with no reference to their performance, did not motivate employees to put in their best in contribution to overall business goals. The company therefore decided to move from reward for seniority to pay-for-performance.

INTRODUCTION OF PERFORMANCE-BASED BONUS

3 GSK proposed the changes to the union in mid 2002. It suggested that the performance bonus be paid out based on 3 considerations:

a the performance of GSK Global Manufacturing & Supply (GMS) Network (the GSK Division which oversees 95 manufacturing sites worldwide)

b the performance of GSK local site performance (Pioneer Sector One)

c individual performance

4 Under the new performance bonus system, good performers could enjoy upside benefits while poor performers could no longer be free riders. However, poor performers could try to improve their capabilities and performance through a new Personal Development Plan introduced for bargainable employees. After 6 months of negotiation, it reached an agreement with the union. The performance-based bonus was introduced in January 2003.

PERFORMANCE BONUS STRUCTURE

5 In deciding whether performance bonus should be given out in a year, GSK will look at the GMS Performance (25% weightage) as well as local site performance (75% weightage). Trading profit is the KPI for GMS while manufacturing variance, safety, batches right time and internal delivery are the KPIs for local site.

6 The local site bonus payout will be determined based on the level of target achieved for various KPIs. The performance bonus for individual employee will then be computed by multiplying the local site bonus payout with the individual performance moderator. A good performer can receive as high as 120% of the bonus payout. On the contrary, no performance bonus will be given to employees with very poor performance rating.

Site Bonus Opportunity X Individual Performance Moderator = Individual Performance Bonus Payment

LEARNING POINTS

7 Employees of GSK were not in favour of converting the service benefits to performance bonus initially as the performance bonus was variable and they might end up earning less. There was also concern that the targets set might not be achievable. Through constant communication and information sharing, the employees finally accepted the conversion. The key learning points in GSK's case are:

a Communication plays an important part in wage restructuring. It is vital that companies explain to unions/employees about the need to change and the likely impact on employees. Companies should also take into consideration the concerns of employees and make the necessary clarifications or refinement.

b There should be transparency in setting the KPIs and targets. Companies should be open in sharing with unions/employees the relevant information to help them assess if the proposed changes are acceptable. This would help to build up trust and confidence which is an essential element in wage restructuring. In GSK's case, the management shared with the unions/employees the past three years' business performance. This helped the employees assess whether the targets were attainable and the prospects of earning performance bonus.

c In converting fixed wage component to variable payment, upside benefits should be provided, where possible, to incentivise employees to accept the change.

CHAPTER 10:

SINGAPORE FOOD INDUSTRIES LIMITED - FLEXIBLE WAGES AND HOLISTIC HCM PRACTICES

INTRODUCTION

1 Since its incorporation in 1973, Singapore Food Industries (SFI) has grown to become a leading integrated food company in Singapore with international presence in China, UK and Australia. SFI focuses on three strategic business areas namely, food distribution and preparation, manufacturing & processing, and abattoir & hog auction. It currently employs about 2,200 employees in Singapore and overseas, of which 1,150 are based in Singapore.

2 SFI sees people as one of the key assets of the company. It makes a concerted effort to develop a robust HR system applicable across the organisation. Through leading by example, the management has secured employees' buy-in of the system which includes a highly flexible wage system; good performance management system, strong communication channels and people development plans.

LOW COMPETITIVE BASE PAY AND HIGH VARIABLE COMPONENT

3 SFI believes in a low competitive base pay to give employees a long-term viable income, and a high variable component designed to incentivise employees to give their best performance. To lead by example, at least 50% of the CEO's pay is variable and linked to the company's performance. In 2002, rank-and-file employees who were average performers received two months of bonus in addition to AWS.

IMPLEMENTING MVC

4 In response to the NWC's recommendations, SFI introduced MVC in the wage structure in 1999 to improve wage flexibility to meet sudden business downturns. For executive and managerial staff, the MVC is built into the monthly salary from the day the executive joins the Company. Today, over 90% of its executives and managers have 10% MVC in their salaries, with the rest having over 5% MVC. For rank-and-file employees, the MVC was built up mainly through wage increases; the accumulated rate of MVC is 3 to 6% as the wage freeze implemented in the past two years has slowed the build-up of the MVC.

NARROWING SALARY MAXIMUM-MINIMUM RATIO

5 Agreeing with the NWC's recommendation that employees should be paid based on the value of the job instead of the length of service, SFI decided to narrow the salary max-min ratios for jobs which stood at 1.8 to 1.9 in 2001. It reached an agreement with the union/employees to bring the ratios down when the collective agreement expired in June 2001. By holding the salary maximum and raising the salary minimum, the company has now achieved salary max-min ratios of 1.5 to 1.6 for most jobs.

SFI BONUS SCHEME

6 The SFI bonus scheme consists of four key components: AWS, Performance Incentives (PI), EVA-based bonus and stock options. The quantum of AWS is usually one month's basic wages while the amounts of PI and EVA-based bonus are variable subject to the company and individual performance.

Performance Incentives

7 The Performance Incentives are short-term incentives to reward managers and executives for their efforts during the year. The payout is linked to the team effort of employees in achieving the company's performance targets set for each year. The quantum of Performance Incentives is capped at two months' salaries. Performance targets are in five key areas:

a Revenue
b Operations
c Asset Productivity
d People Management & Development
e Strategic Development

EVA-based Bonus

8 EVA-based bonus is a long-term incentive to reward all employees for value creation over the longer-term. It will only be declared if SFI earns more than its cost of capital in a year. Based on the extent of achievement of EVA, an EVA bonus pool is determined using the formula: [X% of EVA + Y% of change in EVA].

9 The actual allocation of EVA-based bonus to each employee is based on individual performance using a relative ranking exercise for different grades of employees across the company. For rank-and-file employees, they are grouped into six grades according to their performance. In 2002 the bonus payout for the six grades of rank-and-file employees ranged from 0 to 2.75 months of basic salary.

10 For executives and managers, each has an individual EVA Bank account. The earned EVA bonus each year will be deposited into the individual EVA Bank Account. Only $^{1}/_{3}$ of the accumulated EVA bank account will be paid out as bonuses in a year. The balance will be accrued to the following year as provision for future bonus payouts. This is to ensure that the EVA bonus is the result of sustainable long-term performance.

Stock Options

11 SFI offers stock options to employees who have served the company for at least one year and whose performances are average or above. Again, the number of stock options is dependent on performance and job grade but not on the length of service. The purpose is to give employees a share in the future wealth they help to grow. It will also entice them to think and act as owners so that they continue contributing their best to the company. About 90% of the employees (including rank-and-file employees) in SFI have been given stock options each year.

HCM PRACTICES TO COMPLEMENT THE FLEXIBLE WAGE SYSTEM

12 Apart from having a highly flexible wage system to reward and motivate employees, SFI also implements good HCM practices to build strong corporate values and a sense of belonging among the staff. Communication, performance management and staff development are the key areas of focus.

Communication

13 SFI recognises the importance of engaging its staff to work towards the company's mission and goals. It conducts frequent communication sessions on the company's direction and policies for the executives and managers, e.g. quarterly briefings by the CEO and half-yearly tea sessions hosted by the Divisional General Managers. The executives and managers, in turn, will communicate these messages to their staff.

14 In addition, SFI conducts an employee climate survey every 18 to 24 months to obtain feedback from employees on their perception of management in giving them a clear sense of the company's direction and SFI's expectations of them; and whether they feel involved in contributing towards the company's success, etc. Through obtaining employees' feedback and addressing their concerns, the company hopes to make SFI a better place to work and to be the employer of choice.

Performance Management

15 One of SFI's core values is value creation. It emphasizes on working smart, working hard and consistently bringing value to all customers and shareholders, each time more and better than the last time. In line with this performance-oriented culture, the company pays a lot of attention on performance management and appraisal. The company practises an open self appraisal system for its executives and managers. Each executive/manager is required to assess his/her own performance, identify areas for improvement, set key work objectives and prioritise his/her own training needs. The supervisor reviews these before holding an open discussion/appraisal with each of his/her subordinate. Executives and managers have their performance/ development review conducted every six months. For rank-and-file employees, they will be appraised once a year using an open appraisal system to feedback on performance and highlight areas for improvement. To equip them for this task, supervisors are regularly trained on coaching and counselling during role-playing workshops.

16 The performance management system is critical to the strategy of low base pay and high incentives. The adoption of open appraisal system has been particularly useful in helping employees to excel in their work. Through open discussions with supervisors on their work performances, employees can better understand their strengths and weaknesses, identify areas for improvement and take necessary action. Supervisors are also held accountable for their assessment and appraisal of their employees.

Staff Development

17 SFI believes in preparing and developing staff to be at the forefront of change. Employees are expected ultimately to be responsible for their own training through encouragement and guidance by their supervisors. It has put in place a people development system which covers:

- Identification of competency needs, gaps and formulation of training & development plans;
- Implementation of training / development plans;
- Evaluation, feedback & improvement.

