PRODUCTIVITY- LINKED WAGE SYSTEM (PLWS)

PRESENTED BY

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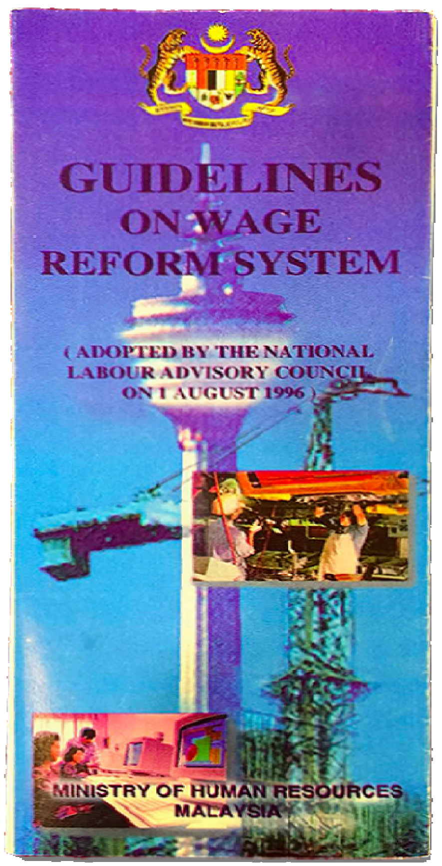
PRESENTATION OUTLINE

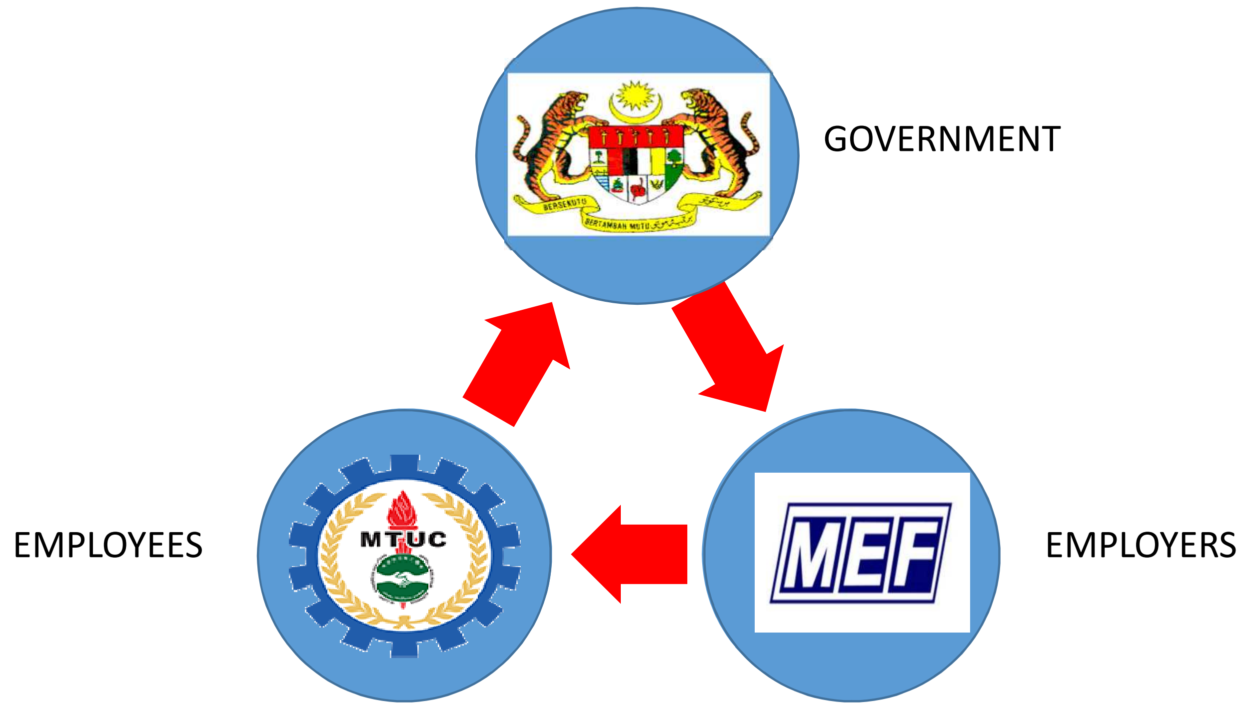
- ORGANIZATION CHART
- PLWS OVERVIEW
- PROVISION OF LAW RELATED TO PLWS
- PLWS COMPONENTS
- PLWS ELEMENTS
- PLWS MODELS
- PLWS PARTICIPATION BY SECTOR
- PLWS PROGRAM AND ACTIVITIES
- PHASES OF PLWS IMPLEMENTATION
- BENEFITS OF PLWS
- ISSUES AND CHALLENGING
- CONCLUSION

IR DEPARTMENT ORGANIZATION CHART

PLWS OVERVIEW



The MOHR has been promoting Productivity Linked Wage System (PLWS) since 1996 when NLAC endorsed the Guidelines On Wage Reform.



Tripartite Partnership in PLWS – Key Factor contributing to Industrial Harmony & Economic Growth

Cont.

