

A FAIRER WAY TO PAY?

Flexi-wages can boost cost-effectiveness but only if there's good worker-boss rapport.

LOOKING FOR ways to cut costs and improve your firm's competitive advantage? Try Flexi-wages. 'It's a tool that really works,' says Abdul Farouk Ahmed, managing director of Hay Management Consultants.

'What you want flexi-wage to do depends on the objectives you have set,' he adds. Farouk says there are companies which have emerged market leaders in a very short period though the use of the flexi-wage system.

Flexi-wages or flexible wages allow for salaries to be increased or decreased depending on the performance of the employer and the employee. Bonuses alone do not constitute flexi-wages for there is no mechanism for a decrease in salaries.

A structure which allows for a reduction in salaries is not necessarily bad for workers because during recession it can save employees from retrenchment. Flexi-wages may contribute towards the setting up of more equitable wage system in Malaysia – but there are some hitches.

A major one is the traditional mistrust between unions and employers in Malaysia. The element of flexibility in the flexi-wage system creates a high level of uncertainty and anxiety for union leaders. As such, the idea has been shelved by many companies in Malaysia. But when the recession hit the local economy a few years back and retrenchment was rampant, flexi-wage was taken out of the drawers and given a dusting.

A Hay Management Consultants survey shows that between 1989 and 1990, companies adopting the flexi-wage system increased by about 35 per cent. Management is more aware that its push for increased productivity will remain an unheeded cry if wages are not proportional to output. Flexi-wage is now employed to do the job.

Proponents of the flexi-wage system, who are also of the opinion that there would be some element of stability in the employee's income, say that the usage structure should comprise two parts – a basic wage, and a variable wage component based on company and employee performance.

Generally, the wage determination process in a flexi-wage system should also include a periodic review of salary ranges to ensure they reflect their market worth, and sharing of relevant information on the performance of the company.

For the payment of the variable wage component, there should be an agreed formula between management and employees which links that component to variations in the company's profit and/or productivity. This formula would then facilitate the determination of the quantum of variable wage to be dished out without protracted negotiations.

G Rajasekaran, executive secretary of the Metal Industry Employees Union (MIEU) and deputy general secretary of the Malaysian Trades Union Congress (MTUC), says the initial reaction to flexi-wage by MTUC was to reject it. Due to the encouragement by the human resource ministry to the union to take a further look into the matter, MTUC is now adopting a more open mind to the issue. 'We will listen to all sides of the issue before making a decision on flexi-wage,' Rajasekaran says.

He adds that there is currently no proper yardstick for determining wages. 'Even in the same industry, wages often differ from company to company.'

A peek into the wage system in Malaysia reveals several inconsistencies. The prevailing system is remotely connected to organisational performance or individual employee performance. It is a continuation of the traditional wage system which was designed to reward experience, seniority of service and loyalty. Pre-determined annual increments are given automatically to employees; in some cases even to those who have passed the maximum scale.

Wage adjustments given in good years are permanently incorporated into the basic wages of the employees. Annual increments, adjustment of basic wages given during the renewal of collective agreements and merit increments, once granted, are built into basic wages. And, in the event of an economic recession when companies perform badly, the wages of the employees cannot be varied or altered accordingly. The existing wage system also does not encourage companies to reward its employees in good years other than according to what is agreed to in the collective agreement.

The gap existing between minimum and maximum wage scale is too wide, and generally the maximum tends to be two to three times the minimum, says M Zain Majid, executive director of the Malaysian Employers Federation (MEF). Zain attributes the huge variance between the minimum and the maximum wages to the over-emphasis given on seniority. Thus new workers usually get very much lower wages than long serving employees, even if the new workers are more productive.

In times of an economic downturn when companies are forced to cut manpower costs, retrenchment usually happens on a last-in, first out basis. As a result, the newer and the less costly employees are retrenched first. The company is thus left with higher paid, longer serving employees who may not be as productive as the newer employees. The retrenchment exercise, in this case, has failed to achieve its primary objective of reducing manpower cost.

Farouk hails the government's recent proposal to privatised governments agencies and to give flexi-wage a try as timely. He feels that the system will enable employees to earn more during the economic growth and less during recession times without straining public finances or jeopardising employment security.

He also opines that the flexi-wage system provides the opportunity for employee participation in a business. Union leaders, however, are somewhat suspicious. Topping the list of their fears is the status of employees' basic salaries which have been a fixed cost for companies for a very long time. The unions say management can't take away what is already fixed. As a result, Farouk says, even though management was very enthusiastic with the concept of flexi-wage, it did not go very far because employees refused to accept it.

'We are very suspicious about flexi-wage and our suspicion is not unfounded,' Rajasekaran says. He cites the plantation sector as an example. 'Like any other business or industrial sectors, the plantation sector has gone through good times and bad times,' he adds.