In-house programmes are being implemented for core areas such as basic food hygiene, EVA training, customer services etc, as well as specific management courses like project financial evaluation, strategic business planning etc.

CONCLUSION

18 SFI's flexible wage system and HCM practices have allowed the company to cope with adverse events in the last few years without resorting to retrenchment or cutting basic wages. For example, during the Nipah virus outbreak in March 1999, the company did not retrench anyone even though work volume declined substantially and 250 employees found themselves without work for 5 weeks as the abattoirs were shut down. Instead, the company works with its unions to actively redeploy the staff. SFI was also awarded one of the Top 10 Best Employers in Singapore in 2003 by global management consulting firm Hewitt Associates and the Straits Times Recruit. *It was recognised as one of the companies that "relentlessly develop the best talent, communicate long term focus, provide clarity as to the current business situation and pay attention to employees' views."*

CHAPTER 11:

MURATA ELECTRONICS SINGAPORE PTE LTD - STRONG LABOUR-MANAGEMENT RELATIONS: IMPLEMENTING NWC'S RECOMMENDATIONS AND MORE

INTRODUCTION

1 Murata Electronics Singapore Pte Ltd was established in 1972. It currently employs about 1,400 employees. The major markets for its products are Asean countries, Europe, Eastern Asia and United States. The company faces keen competition from competitors in other countries and recognises the need to have a wage system that is flexible and competitive.

2 Over the years, Murata has followed the NWC's recommendations closely in refining its wage system. Pre-determined salary ranges were introduced for most jobs and the salary maximum-minimum ratio has been kept at 1.5 till to date. A sizable variable component has been built up to cater to the need to adjust wage cost in business downturn. The company has also moved away from locking in annual increments in the Collective Agreements (CAs). Wage reviews are now done annually based on the company performance and market conditions.

DEFINING SALARY RANGES AND SALARY MAXIMUM-MINIMUM RATIO

3 Before 1988, Murata did not have salary ranges for different job positions. Only minimum salary was stated in the CAs. As a result, workers with long years of service drew salaries much higher than their younger counterparts in the same job.

4 When the company renewed the CA in 1988, it reached an agreement with the union to lay down salary ranges for all levels of non-exempt employees at a salary max-min ratio of 1.5. Under the pre-determined salary ranges, employees would reach the maximum salary point in about seven years. This was based on the company's belief that a good employee should get upgraded within three years and an average employee could be upgraded within five years. From 1988 to 1994, the minimum and maximum salary was adjusted every three years during the renewal of CAs.

INTRODUCING MVC

5 Following the recommendation of the NWC, Murata introduced MVC in its wage structure in July 1999. To date, MVC forms 6% of total annual wages of all categories of employees including management staff. New employees joining the company will also have the same percentage of MVC in their wage structure. The schedule of MVC building-up process is shown in the table below:

Year	MVC
1999	1%
2000	4%
2001	1%
2002	Nil
2003	Nil
Total	6%

6 For most employees, MVC was built up from built-in wage increase. To expedite the building up of MVC for employees at the salary maximum, the company gave them a 2% built-in wage increase in 2000. At the same time, it adjusted the minimum wage by the same percentage. In return, these employees agreed to have 4% of their basic wages transferred to form MVC. In effect, 2% of their MVC was built up from wage increases and 2% from basic wages.

CONDUCTING WAGE REVIEW ON AN ANNUAL BASIS

7 Since the implementation of the Base-Up wage system in 1995, Murata has been conducting wage reviews with the union in June every year. In deciding whether wage adjustment should be made for a year and the level of adjustment, they will take into consideration factors including company's growth, NWC recommendations as well as company's financial and productivity performance.

8 Wage adjustment will usually comprise two components:

a built-in component
b base-up component

The built-in component will be given based on individual performance. Employees at the salary maximum will receive the base-up component only. In the event that the company and union decide to give increment in the form of a lump sum payment, employees at the salary maximum will also obtain such payments.

ADDITIONAL OPTION TO MEET VOLATILE BUSINESS CONDITIONS

9 In view of the uncertain and rapidly changing market conditions, Murata finds it necessary to react fast to market demand and complete production in a shorter lead-time. To cope with this challenge, the company, in consultation with the union, implemented a flexi-work system as a pilot project a year ago.

10 Under the flexi-work system, Murata will ensure that employees have an average of 41 hours of work each week for every two-month period. Overtime payment shall be paid when employees work additional hours within the period. For example, if there are eight weeks in January and February, an employee will have to work 41 hours x 8, i.e. 328 hours for this two-month period. Overtime payment will be paid if an employee is required to work beyond 328 hours.

11 Both Murata and the employees can benefit from the flexi-work system. The company can optimise the use of manpower to meet sudden business orders by making necessary adjustments to the work schedules. Through their understanding and cooperation toward the flexi-work system, employees are able to help the company achieve flexibility and competitiveness and they can then expect greater job security.

CONDUCT DOUBLE APPRAISAL SYSTEM ANNUALLY

12 Murata implemented Double Appraisal System since mid 1990s. One is the Employees Ability Appraisal and the other is Performance Appraisal.

13 In the Ability Appraisal System, Murata appraises its employees' abilities and motivate them to continuously upgrade their skills to meet the needs of technology changes in the company as well as the labour market. The result of such appraisal will lead to basic wage adjustment that is the annual increment, to ensure that employees' basic wages are current and match with the labour market value. By doing so, it is able to encourage employees to upgrade their skills regularly.

14 As for Performance Appraisal, Murata conducts it twice per year to ensure that employees' performance meet the expectations of the company. Employees will be rewarded by annual variable bonuses in accordance with their current year's performance. By doing so, Murata is able to motivate employees to perform and contribute to the growth of the company.

LEARNING POINTS

15 The key to Murata's success in refining its wage structure and the flexi work system is the strong partnership and cooperation between the management and union. This is made possible through:

- Excellent Labour-Management relationship.
- Regularly conducting communication sessions with ALL employees.
- Transparent Human Resource System.
- Motivating employees to enhance their abilities to match with wage increases.
- Implementing Flexi-system for both wage and working hours to meet the new challenges in the economic situation.
- Ability to react agilely towards the fast changing labour market and business conditions.
- Regular meetings to clarify issues and build strong relationships with union leaders and union members.
- Viewing training programmes provided by the Union as part of the company's total training plan.
- Sharing the vision to build a "THINKING Workforce" in Murata.

CHAPTER 12:

HI-P INTERNATIONAL PTE LTD - INCENTIVISING EMPLOYEES

INTRODUCTION

1 HI-P International Limited is a leading precision plastic tooling and secondary processes suppliers. Its clients are mainly established companies in the computer peripherals, medical, precision components, telecommunication and consumer electronics industries. The company started off as a local enterprise in 1980 and has grown into a global enterprise. It has manufacturing facilities in Singapore, China and Mexico, and has a presence in major regions of the world. It employs over 4,700 employees worldwide, of which 200 are based in the Singapore Headquarters which focuses on serving disk-drive manufacturing companies and corporate functions.

2 Result-oriented and people-oriented are the core pillars of Hi-P's culture. The company believes in sharing profits with its employees and has implemented a performance-based wage structure which comprises a high proportion of the variable component (30% for rank-and-file employee and more than 40% for executives and management.) The variable component consists of AWS, monthly Job Incentives and a half-yearly variable bonus. This reward system has been successful in motivating employees to strive for better performance, which in turn helps contribute to the better achievement of corporate goals.

INTRODUCING JOB INCENTIVES TO DRIVE PERFORMANCE AND BEHAVIOUR

3 Production operators/QC inspectors and skilled technicians form about 65 to 70% of the company's workforce. To incentivise them to work towards the production targets and encourage positive behaviour like placing emphasis on efficiency, quality, industrial safety and team work, the company introduced a variable component called Job Incentives in 1988. The Job Incentives, funded partially by wage increases, are payable on a monthly basis. The quantum can be as high as 24 hours' wages for production operators/QC inspectors and 54 hours' wages for skilled technicians, which is equivalent to 13% and 30% of their basic monthly salaries respectively.

4 Different sets of criteria are laid down for different job groups for assessing their performance and determining the amount of Job Incentives. Listed below are the current sets of criteria for production operators/QC Inspectors, tool machinists and designers.

Production Operators / QC Inspectors	Tool Machinists	Designers
Productivity/Efficiency	Productivity/Efficiency	Design on time
Quality of work	Quality of work	Design quality
Co-operation	On Time Delivery	Planning & Co-ordination of projects
Discipline	Co-operation	Initiative
Housekeeping	Morale & Initiative	Training
–	Safety & Housekeeping	Housekeeping
–	–	Morale
–	–	Leadership

5 To facilitate objective assessment and streamline the procedures, the company will regularly review the criteria. Other than motivating employees, the Job Incentives can also serve the same purpose as the MVC. With productivity being a key criterion for deciding the payment of Job Incentives, the quantum of Job Incentives will be lowered when the company suffers a business downturn, thus enabling downward adjustment of wage cost.