Flexible Wages System which:-

WHY PLWS

1. Establish a closer link between wages and productivity/performance
2. Ensure that wages increase commensurate with higher productivity, thus enhancing competitiveness within the company
3. Enables employees to obtain a fair share of gains that arise from productivity growth and performance improvement

PROVISION OF LAW RELATED TO PLWS

Section 13(2A) of IRA [Amendment 2008]:

"A proposal for a collective agreement may provide for one or more of the following :-

a) Provision for training to enhance skills and knowledge of the workmen;

b) Provision for an annual review of the wage system; and

c) ***Provision for a performance based remuneration system.***

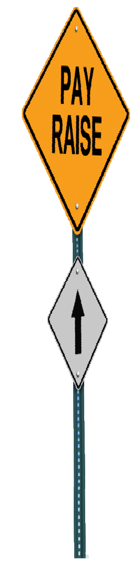
PLWS COMPONENTS

FIXED COMPONENT

- Basic Wages
- Annual Increment

VARIABLE COMPONENT

Must be linked to productivity/ performance



TYPES OF VARIABLE COMPONENTS

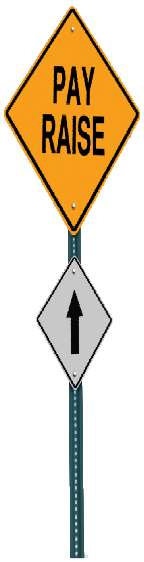
No.	Variable Components	Notes
1	Company or Individual Performance Incentive	• Productivity improvement • Production target • Identified KPI • Non-financial measures; Eg.customer satisfaction
2	Productivity Performance Incentives	• Added value per employee • Sales value per employee • Group or Individual target • Reduction in rejects
3	Profitability Bonus	• Profit Before Tax • Profit After Tax • Return On Equity / Return On Investment • Gross Operating Profits
4	Merit Increment	• Based on job functions • Based on performance appraisal • Achieving key performance targets
5	Team Incentives	• Incentives based on team performance • Medical Leave • Disciplinary

Cont.

No.	Variable Components	Notes
6	Commitment Incentives	• Incentives based on team performance • Medical Leave • Disciplinary
7	Skill Incentives / Allowance	• Able to perform more than one type of job function • Able to handle more than one machine • Having qualification in specific area
8	Service Incentives	• Based on department / individual performance • Eg. Housekeeping, front office etc
9	Variable Performance Bonus	• Based on KPIs and Individual performance
10	Debt Incentive Collection	• Incentives based on duration of collection
11	Performance Incentive Allowance	• Incentives for senior employees (achieved maximum salary)
12	Sales Incentives	• Incentives based on sales target achievement
13	Bonus Based On Company and Individual Performance	• Based on business plan and individual performance • Profit and individual performance
14	Increment based on ROI	• Return on Investment and individual performance

PLWS ELEMENTS

No.	ELEMENTS OF PLWS	EXPLANATION
1	Non Contractual Bonus	Flexible bonus system which determined based on company profits or employee performance
2	Contractual Bonus + Non Contractual Bonus	Combination bonus depending on company profits and / or employee performance
3	Salary increment based on employee performance / company profits	Increment given depending on company profits and / or employee performance
4	Service Charge	Obtained from customer will be divided to workers based on fixed point system. Its normally practice at Hotel industry
5	Piece Rate System	Payment of wages based on quantity of production. Additional incentive are given if the production output achieve the target
6	Individual / Group Achievement	Incentives will be given depending on performance of employees or group by using a timing, quantity and quality of workers in production
7	Attendance Incentives	Incentives are given depending on workers attendance



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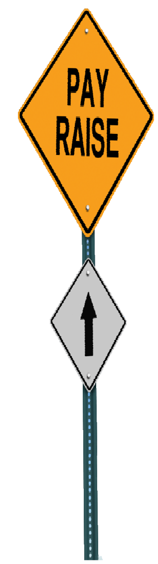
No.	ELEMENTS OF PLWS	EXPLANATION
8	Trip Incentives	Incentives will be paid based on trip usually for drives
9	Sales Incentives	Incentives will be paid based on sales specifically for employees conducting sales or marketing activities
10	Cost and Time Saving Incentives	Incentives given to employee should be able to save in terms of cost and production time
11	Allowance For Multi-Tasking	Allowance given to employee who perform 2 or multi-task in a time like a driver and at the same time performing task a good loaders
12	Skills Allowance	Allowance given to employee that have skills and knowledge implementation duties needed
13	Coaching or Training Allowance	An employee is not appointed as a trainer but subsequently perform as a Trainer shall be paid appropriate allowance which determined by company
14	Driver Allowance	Allowance will be paid to the van or lorry driver who assisting the company to carry



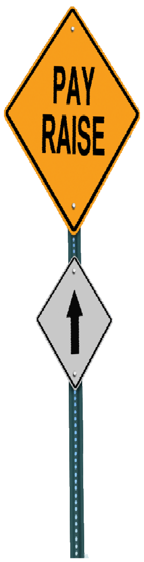
PLWS MODELS

PLWS MODELS

PROFITABILITY

PRODUCTIVITY

COMBINED

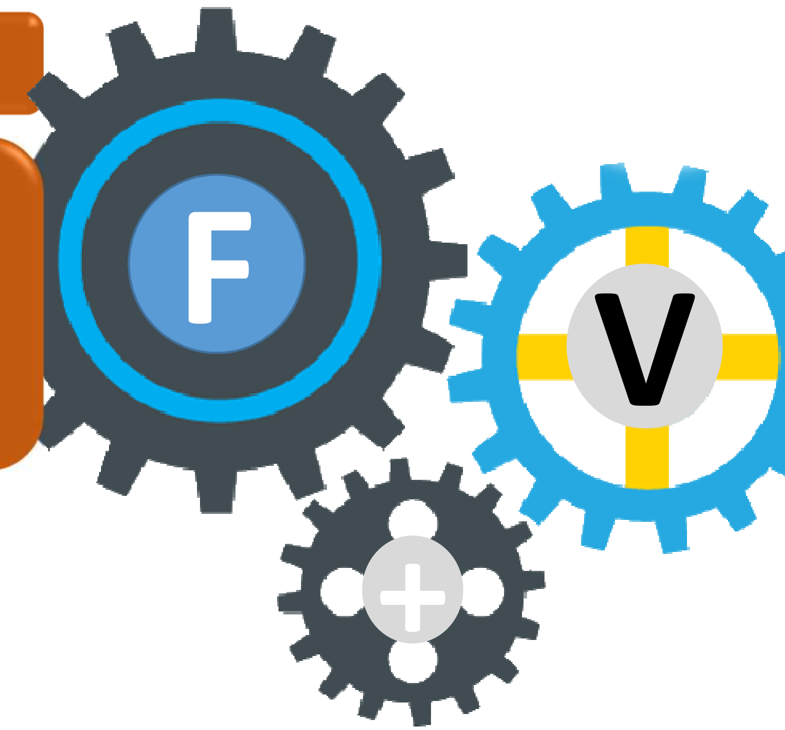


Each Model must contained Fixed Components & Variable Components

PROFITABILITY MODEL

Fixed Component

a) Basic wage
b) An annual increment



Variable Component

A variable component comprises:-

a) Bonus payment based on the profit of the company.

b) Wage incentive will be paid when profits exceed a predetermined or threshold level (break-even level).