'In the last two years, the media reported plantation based companies chalking huge profits running in millions of rgt; some even in the hundred of millions. But not a single one declared a bonus for their workers, not even an ex-gratia. There were bonuses for management. Why should they wait for the union to ask? Some of the top people get bonuses in the region of 40,000 to 50,000 rgt.'

'When management puts so much into their own pockets, how can they say that the costs of production are high? If they were to take a little less, and channel the rest back into the plantations, who knows, perhaps the costs might not be so high.'

Thomas A Lawson, regional manager, human resource division of PA Consulting Group, says the flexi-wage system will help in changing the chronic overtime culture that exists in far too many companies in Malaysia. In this very unproductive culture, workers actually get paid for working slowly. 'If workers are productive, they get less over-time,' Lawson says. 'It is a negative incentive. Better performance should increase one's income rather than decrease it,' he adds.

Lawson says managements should be more concerned about getting people to do *productive* work, and not *more* work. W E Deming, looked upon by the Japanese as their 'god' of quality control, once said 15 per cent of productivity problems are the fault of the workers, and the remaining 85 per cent fall on the shoulders of management. The chief executive and his management team must also be measured for their productivity, how well they manage the flow of work in the company.

'The idea of flexi-wage is to get people in work groups worrying about costs and output; it's amazing how they can improve in terms of efficiency and productivity if they grasp the concept well,' Lawson adds.

The flexibility that is built into a flexi-wage system allows management to avoid taking drastic actions like retrenchment during bad times to reduce employee costs. MEF's Zain says: 'Why not reduce the flexible portion of the salary in bad times? It's better to have a job with a lower pay than to be out of job. When the good times come, management should also adjust the flexible portion accordingly.'

Fears of exploitation will always be there if two people don't trust each other. 'If you have a good relationship, working on the basis of systems, procedures and methods for decision making, then what is there to worry about?' Farouk says. 'But when management makes all the decisions, employees views are not considered or allowed in the decision making process and information is not shared, then employees have reasons to be concerned.'

Commenting on a flexi-wage system that has links to company profitability, Rajasekaran has this to say: 'As a trade union, we have our reservations about financial reports even though they have been audited.' Creative accounting (see **MB** July 1-15, 1990) is a very real phenomenon in the corporate world, and in this case the union's fears are not unfounded. Rewards based on company profitability and performance, says Rajasekaran, are very subjective. 'We worry that companies which know they need to fork out more money will attempt to suppress profits.'

Bonuses linked to employee performance also raise the union's eyebrows. Rajasekaran says some companies have a quota system when it comes to rewards that are hinged on productivity. 'If you dangle a carrot for your employees to achieve 100 per cent performance, you must also reward them accordingly when they achieve it. It's wrong if everyone achieves 100 per cent and a selected percentage of them are rewarded,' says the MIEU executive secretary. 'It's true that when everybody is very good, you don't find anybody to be average. But it's not impossible that everybody achieves 100 per cent. If management cannot accept that, it is actually saying that's not good enough performance.'

On the issue of performance appraisal for a variable bonus, workers will tend to lose when employers do not disclose the results of the appraisals. 'If I'm appraised below average and have my variable bonus forfeited, I think I have the right to know here I went wrong in order that I might improve myself in the future,' Rajasekaran adds. 'In Japan, (where performance related bonuses are given) a six months bonus is very common. The average in 1989 was 6.2 months, which means to say that some companies even pay more than six months. If any of the companies in Malaysia had done that, we would have trusted them, since they have a track record.'

Many companies think flexi-wage is solely designed for workers in the lower ranks, but Farouk refutes this. 'The flexi-wage system is applicable in all job situations from executives to assembly line operators,' he says. Farouk recommends flexi-wage to be practised at senior and middle management levels to prove that it also works for employees at the executive levels and not just on employees drawing small salaries. 'It's a negotiable system – a chance for more rapport between management and employees.'

Sources interviewed by **Malaysian Business** agree that an open, communicative and interactive organisational culture is critical in the implementation of the flexi-wage system. Farouk says that flexi-wage is not possible in a culture that prohibits open communication.

'Management and employees must also come together with a proper understanding of the concept of flexi-wage and have compassion for each other,' Farouk explains. 'And it takes time to build that relationship. If you have an adversarial relationship, the flexi-wage systems will be difficult to practice because the partnership relationship is absent. A flexi-wage system allows you to trust each other and work on a partnership basis. Management must trust employees and employees must do likewise.'

The country's workforce is more educated now, compared with that of a decade or more ago, and employers cannot treat their employees according to their whims and fancies. To make further progress, there has to be open communication between union and management. With that rapport established, employers and employees might consider adopting a wage system which reduces the rigidity of the present system and provides more stability in employment.