SHARING PROFITS THROUGH VARIABLE BONUS

6 Net profit after tax is a KPI used by Hi-P in determining the payout of variable bonus which is paid on a half-yearly basis. The company will review its profit level every six months. When the net profit after tax reaches a certain level, a bonus pool will be set aside and distributed to different plants as a unit bonus pool. The allocation of the unit bonus pool to employees in a particular plant will be based on individual performance. Employees are classified into three categories: executive, non-exempt employees and direct labour. Employees in the same category will be ranked according to their performance into five grades. The distribution of staff in the five grades and the payout of variable bonuses in year 2002 are shown below. For year 2002, the average variable bonus payout for the Singapore plant was two months.

Grade	Distribution	Multiplier of Variable Bonus
Outstanding	10%	1.8 times
Very Good	20-30%	1.4 times
Good	40%	1 time
Satisfactory	20%	0.6 time
Poor	5%	Nil

CONCLUSION

7 The performance-based wage structure adopted by Hi-P has proven to be effective in engaging employees to give their best and focus on achieving company's goals and objectives. This is evidenced by the substantial increase in the company's net profit after tax in the past few years. The system, which works well in Singapore as well as overseas plants, is a key factor contributing to the success and growth of the company.

CHAPTER 13:

COLGATE PALMOLIVE (EASTERN) PTE LTD - NARROWING SALARY RATIOS

BACKGROUND

1 Colgate Palmolive (Eastern) Pte Ltd is a sale distributor of toothpaste, detergent, shampoo, liquid detergent, soap and other toilet articles. It has 40 employees and is unionized under the Chemical Industry Employees' Union.

2 Since 1987, the company has followed closely the NWC's recommendations on wage restructuring. It has over the years enhanced wage flexibility and competitiveness of its wage system by bringing down the salary max-min ratio, introducing the Base-Up Wage System, conducting annual wage review and administering variable components.

NARROWING SALARY MAX-MIN RATIO AND INTRODUCING BASE-UP WAGE SYSTEM

3 Before the year 2000, the salary max-min ratio was 2 for sales representatives and 1.85 for merchandisers. For senior & experienced sales representatives, their salaries were far above the maximum salary of the job. The salary ranges for the two jobs in 1997 were as follows:

CA 1997	Min	Max	Max/Min ratio
Sales Representative	1050	2100	2
Merchandiser	780	1450	1.85

4 When Colgate renewed the Collective Agreement in 2000, it studied the market rates of the two jobs and found that the minimum starting salaries for both jobs were below the market rate. Meanwhile the company recognized that there was a need to revamp the salary structure for both jobs. Besides, it also decided to implement the Base-Up Wage System. To reflect internal equity, the salary structure was revised taking into account the learning curve, level of responsibilities and experience. Higher job grades were created for senior and experienced employees whose levels of responsibility and experience could justify for their higher salaries. The new salary ranges for the two jobs are:

SALES REPRESENTATIVES

Grade	CA year 2000	year 2001 BU=2%	year 2002 BU=0%	CA year 2003	year 2004 BU=2%
	Min Max Ratio	Min Max Ratio	Min Max Ratio	Min Max Ratio	Min Max Ratio
1	2200 3300 1.5	2244 3366 1.5	2244 3366 1.5	2244 3366 1.5	2288 3433 1.5
2	1600 2400 1.5	1632 2448 1.5	1632 2448 1.5	1632 2448 1.5	1664 2496 1.5
3	1400 2100 1.5	1428 2148 1.5	1428 2148 1.5	1428 2148 1.5	1456 2190 1.5

MERCHANDISER

Grade	CA year 2000	year 2001 BU=2%	year 2002 BU=0%	CA year 2003	year 2004 BU=2%
	Min Max Ratio	**Min Max Ratio**	**Min Max Ratio**	**Min Max Ratio**	**Min Max Ratio**
1	1000 1500 1.5	1020 1530 1.5	1020 1530 1.5	1020 1530 1.5	1040 1560 1.5
2	850 1275 1.5	867 1301 1.5	867 1301 1.5	867 1301 1.5	844 1327 1.5

ADJUSTMENT TO SALARY RANGE

5 The Collective Agreement (CA) provides that

- Wage increase should lag behind productivity growth
- A desirable salary range with a salary max-min ratio of 1.5
- The salary structure is based up according to the base-up wage increase
- When there is a recession or when the company does not perform well, there may be no wage increase
- When the job value exceeds the market rate, there shall be no base-up wage increase and a one-off lump sum payment (AI x 13.5) shall be made to employees

6 As the wage levels were competitive, the salary range remained the same for years 2002 & 2003. For year 2004, the wage structure will be based-up by 2%.

CONDUCTING ANNUAL WAGE REVIEWS

7 The CA provides that the wage increase shall be negotiated on a yearly basis taking into consideration the NWC guidelines. Both the company and the union meet and discuss wage adjustments each year. The payment of annual increment is based on individual performance supported by a formal performance appraisal system.

ADMINISTERING VARIABLE COMPONENTS

8 The variable components in the Colgate wage structure comprise AVC and MVC. The former consists of AWS and Variable Bonus.

AWS

9 The CA provides for 1.5 months AWS. It also states that AWS is subject to downward adjustment under exceptional circumstances. This shall be negotiated between the union and the company.

Variable Bonus (VB)

10 As the key business activities of the company are sales and distributions of products, sales growth is used as the Key Performance Indicator (KPI) to determine the payment of Variable Bonus. For the calculation of the sales growth, the percentage increase is based on sales of the preceding years. However, if there is a "dip" year, the calculation shall be based on the year preceding the "dip" year. The table below shows the quantum of VB for different level of sales growth.

Sales growth %	Variable Performance Bonus (VPB) months
0 - below 5	0.5
5 - below 10	0.75
10 - below 15	1.00
15 - below 18	1.75
18 - below 20	2.00
20 and above	2.50

MVC

11 The MVC was introduced into the company's wage system in 2003. Currently the average MVC is 3%. It is built up through wage increments. The company intends to build up MVC progressively to form about 10% of total wages.

PART IV : IMPLEMENTATION

CHAPTER 14:

MOVING AHEAD - IMPLEMENTATION STRATEGIES FOR WAGE RESTRUCTURING

1 The Taskforce recognized early on that the wage restructuring effort is about implementation, not producing a report. It in turn recognized that the successful implementation of wage restructuring depended on every stakeholder understanding the rationale and assumptions behind the process. Communication is therefore a key focus for the Taskforce. Two handbooks on wage restructuring, one written for the employer and the other for the employee, have been produced for circulation. The Taskforce has sought inputs from the public and private sectors at every stage of the process. Apart from forming tripartite working groups in four industries (hotels, electronics, chemicals and land transport), the Taskforce organized a seminar on wage restructuring for CEOs and HR directors on 7 Nov 2003 and held meetings with many sectoral groups to explain the recommendations prior to the 30 Jan 2004 National Tripartite Conference.

2 The Taskforce will continue to work the ground in the next phase of work, to ensure the success of wage restructuring.

MOVING AHEAD-IMPLEMENTATION ON THE GROUND

3 The Taskforce's implementation strategy has three key thrusts:

a *creating a catalytic effect by working with a select group of companies in key sectors to lead wage restructuring.*

b *assisting companies in building and developing wage restructuring and HR systems capabilities.*

c *capitalizing on and sustaining the momentum of a national wage restructuring effort.*

Creating a Catalytic Effect

4 The catalytic effect is achieved at two levels: firstly, when companies in the same sector are convinced by their peers within their industry of the need for and the benefits of wage restructuring; secondly, when key companies in different sectors demonstrate successful implementation of wage restructuring.

Sectoral working groups

5 The four sectoral working groups are integral to this strategy. Their reports, which can be found in Book 2 of the Taskforce Report, contain recommendations on how wage restructuring can be implemented in their particular industry, supported by case studies of actual companies.

6 As of today, the sectoral working groups have already begun work on implementation with pilot groups of participating companies. The working groups have corporate champions amongst them who are playing a key role in providing peer testimonials and offering practical advice and support to other companies in the sector.

SWAT team outreach & facilitation

7 In addition, a tripartite reStructuring Wages AcTion (SWAT) team, consisting of 5 experienced HR experts and conciliators each from NTUC, SNEF and MOM, has been set up to promote the implementation of the CBWS. The SWAT Team will work with some 60 to 70 selected companies on a one-to-one basis to help them understand the principles of wage restructuring and the key features of the CBWS.