PRODUCTIVITY MODEL

Fixed Component

- Basic wage
- An annual increment

Variable Component

A formula for the incentive of the variable productivity payment should be based on employee and company performance

FORMULA

T = A + P

Where **T = total wage increase**

A = annual increment

P = variable productivity payment

COMBINED MODEL

PROFITABILITY + **PRODUCTIVITY**

EXAMPLES OF PLWS MODELS

UK1

INDICATOR : PROFITABLITY

EXAMPLE 1 PROFITABILITY-LINKED BONUS

PROFIT AFTER TAX (RM MILLION)	BONUS [MONTH(S) SALARY]
<1.5 (THRESHOLD)	0
1.5 -1.99	0.5
2.0 – 2.49	1.0
2.5 – 2.99	1.5
3.0 AND ABOVE	2.0

Slide 17

UK1 User KSM, 02/09/2018

FIXED BONUS

The Company **shall pay an annual guaranteed bonus equivalent to one month of the last drawn basic salary.**

VARIABLE BONUS

Should the company **make a profit of:**

- ✓ **RM2,000,000 to RM2,490,000**, the company shall pay one **(1.0) months** of the last drawn basic salary as bonus;
- ✓ **Profits exceeding RM3,000,000**, bonus payment shall be **two (2) months** of the last drawn basic salary;
- ✓ **Notwithstanding the above**, **the guaranteed bonus of one month**, based on last drawn basic salary, shall continue to be applicable.

EXAMPLE 2 PROFITABILITY INCENTIVES

The bonus will be paid when the company makes certain amount of profit that falls within a predetermined range.

Table Profitability Incentives

Profits After Tax (RM Million)	Monthly Payroll Cost (RM Million)	Bonus = $\frac{\text{Profit After Tax}}{\text{Monthly Payroll Cost}}$
Less than 5	5	0
5	5	1 month
6	5	1.2 month
7	5	1.4 month
8	5	1.6 month
9	5	1.8 month
10	5	2.0 month

INDICATOR PRODUCTIVITY

EXAMPLE 1 **Team Incentive Pay Out Based On Criteria Achieved**

PERFORMANCE CRITERIA		PERFORMANCE STANDARD (PRODUCTION TARGET)
1.	Production targets	above 80%
2.	Quality output	above 90%
3.	Customer complaint	Zero complaint
4.	Maintenance	No machine breakdown
5.	Discipline	No reminder or warning letter

Cont…

MONTHLY INCENTIVE

Number of Criteria Achieved	***Incentives***
5	***RM 100***
4	***RM 80***
3	***RM 60***
2	***RM 0***
1	***RM 0***

- If a team of 5 employees are able to achieve all the five criteria's, each team member will receive RM100 as a monthly incentive.

- However, if the team achieves only 2 criterias then there will be no pay out.

EXAMPLE 2

PRODUCTIVITY TARGET

In the case of this example, the service organization gives incentives based on the productivity targets achieved.

Table below shows an example of planned targets against achievable

Planned Target	*Actual Achievements*	*Monthly Incentives (RM)*
80%	***Above 100%***	***150***
80%	***91%-100%***	***100***
80%	***80% - 90%***	***50***
80%	***Below 80%***	***0***

- Incentives are given to the employees when the actual productivity achievement is higher than the planned target.
- For example, if the planned target is 80% and the actual achievement is 95% then the employees will receive RM100.00 for achieving the productivity targets.

INDICATOR PROFITABILITY + PERFORMANCE/PRODUCTIVITY

EXAMPLE 1 **Bonus Based On Company and Individual Performance**

Company Performance Based on Business Plan		*Below 85%*	*85% - 100%*	*101% - 120%*	*121% - 140%*	*Above 140%*
Individual Performance		*Bonus Payout*				
Unsatisfactory	*below 40%*	*0*	*0.1*	*0.2*	*0.3*	*0.4*
Average	*40% - 54%*	*0.3*	*0.4*	*0.5*	*0.6*	*0.7*
Good	*55% - 69%*	*0.5*	*0.7*	*0.9*	*1.1*	*1.3*
Very Good	*70% -85%*	*0.7*	*1.0*	*1.3*	*1.6*	*1.9*
Outstanding	*above 85%*	*1.0*	*1.3*	*1.6*	*1.9*	*2.2*

- **If the company's performance rating is 100% and individual performance is 75% which is "very good", then the quantum of bonus that will be granted to the employee will be 1.0 month.** Therefore, this clearly indicates that whenever both parties i.e. employees and firm perform very well, there will be higher quantum of bonus distributed among the employees.

EXAMPLE 2

Matrix Incentives

Profits (RM million)	Incentives (Months)			
Less 5	0	0.1	0.3	0.5
5- 6.9	0.1	0.3	0.5	0.7
7- 8.9	0.2	0.5	0.7	1.0
9- 10.9	0.3	0.7	1.0	1.3
11- 12.9	0.4	1.0	1.5	2.0
13- 15	0.5	1.5	**2.0**	3.0
Average Performance (%)	Less 70	70- 79.9	80- 89.9	90- 100

Matrix incentives will be given based on the profitability and average performance of division, department and individual as shown in the table.

Cont…

If the company performance are as follows:

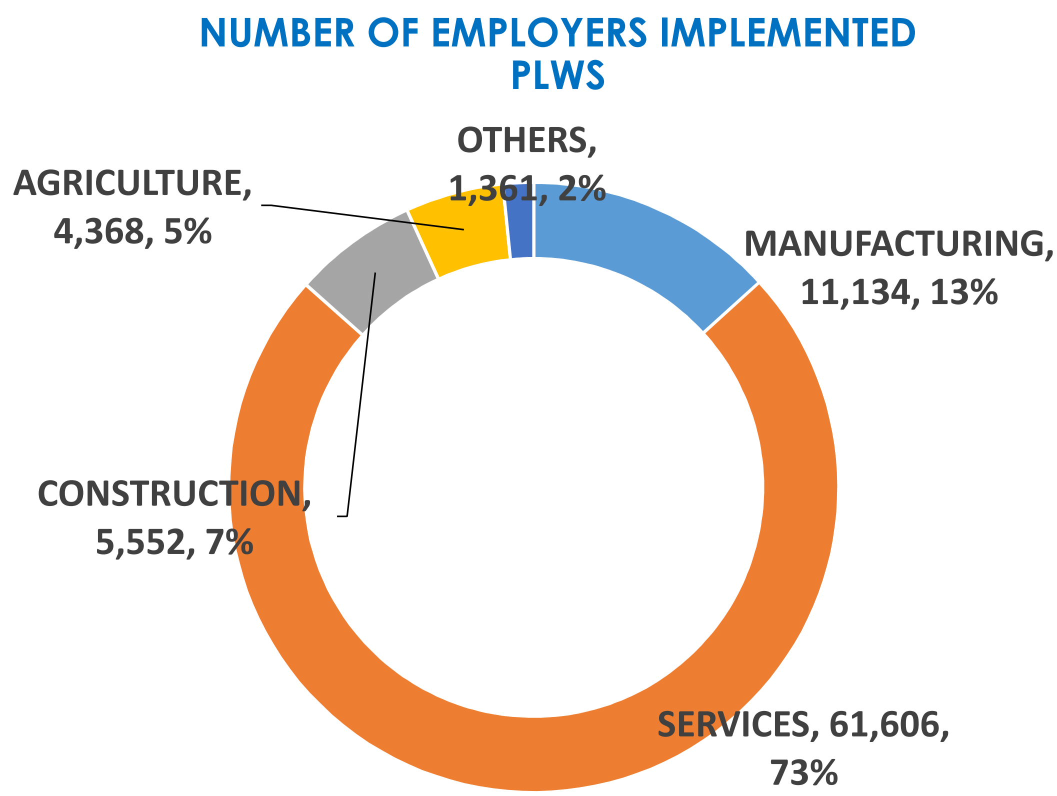
- ❖ **Division Performance = 85%**
- ❖ **Department Performance = 90%**
- ❖ **Individual Performance = 85%**

Average Performance of an employee is 86.7%

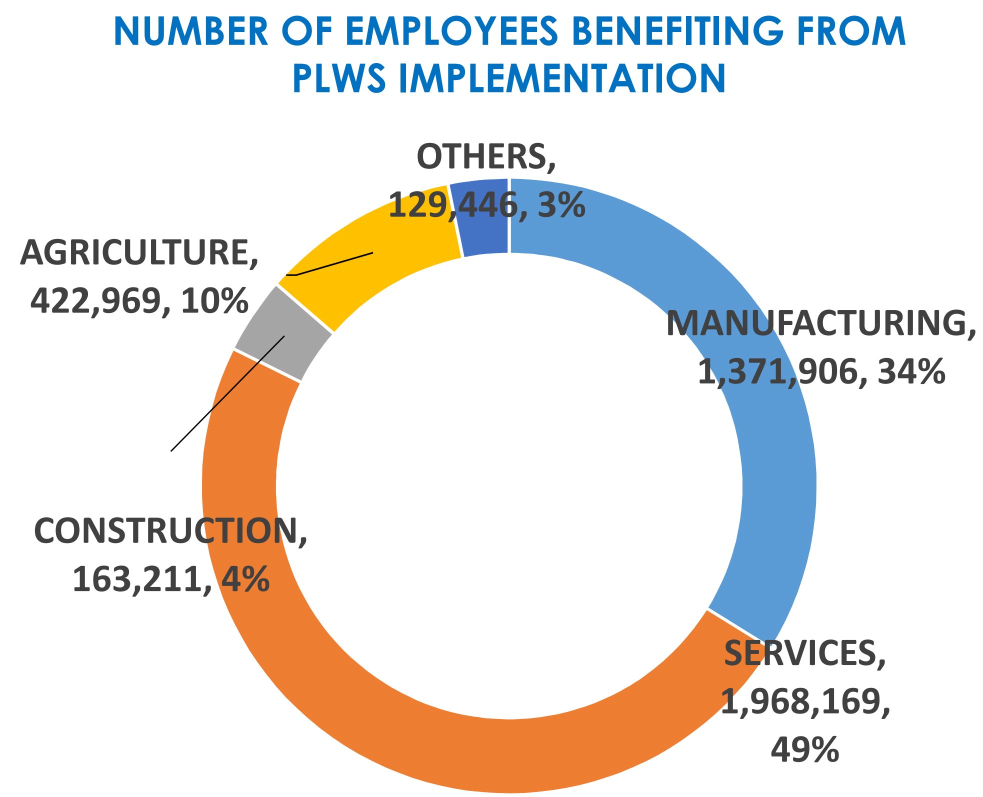
Based on the calculation above:

- ➢ **the respective employee will received 2 months bonus if the company makes RM13 million profits.**
- ➢ **The incentives taking into consideration the overall employees performance.**
- ➢ **In order to received higher quantum of bonus each employees should contribute to the division and department performance as well as their own performance.**