8 These companies will form the "first wave". They will be showcased as success stories of wage restructuring and may be invited to attend publicity-related events to promote and explain the wage restructuring process to other companies. Awards may be considered for outstanding companies that have successfully effected wage restructuring. Their wage models can serve as a guide for other companies in the sector to emulate or adopt.

Assisting companies in building wage restructuring and HR systems capabilities.

9 The Taskforce sees Human Resource (HR) capabilities as part of the larger human capital management process. Companies need to communicate the rationale and process of wage restructuring to unions and employees, and to manage employees' morale and expectations during the wage restructuring process. A strong and transparent HR appraisal system is crucial if companies are to link KPIs to individual performance.

10 To equip HR departments of companies and to enhance the capability of the HR consulting industry to support companies in their wage restructuring efforts, the Taskforce will undertake the following:

a Accredit a pool of HR consultants who have the capabilities to assist companies in restructuring their wage systems.

b Design training workshops, briefings and training programmes for HR directors and managers in companies that want to implement wage restructuring.

c Provide resource support and funding to smaller companies that want to implement wage restructuring.

Accredit HR consultants

11 The Taskforce aims to accredit a pool of HR consultants who have the capability to assist companies in restructuring their wage systems. The list of accredited wage restructuring consultants, including HR consultants from SNEF and NTUC, will be made available during the National Tripartite Conference on Wage Restructuring.

Training workshops

12 The Singapore Workforce Development Agency (WDA) will work with the SWAT Team to design a training workshop for HR directors and managers who wish to implement, maintain and enhance wage restructuring in their own companies. WDA will also work with SWAT to identify the relevant trainers to train the HR directors and managers. This training will ensure that they have the requisite knowledge and understanding of the wage model and HR systems capabilities to maintain and enhance the CBWS.

13 After the training workshop, some HR managers may need further help from the wage restructuring consultants on their wage restructuring efforts. The accredited HR consultants will then complement the workshops by coaching the HR managers on the practical aspects of wage restructuring in the companies.

Resource support and funding

14 WDA is prepared to help up to 200 SMEs implement wage restructuring by providing co-funding for the training and coaching fees. The proposed funding is 50% of the coaching fees, subject to a cap of $8,500. This funding would not be available for large companies. The funding mechanism will be tied to an evaluation system to measure the success of implementation of a flexible and competitive wage system. WDA will provide S$2 million funding for the training workshops and the implementation subsidies for SMEs. SNEF is also planning a subsidy for their member companies.

Capitalizing on and sustaining the momentum of a national wage restructuring effort

15 The Taskforce aims to capitalize on the momentum of the national effort to extend wage restructuring to other sectors. The sectoral efforts in the Taskforce's work to date have proven to be absolutely crucial to the entire effort. As implementation involves many parties (HR directors, CEOs or Chairmen, Union leaders), sectoral platforms have proven to be valuable convening platforms to bring these people together to discuss recommendations that are relevant to and focused on their companies' needs. In the second phase of implementation, the Taskforce proposes to set up new working groups in the retail (supermarket), financial and healthcare sectors amongst others, to examine the application of the generic wage model to their sectors. These working groups will be set up along the same lines of those in the first phase, but will have the hindsight of the latter's experience.

16 In addition, the Taskforce will seek to use industry forums where appropriate, to inform and educate more companies on the Taskforce's recommendations.

CONCLUSION

17 As the implementation strategy is executed, the Taskforce will also be monitoring the progress of implementation. This is the subject of the next chapter of the report.

CHAPTER 15:
MEASURING THE OUTCOMES OF WAGE RESTRUCTURING

INDICATORS FOR THE TASKFORCE

1 As the Taskforce releases its report and works with companies and unions to implement wage restructuring, it is necessary to draw up indicators to measure the effectiveness of its efforts in meeting the immediate aims and objectives of the Taskforce, i.e. to promote the implementation of a flexible and competitive wage system, and to formulate and recommend appropriate approaches and measures to drive the implementation of such a system. These indicators would serve as a "report card" for the Taskforce, which can be measured a year from the release of this report. Since the Taskforce was convened by the Ministry of Manpower on the recommendation of the NWC, the tracking of these indicators will be first done by the Taskforce secretariat, and subsequently taken up by the NWC secretariat.

2 The Taskforce's success will be measured by whether the restructured wage system is accepted and understood by employees and at the same time allows companies to adjust wage costs quickly in times of business downturn. The top-line outcomes that the Taskforce will seek will be:

a the proportion of the workforce employed by companies that have flexible wage systems.

b the proportion of unionized employees covered by CAs that incorporate the requisite features of a flexible wage system.

3 To gauge its success, the Taskforce will also measure a more detailed set of outcomes through four main sets of indicators:

a The level of awareness and commitment of companies and employers to wage restructuring;

b How flexible and responsive wages are to changing business conditions;

c How competitive wage levels are; and

d The presence of HCM practices that support wage restructuring and corporate competitiveness.

4 As part of the measurement process, the Taskforce will also collect data of the companies surveyed so as to provide a profile of companies at various stages of wage restructuring. This will include, among others, firstly the level of involvement of the CEO; secondly, the size of the company and thirdly the industry that the company is in.

Level of Awareness and Commitment to Wage Restructuring

5 The broad objective of the Taskforce is to have all companies adopt as many aspects of the wage model as is practicable. Doing so would require a greater awareness of wage restructuring among companies, particularly among the HR directors and CEOs, since wage restructuring cannot take place without their agreement and commitment. The implementation strategy of the Taskforce is therefore aimed at obtaining the buy-in from employers, as well as providing assistance through the SWAT team to help implement wage restructuring in their companies. The following indicators will be used:

a Number of companies that attended the various wage restructuring seminars organised by the Tripartite Taskforce;

b Number of companies actively working on wage restructuring with or without the SWAT team[1]; and

c Number of companies that are aware of wage restructuring options. This can be measured by asking companies to rank the various tools of controlling wage costs (e.g. shorter work week, reducing overtime, no-pay leave, reducing AVC or MVC and retrenchments).

Flexible and Responsive Wages

6 The Taskforce essentially has four key recommendations to promote flexibility of wages:

a Variability of wages is a key factor in flexible wages, and the recommendation of broad guidelines for basic wage and variable components.

b Companies and employees to clarify the nature of the AWS as either fixed or variable, with a long term goal towards moving the AWS to being variable, and part of the AVC.

c Companies to link the AVC more directly to company and individual performance by drawing up KPIs, and linking the payment of the AVC to the achievement of these KPIs.

d Companies should draw up clear and transparent guidelines for triggering and restoring the cuts to the MVC or an equivalent such as quarterly variable component.

1 This indicator is meant to measure the short term success of the Taskforce's wage restructuring efforts. Assuming that SWAT's efforts are successful, the number of companies working with them should fall over time.

7 Correspondingly, the indicators are as follows:

a Percentage of wages in variable components for rank-and-file employees, middle management and senior management;

b Change in basic wage compared to change in variable wages for rank-and-file employees, middle management and senior management;

c Number of companies that have clarified the nature of the AWS with their employees;

d Number of companies with KPIs for company and/or individual based performance bonuses and the percentage of workforce covered;

e Number of companies that have implemented AVC and MVC (i) fully as per the NWC recommendations (ii) gone beyond the half-way mark towards the NWC target levels; and the percentage of workforce covered;

f Number of companies that have expressed satisfaction with the flexibility of their wage structures, and able to explain how wage adjustments will be triggered; and

g Number of companies with guidelines for cut and restoration of MVC or equivalent.

Competitive Wages

8 The broader goal of competitive wages is to enable Singapore to continue to attract investments to support economic growth. The Taskforce's desired outcomes for enhancing competitiveness is that salary ranges should be pegged to the market value of the job, that companies should seek to achieve a average salary max-min ratio of 1.5, or less, and that companies should conduct annual wage reviews. The corresponding indicators are as follows:

a Change in real total wage compared to national productivity growth;

b For key sectors, change in real total wage compared to sectoral productivity growth;

c Percentage of companies with an average salary max-min ratio of 1.5, or less and the percentage of workforce covered;

d Percentage of companies with annual review of AI quantum in their collective agreements, and the percentage of workforce covered; and

e For key sectors, unit labour costs versus competitor countries.

Supporting Systems and Structures

9 The Taskforce has identified three supporting systems and structures that are essential to enabling companies to implement and maintain a flexible and competitive wage system effectively. They are the presence of a strong HCM system to develop employees' capabilities, an effective and transparent appraisal system, and strong information communications channels between companies and employees. The corresponding indicators are as follows:

a Number of companies aware of and working on implementing flexible and performance-based wage system;

b Number of companies that practise formal performance appraisal and performance management linked to wage flexibility; and

c Percentage of companies that share KPI and wage flexibility information with their employees.

SURVEY

10 As a first step to measuring these indicators, the Taskforce will commission a survey to assess the success of its efforts in implementing the proposed features of the flexible and competitive wage structure. Such a study could be conducted either by MOM's Manpower Research and Statistics Department (MRSD) or by an external party. The parameters of that survey will be scoped with inputs from the Taskforce secretariat. A summary of the indicators for the Taskforce is attached in Annex L, with existing data for indicators shown where available.

ANNEXES

ANNEX A

COMPOSITION OF THE TRIPARTITE TASKFORCE ON WAGE RESTRUCTURING

EMPLOYERS' REPRESENTATIVES

Mr Stephen Lee	Chairman, Singapore Business Federation & President, Singapore National Employers Federation
Mr Alexander Melchers	President, German Business Association
Mr Christopher James	Board Member, American Chamber of Commerce

UNION REPRESENTATIVES

Mr John De Payva	President, National Trades Union Congress
Mr Teo Yock Ngee	General Secretary Amalgamated Union of Public Employees
Mr Lim Chin Siew	Director, Industrial Relations Department National Trades Union Congress

GOVERNMENT REPRESENTATIVES

Miss Yong Ying-I	Chairperson, Tripartite Taskforce on Wage Restructuring Permanent Secretary (Manpower)
Mr Leo Yip	Deputy Secretary (Policy & Development) Ministry of Manpower
Mr Ng Wai Choong	Acting Deputy Secretary Ministry of Trade & Industry
Mr Ong Yen Her	Divisional Director, Labour Relations & Welfare Ministry of Manpower

RESOURCE PERSONS

Dr. Lee Tsao Yuan	Executive Director, SDC Consulting
Mr Lee Kam Choon	Vice President, Human Resources, Hi-P International Pte Ltd
Mr Yeo Khoon Chua	Director, NMB Singapore Pte Ltd
Ms Low Peck Kem	HR Director, Singapore / Thailand Agilent Technologies Singapore (Sales) Pte Ltd
Mr Koh Juan Kiat	Executive Director, Singapore Business Federation / Singapore National Employers Federation

ANNEX B

TERMS OF REFERENCE OF THE TASKFORCE:

i) To formulate and recommend appropriate approaches and measures to drive the implementation of a flexible and competitive wage system.

ii) To promote the implementation of a flexible and competitive wage system which reflects the value of the job, rewards and incentivises employees for their contributions, and is responsive to changing business conditions.

ANNEX C

MEMBERSHIP OF THE ELECTRONICS WORKING GROUP

Chairpersons

Dr Elizabeth Martin-Chua
Executive Director, Country Management & Vice President, Human Resources, Philips Electronics Spore Pte Ltd

Mr Cyrille Tan
General Secretary
United Workers of Electronic & Electrical Industries

Members (Management representatives)

Mr Edmond Ang
Senior Regional Director, Rewards Management, Asia, Philips Electronics Asia Pacific

Ms Low Peck Kem
HR Director, Singapore / Thailand
Agilent Technologies Singapore (Sales) Pte Ltd

Mr Patrick Wong
General Manager , Panasonic AVC Network (S) Pte Ltd

Ms Valerie Lee
HR Director, ST Assembly Test Services Ltd

Members (Union representatives)

Mr Goh Wee Liam
Deputy Director & Chief Operating Officer (NTUC Healthcare) & Deputy Director (Corporate Development Dept), NTUC

Mr Ong Keau
Deputy Executive Secretary
United Workers of Electronic & Electrical Industries

Members (Government representatives)

Mr Ong Yen Her
Divisional Director, Labour Relations & Welfare
Ministry of Manpower

Mr Ong Hui Guan
Director, Labour Relations & Welfare Policies
Ministry of Manpower

Mr Anil Das
Director, Industry Division (Manufacturing)
Singapore Workforce Development Agency

Resource Persons

Mr Na Boon Chong
Country Head, Hewitt Associates Pte Ltd

Mr Bucknall, Hugh Donald
Asia Practice Leader & World Wide Partner,
Mercer Human Resource Consulting

Ms Ang Kuan Kuan
Senior Consultant,
Singapore National Employers Federation

ANNEX D

MEMBERSHIP OF THE CHEMICALS WORKING GROUP

Chairpersons	**Mr Kwa Chong Seng** Managing Director, ExxonMobil Asia Pacific Pte Ltd
	Mr Seng Han Thong Assistant Secretary General, NTUC
Members (Management representatives)	**Mr Christopher Nottingham** Managing Director, Croda Singapore
	Mr Tang Kin Fei CEO, SembCorp Utilities
	Mr Haruki Yoshiura Managing Director, Mitsui Bisphenol Singapore Pte Ltd
	Mr John Chan Director, General Manager, HR - Singapore / East Zone Transformation, Shell Eastern Petroleum Pte Ltd
	Mr Phua King Song Human Resource Director Glaxo Wellcome Manufacturing Pte Ltd
Members (Union representatives)	**Mr Thiagarajan** Asst Executive Secretary Chemical Industry Employees' Union
	Ms Vicky Wong Principal Industrial Relations Officer Chemical Industries Employees' Union
Members (Government representatives)	**Mr Anil Das** Director, Industry Division (Manufacturing) Singapore Workforce Development Agency
	Mr Tan Jing Koon Deputy Director, Labour Relations Department Ministry of Manpower
	Mr Chiu Wen Tung Head, Chemicals Cluster, Economic Development Board

Resource Persons

Mr Toh Hong Seng
Senior Consultant
Singapore National Employers Federation

Ms Goh Sor Imm
Assistant Director
Industrial Relations Department, NTUC

ANNEX E

MEMBERSHIP OF THE HOTEL WORKING GROUP

Chairpersons

Ms Jennie Chua
Chairman, Raffles International Limited

Mr Matthias Yao
Deputy Secretary General, NTUC

Mrs Kay Goon (deputy chair)
Chairman, Shangri-La Hotel Singapore c/o Kuok Singapore Ltd

Members (Management representatives)

Mr Tommy Ng
Executive Director, Raffles Knowledge Pte Ltd

Mr Tan Choon Kwang
Senior Vice President, Raffles International Limited, Corporate Development & Human Resources

Ms Margie Tay
Senior Manager, Raffles International Limited, Corporate Human Resources

Ms Annie Chiam
Senior Vice President, Pontiac Marina Private Limited

Mr Andy Khor
Director of Human Resource
Conrad Centennial Singapore

Mr Eugene Tan
Regional Human Resource Director
Shangri-La Hotel Singapore

Mr Eddie Yeo
General Manager, Copthorne King's Hotel Singapore

Mr Mike Giam
Director of Human Resource and Training
Millennium & Copthorne International Limited

Ms Yu We Le
Assistant Director (Group Human Resource)
Far East Organization

Mr Arthur Khong
Director of Human Resources, Orchard Parade Hotel

Ms Jessie Tan
Executive Assistant Manager, York Hotel Singapore

Members (Union representatives)

Mr Tan Soon Yam
General Secretary
Food, Drinks & Allied Workers Union

Mr Chan Tee Seng
Director, Skills Development Department, NTUC

Mr Samuel Tan
Assistant Executive Secretary
Food, Drinks & Allied Workers Union

Members (Government representatives)

Mr Kevin Shum
Director, Industry Division (Services)
Singapore Workforce Development Agency

Mr Lim Chwee Seng
Director, Resource Development
Singapore Tourism Board

Resource Persons

Mr Ong Yen Her
Divisional Director, Labour Relations & Welfare
Ministry of Manpower

Ms Annie Burgess
Principal, Towers Perrin

Mr Toh Hong Seng
Senior Consultant
Singapore National Employers Federation

ANNEX F

MEMBERSHIP OF THE LAND TRANSPORT WORKING GROUP

Chairpersons	**Mr Kua Hong Pak** CEO, ComfortDelgro Corp Ltd
	Mr Ong Ah Heng Assistant Secretary General, NTUC
Members (Management representatives)	**Mr Phoon Chee Meng** Group HR Officer (Ag), ComfortDelgro Corp Ltd
	Ms Daisy Chan Director, HR & Admin, SBS Transit Ltd
	Mr Yeo Meng Hin Executive Vice President, SMRT Corporation
	Ms Karrine Lim Assistant General Manager, TIBS
Members (Union representative)	**Mr Mohd Yunos** President, National Transport Workers' Union
Members (Government representative)	**Mr Ong Yen Her** Divisional Director, Labour Relations & Welfare Ministry of Manpower
Resource Persons	**Mr Tan Chan Seng** Asst Executive Secretary National Transport Workers' Union
	Mr Yeo Chau Koon Industrial Relations Consultant National Transport Workers' Union
	Mr Tan Boon Toy Deputy Executive Secretary National Transport Workers' Union
	Mr Mah Cheong Fatt Deputy Executive Secretary Singapore Industrial Services Employees' Union
	Ms Linda Ang Senior Consultant Singapore National Employers Federation

ANNEX G

WAGE PRINCIPLES

OBJECTIVE

Wage principles guide the adoption of a flexible and competitive wage system which enables companies to respond readily to changing business conditions and at the same time rewards workers for their contribution and motivate them to enhance their capabilities and performance. Such a wage system will benefit the companies, employees and the economy in the following ways:

a **Employee:** The employee should receive the best possible compensation and recognition for his value added contributions, while looking forward to enhanced income and employability over his career. Although the employee will be called upon to shoulder wage cuts when business conditions are bad, a flexible and competitive wage system will provide upsides to reward employees in good times.

b **Employer:** The employer will have a flexible and responsive wage system that could help companies to compete more effectively so as to earn a sustainable competitive return on his capital, while supporting profit growth and rewarding employees.

c **Economy:** The people's standard of living will be enhanced through a virtuous cycle of investment, job creation and enhanced skills.