PLWS PARTICIPATION BY SECTOR AS AT 31.07.2018



TOTAL: 84,021 EMPLOYERS

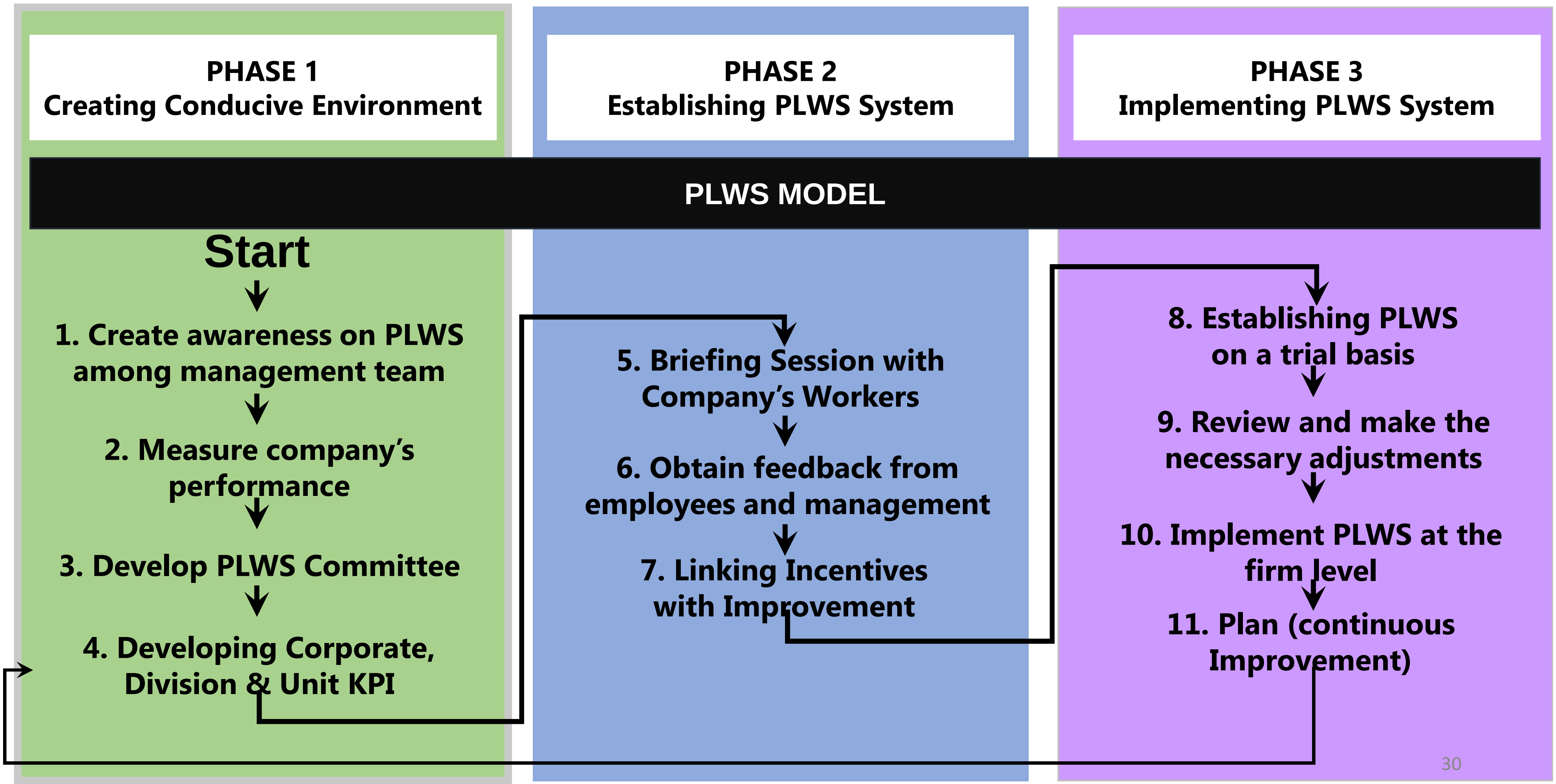


TOTAL: 4,055,701 EMPLOYEES

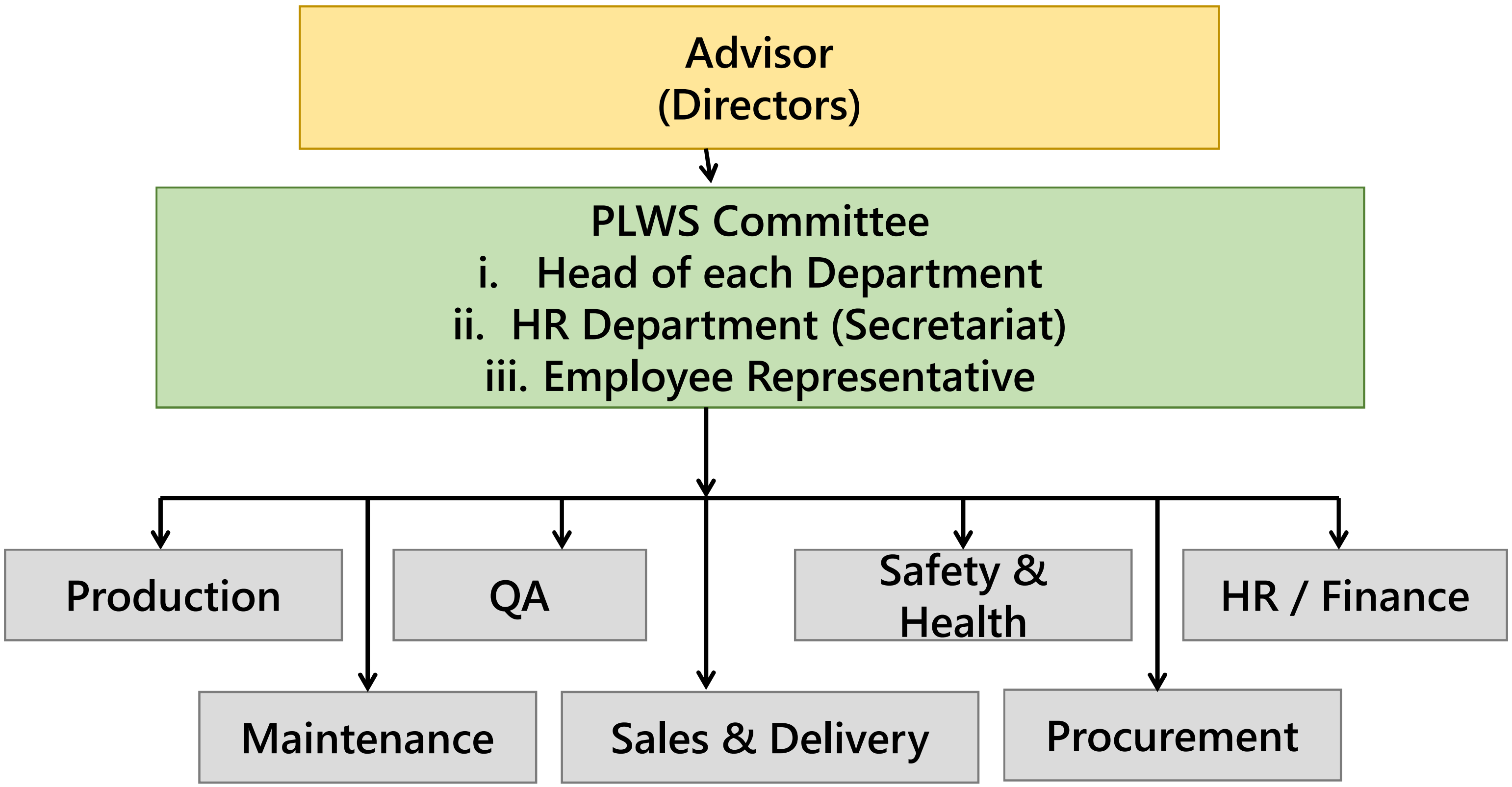
PLWS PROGRAM AND ACTIVITIES

PROGRAM IMPLEMENTED BY IR DEPARTMENT
Master Trainers on PLWS (MASTOP) & Champion On PLWS - Officer
Hari Anugerah PLWS
National Symposium of Productivity Linked Wage System
Malaysia Productivity Linked Wage Conference (MyPLIC)
Asean Productivity Linked Wage Conference (ASEAN PLIC)
Intellectual Discourse ‘Fostering Harmonious Industrial Through PLWS’
Workshop on Review & Enhancing PLWS Module For SME@University Program
Seminar / Workshop on Productivity Linked Wage System (PLWS)