WAGE PRINCIPLES

a **Sustainable growth.** The wage system should achieve the best possible compensation and rewards for employees, linked to the performance of the company and individuals. In turn, the wage system should not hinder employers from earning a competitive return on their capital, so as to support business sustainability, investment, job creation and better opportunities for all.

b **Competitiveness.** Employees' remuneration, including the granting of service increments, must reflect the value of the job, their skills and experience, such that the wage structure enables the employer to be competitive in the global marketplace. Wage increase should always lag behind productivity growth. Employees and employers should work together to constantly upgrade and enhance the skills, capabilities and employability of the workforce.

c **Flexibility.** In order to allow employers to respond quickly to volatile business conditions, employees should allow for a greater portion of their wages to be variable in line with the profitability of the company. Employers in turn should consider wage flexibility as an additional tool, and balance it with employees' need for income stability, when managing wage costs.

d **Motivation.** Employers should incentivise employees to give their best and higher value added services, with rewards for good company and individual performance and opportunities to enhance employees' skills. Employers should reward employees' contributions in good times. Employees should accept wage adjustments as a result of market changes. As leadership behaviour shapes motivation and morale of employees, management should take the lead in bad times, in bearing the wage adjustments that need to be made. Employers should have in place good HR systems to appraise performance and enhance employee skills.

e **Stability.** Employers should structure the compensation system so that employees can enjoy a basic regular income. The level of this fixed portion of the employees' income should be set within a structure that enables the employer to be globally competitive.

Similarities and differences of above wage principles as compared to the 1986 wage principles

Similarities

1 Value of the job for competitiveness.
2 Wage increases lagging behind productivity growth
3 Measure of stability in worker's income.

Differences

1 The fundamental objective is to encourage both the employers and workers to strive for growth and a win-win situation, so that wages and rewards would be sustainable.
2 Use of the word "employee" vs "worker".
3 Implied increase in risk sharing on the part of the employee through wage flexibility, in exchange for greater job stability.
4 Implied preference for wage flexibility over headcount variability.
5 The principles do not link wage increases with company profitability and individual performance, unlike 1986. Only value of the job matters.
6 Motivation is new, in recognition of the hopes and aspirations of employees beyond just wages.

1986 WAGE PRINCIPLES:

1 Wages should reflect the value of the job with salary ranges not being too wide.
2 Wage increases should lag behind productivity growth.
3 Wage increases should take into account company profitability and individual performance.
4 Wage increases for company and individual performance should not always be given on a permanent basis.
5 There should be a measure of stability in the worker's income.

ANNEX H

EMPLOYMENT ACT CLAUSE ON THE ANNUAL WAGE SUPPLEMENT (AWS)

PAYMENT OF ANNUAL WAGE SUPPLEMENT OR OTHER VARIABLE PAYMENT

48 (1) Where a contract of service or collective agreement made before 26 August 1988 provides for the payment by the employer of any annual wage supplement, annual bonus or annual wage increase, such payments shall continue to be payable by the employer until the employer and his employees or a trade union representing his employees have negotiated and agreed to vary such payments.

(2) An employer and his employees or a trade union representing his employees may negotiate for and agree to a variable payment based on the trading results or productivity or on any other criteria agreed upon by the parties concerned.

(3) Where an employer has not paid any annual wage supplement prior to 26 August 1988, any contract of service or collective agreement made on or after that date between the employer and his employees or a trade union representing his employees shall not contain a provision for the payment of an annual wage supplement exceeding the equivalent of one month's wages of the employees.

(4) Any person who, or any trade union of employees which, requests (whether orally or in writing) or invites negotiations for the payment by an employer of an annual wage supplement which is in excess of the amount specified in subsection (3) and any employer who pays an annual wage supplement exceeding the amount specified in subsection (3) shall be guilty of an offence.

(5) Notwithstanding that an annual wage supplement may be payable under subsection (1) or (3), an employer may, in the event of exceptionally poor business results for any year, invite the employees or a trade union representing his employees to negotiate for a lower quantum of annual wage supplement or for no annual wage supplement to be paid for that year.

ANNEX I

SUGGESTED LIST OF KEY PERFORMANCE INDICATORS (KPIs) FOR AVC AND MVC COMPUTATION

The Taskforce proposes that companies draw up Key Performance Indicators (KPIs) for the components of the AVC to be pegged to company and individual performance. These KPIs **should be clearly explained to unions and easy for workers to understand**. The KPIs provide an objective basis on which unions and employers can agree upon to formulate the AVC. A suggested list of KPIs that can be used is below.

	SUGGESTED KEY PERFORMANCE INDICATORS	REMARKS
AVC	• profitability measures • profit level • sales volume • market share • growth rate • return on equity (ROE) • return on investment (ROI) • productivity increase • economic value-added (EVA). Non-monetary targets • safety records • innovation projects • customer satisfaction	A formula linking the AVC to the KPIs should be drawn up. The formula can include: • profit sharing when benchmarks are achieved • cuts when targets are not achieved • equitable upside and downside in wage adjustments • review mechanism for the formula in light of experience over business cycles
MVC	Profitability measures • return on equity (ROE) • economic value-added (EVA)	1) In view of the volatile economic environment, companies are advised to tie future performance on KPIs to decide the payment and formulae of variable components, rather than rely on past performance for the coming year's variable payments. 2) It is also critical that management is willing to share the KPIs with employees to ensure transparency

ANNEX J

OPTIONS AND WORKING EXAMPLES FOR WAGE RESTRUCTURING

	WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
	IMPLEMENTING FLEXIBILITY (INCREASE VARIABLE COMPONENT OF WAGES)		
a	**Annual Variable Component (AVC)**		
1	**Building up AVC through future wage increases**		A petroleum company has over the years built up their annual variable payment on a cumulative basis from part of wage increases. The component has now reached two months' salary and can be adjusted downward when the company performs poorly.
2	**Fair and reasonable Key Performance Indicators (KPIs) to track company and employee performance**	Companies should link AVC to KPIs. This can include profit sharing mechanisms. Robust appraisal systems to measure individual performance Giving out AVC on a more regular basis to increase tangibility.	i) An electronics MNC drew up two sets of Performance Indicators (PI), based on various targets. When the Level 1 Key Performance Indicators are attained, a 1.5 months funding will be triggered. Upon attaining Level 2 Key Performance Indicators, another 1.5 months funding will be triggered, making a total AVC funding of 3 months. This will be more than the average 1.5 months' AVC received by the unionized staff before the wage restructuring exercise. Once the AVC funding is determined, the AVC will be distributed to employees based on individual performance.

WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
		ii) An American MNC declares its variable bonus on a quarterly basis. Its Singapore office is allocated a portion of the overall bonus. The Singapore office will then decide on the allocation of the bonus to its workers based on the following formula: • Portion based on company's performance - this portion is given equally to every worker in the Singapore office; • Portion based on individual performance - this portion differs based on a worker's performance. iii) Local banks have introduced a profit sharing formula for making bonus payment. If a bank achieves the minimum threshold rate of return on equity, it will pay a bonus ranging from 1 week's to a maximum of 2.5 months' salary. This is over and above the two months' AWS given by the bank to its employees.
b Monthly Variable Component (MVC)		
1 Build up and implement MVC, partly from future wage increases and partly from basic wages.	As building up MVC solely from wage increases is likely to be slow, it may be necessary to build up MVC from both basic wages and future wage increases.	i) A MNC builds up the MVC from both annual wage increase and transferring a percentage from basic salary. For example, if the MVC for 2004 is to be built up to 4%, 2% will be from annual increment and

	WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
			another 2% will be from basic salary. It hopes to use this method to build up the MVC to 10% over 2.5 years. ii) A company in the aviation maintenance industry implemented MVC in 2002 for all levels of staff. The MVC was built up from wage increases and amounted to 1% of basic wages. In 2003, management proposed a freeze in built-in wage increases due to weak economic conditions and outlook. In support of the NWC's 2003 recommendation to build up the MVC, union and management agreed to set aside 4% of workers' basic pay as MVC to build up the cumulated quantum to 5%.
2	**Fair and reasonable Key Performance Indicators (KPIs) to track company performance**	Rate and level at which MVC is rebuilt should depend on the extent of the recovery and its sustainability, and market conditions as per KPIs stated by the companies	An electronics MNC is considering the following triggers for MVC adjustment. A MVC cut would be triggered after other cost-cutting measures such as taking annual leave and no-pay leave; shorter work week have been implemented: • When the company suffers continuous loss for a period of six months; and • No improvement of business envisaged for another six months.

WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
		MVC is restored under the following triggers: • Restore MVC when the company is profitable for a continuous period of 12 months; • Make discretionary retroactive payment only if the company does very well.
c Additional options		
1 Additional options for wage adjustments: **a Shorter work weeks** **b Temporary lay-off** **c Enforced no-pay leave** **d Flexi-time arrangements**	Should not reduce impetus to implement wage reform.	1) During the SARS crisis, many hotels, after consultation with unions, implemented enforced no-pay leave as a temporary cost-cutting measure. For example, employees working at Hotel X, who were earning $2000 and below, were asked to take four days of no-pay leave each month from May to June 2003, while employees earning above $2000 were asked to take five days of no-pay leave. 2) An electronics company implemented shorter working weeks due to a decline in production orders. Employees were required to take four days off in one month for the period June to August 2003. Union and management implemented the measure in accordance with the tripartite guidelines, which meant that

WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
		the company paid workers for 50% of the enforced leave while the remaining 50% could be covered by annual leave. Therefore, employees would not see a reduction in their take home pay unless they ran out of annual leave within the three months.
2 Rationalise outdated allowances into variable component		A company used to pay monthly allowances that comprised two components i) the market adjustment allowance and ii) incentive payment. The company has begun to cease paying the market adjustment allowance from 1 Aug 2003, a process that will be spread over four quarterly phases. At the same time, the incentive payment is also being phased out. A one-off lump sum payment of $600 was paid out as compensation for the planned phasing out of the incentive payment.
3 Offer upside in return for converting fixed component/basic wage to variable components	Upside can include a lump sum payment (once-off or several payments over time) which is equivalent to the cumulative amount of the excess payment for two to three years.	i) A manufacturing company introduced a variable performance bonus to replace an unconditional ex-gratia payment. The variable performance bonus will be based on company and individual performance and allow an employee a maximum of 2.4 months in exchange for one month's salary in ex-gratia payment.

WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
		ii) An aviation company had to lower wage levels after its business was hurt by September 11 incident and particularly the SARS outbreak. The senior management led the way with salary cuts of 27.5%. Unionised staff had to take cuts ranging from 5% to 16.5%. To persuade the unions, the company offered a make-up lump sum payment based on company's profitability in its financial year ending 31 Mar 2004. It promised to compensate employees for up to 115% of the wages they had forgone if the company achieved a gross profit after tax (GPAT) level of $600m in its financial year.
4 Relevant and regular information sharing on company performance and prospects with unions and employees.		i) In an American MNC, managers are briefed each year on the market trends, and how that has affected the company's pay adjustments for their workers. Managers are then expected to help workers understand that the pay adjustments are made against the backdrop of external market trends. ii) A petrochemical company wanted to convert its fixed service benefit to a performance bonus. The difficulties in

	WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
			negotiations was overcome when the management explained how the performance bonuses would be calculated, and agreed to inform the union of performance targets at the beginning of the assessment period. It also provided information on which groups of workers would be worse off (only a minority with performance rating 1). The management also agreed to highlight the list of non-performers to the union and work with the union to address the performance gaps of these workers.
5	**Robust appraisal systems to measure individual performance**		An American MNC has an on-line performance review system. The performance review between supervisor and worker usually takes place once a year, but managers are given the autonomy to conduct them as frequently as once a quarter. Both the supervisor and worker sign off on the performance review assessment after the face-to-face session.
6	**Leadership commitment**	Management should share KPIs and formula to ensure transparency. They should also put a higher portion of their total compensation at risk.	The CEO of a local company leads by example in putting a higher portion of his salary as variable component. At least 50% of his pay is variable and linked to the company's performance.

	WAGE RESTRUCTURING IMPLEMENTATION OPTIONS	REMARKS	WORKING EXAMPLES
7	**Clear communications process**	There is a need for a clarification on the implementation details, such as a common understanding on how wages can be adjusted, measures for employees at the salary maximum, and definitions of procedures and methodology of implementation	When a MNC introduced the MVC to its non-exempt staff in July 2003, it worked closely with the union to draw up a plan to communicate to the employees. By developing a set of information material with the union on MVC, the MNC also conducted separate rounds of communication sessions for the supervisors/ managerial staff and the general employees. The sessions allowed the management to explain its position and the rationale for implementing MVC. The sessions also gave employees the opportunity to seek clarification. A comprehensive list of issues was covered to bring about a better understanding of MVC and to address any concerns that the employees have. The communication process proves to be effective in getting employees to accept the implementation of MVC as part of the wage restructuring efforts by the company.

	WAGE RESTRUCTURING MEASURES	REMARKS	WORKING EXAMPLES
	IMPLEMENTING COMPETITIVENESS		
a	**Moving towards the 1.5 salary max-min ratio**		
1	**To decide the appropriate salary max/min ratio**	Through job evaluation based on: i) Nature and scope of the job ii) Knowledge, skills & experience required iii) Complexity of duties and the learning curve iV) Level of accountabilities and responsibilities (budgetary & supervisory) V) Level of the jobs in the corporate hierarchy Companies can learn from practice examples and work towards an appropriate job evaluation methodology. There can be variations between ratios for different jobs but ratios should not deviate too far from the industry norm and the market value of the job.	An American MNC subscribes to the philosophy that job levels are paid according to market value. The job levels in the company structure each have their own market pay band. Each job level is benchmarked annually with a group of other companies, surveyed by a HR consultant that the companies jointly hire. Based on the findings, the company then benchmarks and adjusts the pay accordingly (25-75 percentile of the total data range). If the market value of the job level increases, then the pay for the job level is adjusted up accordingly. If the market value of the job level decreases or stays stagnant, then pay for the job level is stagnant. The pay adjustment for a worker within the job level each year is dependent on the market value of his job, as well as his performance.

WAGE RESTRUCTURING MEASURES	REMARKS	WORKING EXAMPLES
2 **To narrow salary max-min ratio**	Companies can consider the following optins to narrow the salary max-min ratio:	
	i) **Raising the salary minimum**. A gradual approach that allows companies to move towards a narrower scale through future wage increases. Possible options include: a) raising salary min and salary max by same dollar quantum b) adjusting salary min by a higher percentage/ quantum than the adjustment given to the salary max. c) Raising the salary min but capping the max.	The banking industry adopted the option of raising salary minimum and capping salary maximum. The maximum salary point of clerical staff was held at $1,500 over three CAs covering nine years from 1983 to 1991 and at $1,680 from 1992 until present, while salary minimum was raised from $450 in 1983 to the present $950. Over a period of about 10 years, the salary ratio of clerical staff in the banking sector has been lowered from more than 3 to 1.76.

WAGE RESTRUCTURING MEASURES	REMARKS	WORKING EXAMPLES
	ii) **Reducing salary maximum**. Companies can consider the following measures for employees whose salaries exceed the new salary maximum: a) Allowing retention of salary points on a personal-to-holder basis b) Rewarding the employees through productivity or performance-related bonuses that are not part of built-in wage increases c) Giving once-off lump sum in lieu of built-in increment. d) Buying out excess salaries for employees who are currently paid beyond the new salary maximum.	

WAGE RESTRUCTURING MEASURES	REMARKS	WORKING EXAMPLES
	iii) **Truncating long salary range into 2 or 3 shorter ranges** Employees will move from one salary range to another through assignment of higher responsibilities or promotion.	In the insurance industry, the average salary ratio was 2.6 in the 80's. Following the NWC Wage Reform Committee's recommendations, the industry truncated the salary ranges for three clerical grades to form five grades. Moving between grades require promotion. Employees at the salary max of a grade could be upgraded to the next (thereby enjoying a higher maximum salary point, but without a promotional wage increase) on a case-by-case basis if they achieve the performance expectation. For employees at salary max, they are paid once-off lump sum payments if their performances are good. The average salary ratio for clerical grade is now 1.6.
b Moving towards annual wage reviews		
To conduct wage reviews on an annual basis	1) Wage increases should only be given if they are sustainable in the long run. 2) Service increments should be minimised and paid only to employees who are not already at the maximum point of the salary scale.	

WAGE RESTRUCTURING MEASURES	REMARKS	WORKING EXAMPLES
	3) Those at salary max should be rewarded their share of productivity and performance through once-off lump sum payments or variable bonuses. 4) Should follow NWC guidelines annually.	