Dialog Tripartite – Discussion Panel

PHASES OF PLWS IMPLEMENTATIONS

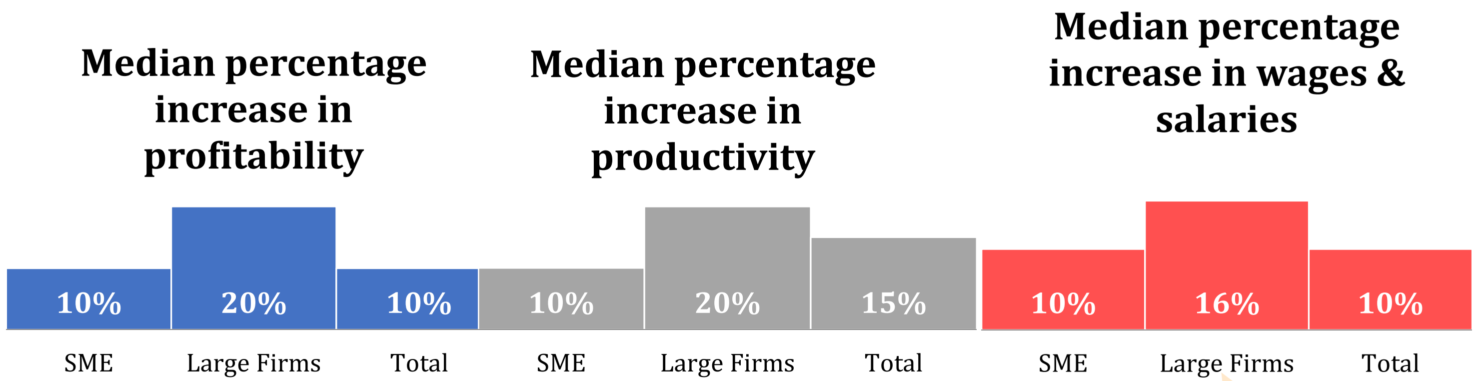

PHASE 1
Creating Conducive Environment
PHASE 2
Establishing PLWS System
PHASE 3
Implementing PLWS System
PLWS MODEL
Start
1. Create awareness on PLWS among management team
2. Measure company's performance
3. Develop PLWS Committee
4. Developing Corporate, Division & Unit KPI
5. Briefing Session with Company's Workers
6. Obtain feedback from employees and management
7. Linking Incentives with Improvement
8. Establishing PLWS on a trial basis
9. Review and make the necessary adjustments
10. Implement PLWS at the firm level
11. Plan (continuous Improvement)