ANNEX K

A BRIEF CHRONOLOGY OF THE ANNUAL WAGE SUPPLEMENT (AWS)

1 JULY 1972: INTRODUCTION OF THE AWS

- With the view to establish a fair and equitable system of bonus payment, to promote industrial peace and harmony with social justice, and to end once and for all the problem with bonus payments, the NWC recommended that the traditional bonus system be replaced by a system of annual wage supplement.

- Employers were given the option to pay:

  a A frozen AWS of an amount not exceeding three months' wages plus a negotiable bonus of an amount not exceeding three months' wages; or

  b A frozen AWS of not exceeding three months' wages plus an annual wage increase along the guidelines of the NWC.

  (Frozen AWS of a company that began operations before 1 July 1972 is determined as follows. If the company had paid annual bonuses of more than one month's wages, the frozen AWS is the average of the bonuses paid in the last three years preceding 1 July 1972, or the last bonus paid, whichever is the greater, subject to a maximum of three months' wages.)

1975: RECTIFICATION OF THE AWS IN THE EMPLOYMENT ACT

- As there had been no enforcement mechanisms, bonus disputes continued despite the 1972 amendment.

- The Employment Act was amended in 1975 so that workers and unions would face penalties if they were convicted of asking for payments exceeding the limits set in the 1972 amendment.

- Penalty was a fine of not more than $5,000 or imprisonment of not more than six months, or both.

1986: NWC SUBCOMMITTEE ON WAGE REFORM RECOMMENDED AWS TO BE ONE MONTH AS PART OF FLEXIBLE WAGE SYSTEM

- The subcommittee report noted that the payment of AWS of one month's basic wage is a widespread practice and should normally be made to the workers.
- However, the AWS may be adjusted downwards under exceptional circumstances.
- The AWS and the variable wage component would together allow about 20% of wages to be varied.
- To facilitate the implementation of a flexible wage system by companies with a fixed AWS of not more than one month's basic wage, the subcommittee recommends three options:

  a Consolidation: Where the fixed AWS exceeds one month's basic wage, the excess can be consolidated into the basic wage of employees. Henceforth all employees will receive a fixed AWS of only one month's basic wage.

  b Personal-to-holder: Where the fixed AWS exceeds one month's basic wage, the excess can be paid on a personal-to-holder basis for existing employees. New employees will only receive a fixed AWS of one month's basic wage.

  c Variable above one month: Where the fixed AWS is of three months' basic wage, two months can be paid separately as a variable wage component. Where the fixed AWS is of more than one month's basic wage but less than three months' basic wage, companies may treat the amount in excess of one month's basic wage as a variable productivity payment and build it up to two months' basic wage.

16 AUGUST 1988: REMOVAL OF THE FIXED AWS FROM EMPLOYMENT ACT

- Where an employer has not paid any AWS prior to 26 August 1988, any CA or contract of service made on or after that date cannot contain an AWS of more than one month's wages.
- An employer may, in the event of exceptionally poor business results for any year, invite the employees or a trade union to negotiate for a lower quantum of AWS or for no AWS to be paid for that year.
- This amendment is the most recent one. An extract of the AWS clause of the Employment Act (1988 amendment) is attached in Annex H.

ANNEX L

SUMMARY OF PROPOSED TASKFORCE INDICATORS

S/N	INDICATOR	2002 DATA^
A	**Commitment to Wage Restructuring**	
1	Number of companies that attended the various seminars and presentations of the Taskforce.	NA
2	Number of companies actively working on wage restructuring with or without the SWAT team.	NA
3	Number of companies that are aware of wage restructuring options. This can be measured by asking companies to rank the various tools of controlling wage costs (e.g. shorter work week, reducing overtime, no-pay leave, reducing AVC or MVC and retrenchments).	NA
B	**Flexible and Responsive Wages**	
4	Percentage of wages in variable components for rank-and-file employees, middle management and senior management.	Rank-and-file: 12.1% Junior Mgt : 14.2% Snr Mgt :13.7%
5	Change in basic wages compared to change in variable wages for rank-and-file employees, middle management and senior management.	NA
6	Number of companies that have clarified the nature of the AWS with their employees.	NA
7	Number of companies with KPIs for company and/or individual based performance bonuses and the percentage of workforce.	NA
8	Number of companies that have implemented AVC and MVC, i) fully as per the NWC recommendations, ii) gone beyond the halfway mark towards the NWC targets levels; and the percentage of workforce covered.	Number of firms that paid out a variable component in 2002 = 74.5% % of firms that implemented MVC Unionised firms: 39.0% Non-unionised firms: 3.9%

S/N	INDICATOR	2002 DATA^
9	Number of companies that have expressed satisfaction with the flexibility of their wage structures, and are able to explain how wage adjustments will be triggered; and the percentage of workforce covered.	NA
10	Number of companies with guidelines for cut and restoration of MVC or equivalent.	NA
C	**Competitive Wages**	
11	Change in real total wage compared to national productivity growth.	Real Total Wage Change = 0% Productivity Growth = 4.2%
12	For key sectors, change in real total wage compared to sectoral productivity growth.	NA
13	Percentage of companies with an average salary max-min ratio of 1.5 or less; and the percentage of workforce covered.	NA
14	Percentage of companies with annual review of AI quantum in their CAs and the percentage of workforce covered.	NA
15	For key sectors, unit labour costs versus competitor countries.	NA
D	**Supporting Systems and Structures**	
16	Number of companies that are aware of and working on implementing flexible and performance-based wage system.	NA
17	Number of companies that practise formal performance appraisal and performance management linked to wage flexibility.	NA
18	Percentage of companies that share KPI and wage flexibility-related information with their employees.	NA

^*Source: Report on Wages in Singapore, 2002 by Manpower Research and Statistics Department, MOM*

GLOSSARY

Annual Increment : This refers to the increase in an employee's basic wage after a year's work. Because of its cumulative nature, it is also referred to as "built-in wage increase". It can include Service increment, Productivity increment and Merit increment. Promotional increments are to be excluded.

Annual Variable Component (AVC) : This usually consists of two components i.e. the AWS and variable bonus. Generally, the annual variable component is linked to company's profitability.

Annual Wage Supplement (AWS) : This refers to the fixed annual payment usually paid at year-end. It is also commonly known as the 13^{th} month allowance.

Base-Up Wage System : This refers to a wage system with a short salary max-min ratio (about 1.5) which closely reflects the value of the job. It has two wage increase components i.e. productivity and service components. While the former is granted to all employees to reward them for better company performance, the latter is given only to those who have not reached the salary maximum. The productivity component may be used to base-up the wage levels of the employees.

Basic Wage : This refers to the monthly basic pay before deductions of the employee's CPF contributions and personal income tax. It excludes employer's CPF contributions, bonuses, overtime payments, commissions, allowances (e.g. shift, food, housing and transport), other monetary payments and payments in kind.

Collective Agreement (CA) : This refers to an agreement as to industrial matters for unionized companies entered into between employer and union. The CA is usually valid for two to three years.

Competitive Base Wage System (CBWS) : This refers to a wage system with 2 key features:

1 A sizeable variable component which is linked to company and/or individual performance - the flexibility aspect - and

2 A basic wage which reflects the value of the job - the competitive aspect. The average salary max-min ratio for all jobs in a company should be 1.5 times or less. The ratio should be determined by taking into consideration the nature of individual job, the learning curve, the level of responsibilities and the industry norm.

Key Performance Indicators (KPIs)	:	This refers to a performance management tool that helps a company to track and measure critical factors that contribute to its success. Financial indicators, Operational indicators, and Organizational Strategy and Development are some broad categories of KPIs.
Merit Increment	:	This refers to wage increase given in recognition of employee's meritorious performance.
Monthly Variable Component (MVC)	:	This refers to the component of monthly basic wage that can be adjusted expeditiously in response to business conditions. It should attract CPF, overtime pay, allowances, etc.
Productivity Increment	:	This refers to wage increase given in recognition to productivity gains made by the company.
Rank-and-File Employees	:	This includes employees who are in technical, clerical, sales, service, production and transport-related positions. They are not employees in managerial or executive positions.
Salary Range	:	This refers to a salary structure which has a minimum and maximum salary point.
Salary Max-Min Ratio	:	This refers to the ratio of the maximum salary point to the minimum salary point of a particular job.
Seniority-Based Wage System	:	This refers to a wage system where wage increases are given to employees primarily on their lengths of service with the company, with little or no regard to their performance.
Service Increment	:	This refers to wage increases given in recognition of the employee's experience and service in the job, loyalty to the company.
SWAT Team	:	This refers to the tripartite re**S**tructuring **W**ages **A**c**T**ion Team which consists of experienced HR experts and conciliators from NTUC, SNEF and MOM.
Variable Bonus	:	This refers to the payment given over and above the AWS or 13th month allowance. It also includes incentive payments and "ang pows". The variable bonus is usually linked to company and/or individual performance and may vary from year to year. It may be paid in a lump sum or divided into several payments over the year (in which case the several payments should be added together).

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