EXAMPLES OF PLWS TASKFORCE

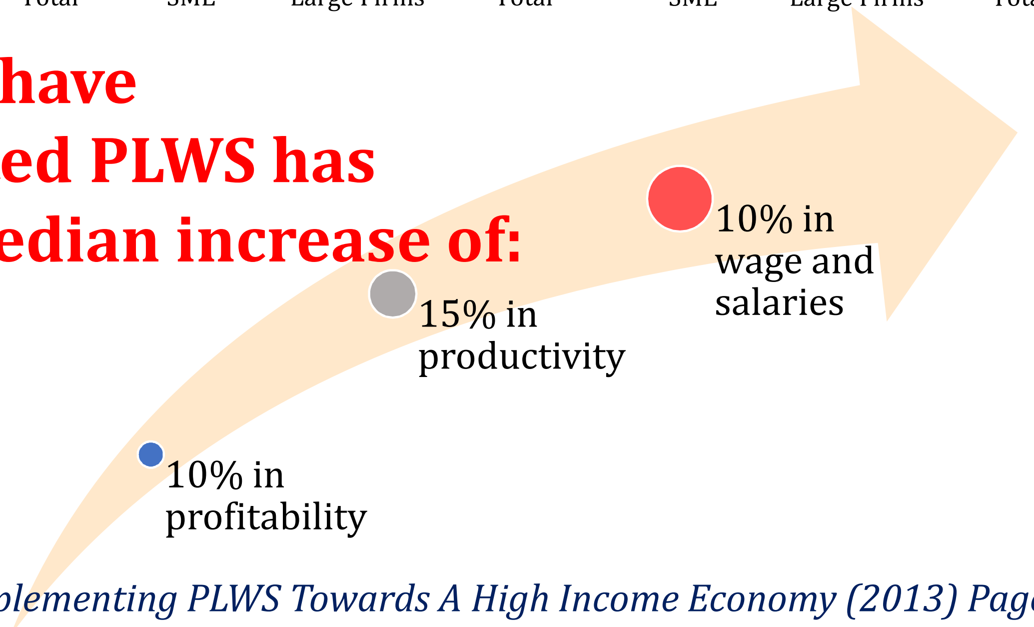


BENEFITS OF PLWS

MONETARY BENEFITS

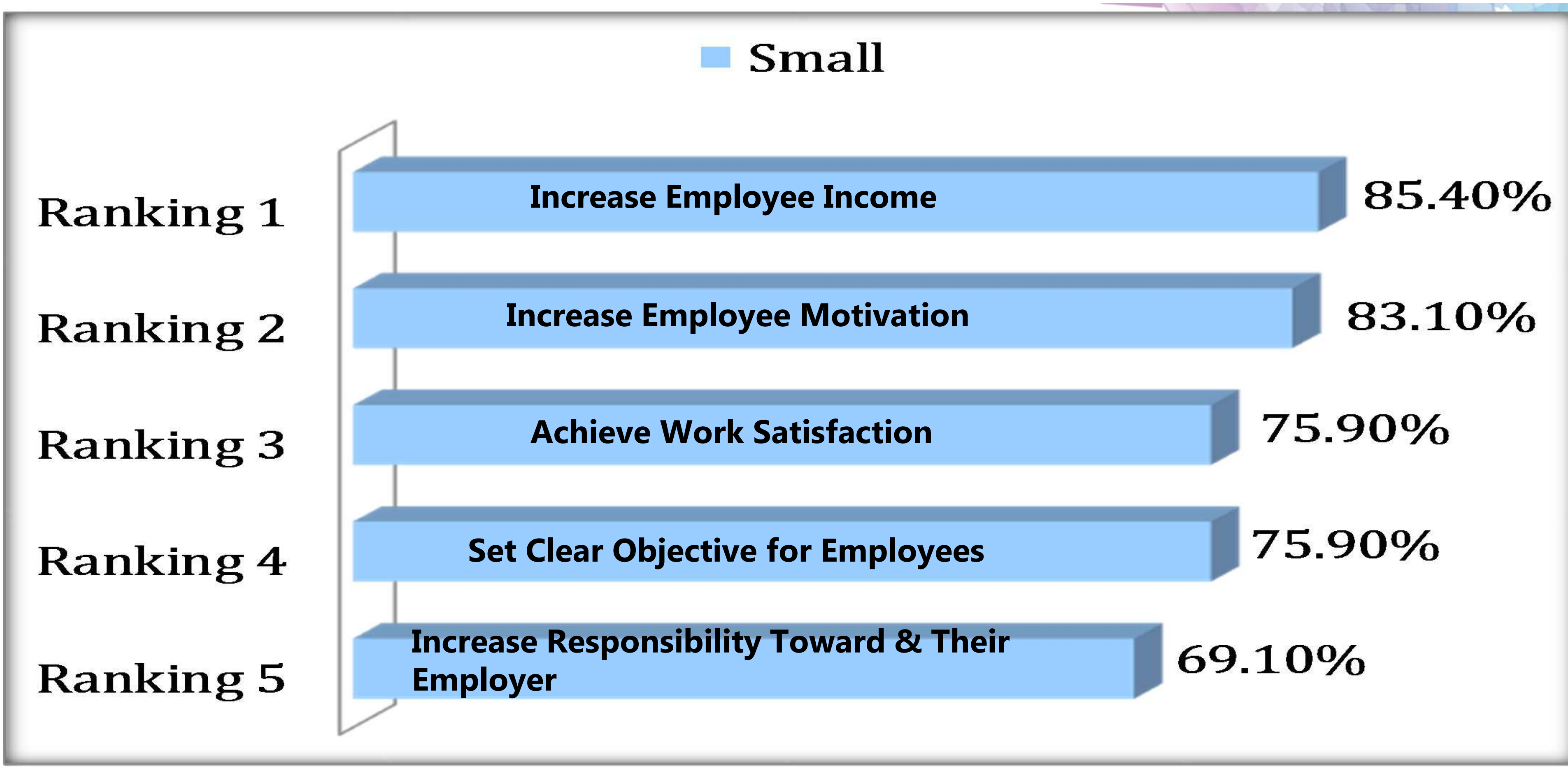


Firms that have implemented PLWS has shown a median increase of:



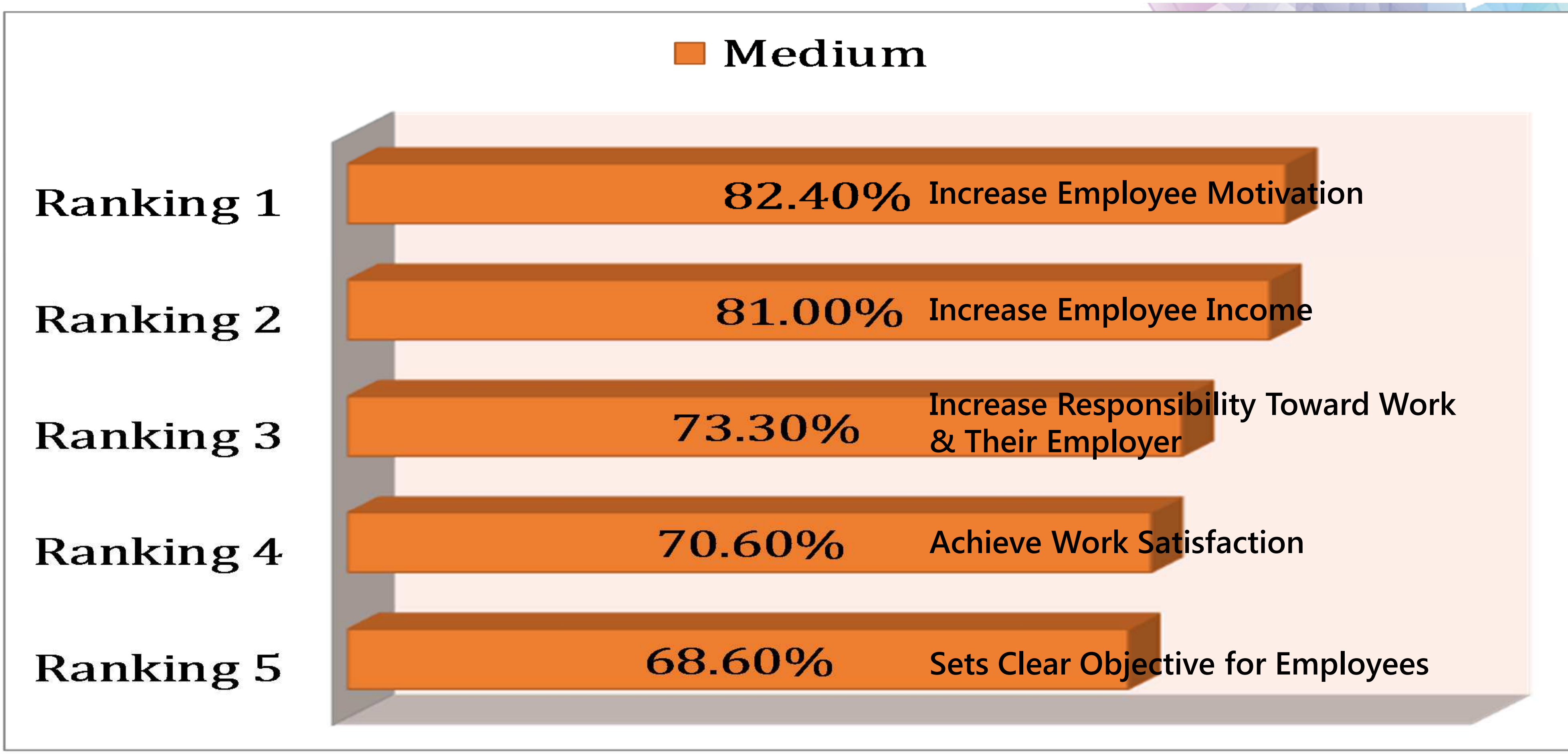
Source: Study on Implementing PLWS Towards A High Income Economy (2013) Page 38

NON - MONETARY BENEFITS



Source: Study on Implementing PLWS Towards A High Income Economy (2013)

NON - MONETARY BENEFITS



Source: Study on Implementing PLWS Towards A High Income Economy (2013) Page 65

9. PLWS PROGRAM AND ACTIVITIES

PROGRAM IMPLEMENTED BY IR DEPARTMENT
Master Trainers on PLWS (MASTOP)
Champion on PLWS (CHOP)
National Symposium of Productivity Linked Wage System
Malaysia Productivity Linked Wage Conference (MyPLIC)
Asean Productivity Linked Wage Conference (ASEAN PLIC)
Intellectual Discourse ‘Fostering Harmonious Industrial Through PLWS’
Workshop on Review & Enhancing PLWS Module For SME@University Program
Seminar / Workshop on Productivity Linked Wage System (PLWS)
Dialog Tripartite – Discussion Panel

ISSUE AND CHALLENGING

REASONS FOR NOT IMPLEMENT PLWS

1. Not aware and clear that PLWS will help improve productivity and performance

2. Company personnel are not knowledgeable to adopt and implement PLWS

3. No need to change present pay system to PLWS

4. Not certain if adopting PLWS will make company more competitive

5. Not certain if PLWS is a fair system for workers and employers

Source: Study on Implementing PLWS Towards a High Income Economy

REASONS FOR NOT IMPLEMENT PLWS

6 Cost of Implementing PLWS Is High

7 Company has No Need For PLWS

8 Company's Top Management Does Not Support the Adoption of PLWS

9 PLWS Does Not Foster Employees Trust in their Employer

Source: Study on Implementing PLWS Towards a High Income Economy

CONCLUSION

- PLWS is a flexible wage system that is objective and transparent.
- Reflects a win-win situation, as payments will reflect the economic returns of the Company.
- Reduce/Maintain a healthy staff turnover rate
- Employees would be rewarded and recognized for their performance and share in productivity growth.
- Allows the company to have the competitive edge
- Cost control - Wage (labour cost) will only increase with improvement in performance and productivity increase.

CONTACT DETAILS:

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