

**III. Developing Key Performance Indicators and  
Productivity/Performance Benchmarks  
for Performance Based Remuneration Systems  
in Malaysia**

**By  
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## 1.0 Malaysia's Economic Development

Malaysia had made significant strides in nation-building, in developing its economy and in improving the quality of life of its people. Since independence, real gross domestic product (GDP) has grown by an average of 6.5% per annum for the period 1957-2005<sup>5</sup>, one of the highest growth rates achieved by sovereign nations of similar age and size. Within the same period, GDP per capita in current prices grew by 7.0%, which has translated into substantial improvements in the people's quality of life. The Malaysian economy grew at an average rate of 6.2% per annum for the period 1991-2005<sup>6</sup>. This strong rate of growth was achieved despite the challenges faced from events such as the 1997-98 Asian financial crisis, the September 11 incident in 2001, wars in Afghanistan and Iraq, outbreaks of Severe Acute Respiratory Syndrome (SARS) and avian flu, as well as increases in world oil prices.

Economic fundamentals remain strong. Growth was achieved with inflation averaging a low 2.9% per annum and similarly low unemployment averaging 3.1% over the period. Malaysia's economic structure continued to develop from manufacturing to services as shown in Table 1. Growth of knowledge-based service industries was expanded with the establishment of the Multimedia Super Corridor in 1996, followed by other initiatives such as the National Biotechnology Policy launched in 2005 and the Iskandar joint project carried & North Carrider Project launched recently.

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<sup>5</sup> Ninth Malaysia Plan, 2006-2010

<sup>6</sup> Ibid

**Table 1 : Structure of the Economy, 1990-2005**

	% to GDP	
	1990	2005
Services	46.8	58.1
Manufacturing	24.6	31.4
Agriculture	16.3	8.2
Mining	9.4	6.7
Construction	3.5	2.7

*Source: Department of Statistics*

The growth momentum of the Malaysian economy continued in 2006, with a GDP growth of 5.9%. This was attributed to the diversified economic structure, strong public and private sector expenditures, enhanced delivery system and an impressive trade performance. Malaysia had been registering trade surpluses since 1997, Strong fundamentals in terms of low unemployment, low interest and inflation rates further enabled Malaysia to strengthen amidst global volatilities. This strong economic background coupled with the intensified implementation of productivity and quality initiatives by industries have contributed to a productivity growth of 3.7%<sup>7</sup>. All sectors of the economy recorded an upward trend in productivity ranging from 0.5% to 4.5%.

## **2.0 Competitiveness Environment Factors**

The competitiveness environment of a nation can be seen through four main areas, namely; Macroeconomic Perspective, Government Efficiency, Business Efficiency and Infrastructure. The macroeconomic factor

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<sup>7</sup> Productivity Report, 2006

captures the macroeconomic evaluation of the domestic economy. It encompasses international trade, international investment, employment and prices. For this factor, Malaysia was ranked 11<sup>th</sup> position among 61 economies. Malaysia also performed relatively well in terms of exports and was ranked 3<sup>rd</sup>. Exports picked up strongly in 2006, rising by 11.4% to US\$140.9 billion from US\$126.5 billion in 2005. Malaysia's current account balance placed the economy in 4<sup>th</sup> position at 15.7% of GDP compared to the 61 country average of 0.3%.

<b>Competitiveness Input Factors</b>	<b>2006</b>	<b>2005</b>
	(61 economies)	(60 economies)
Economic Performance	11	8
Government Efficiency	20	26
Business Efficiency	20	25
Infrastructure	31	34

*Source : World Competitiveness Yearbook (WCY) 2006*

The Government Efficiency factor assesses the extent to which government policies are conducive to competitiveness. The sub-factors are public finance, institutional framework, business legislation and societal framework. For Government Efficiency, Malaysia improved to 20<sup>th</sup> position from 26<sup>th</sup> previously. Malaysia performed well and ranked 6<sup>th</sup> position in terms of perceptions on the Government Efficiency factor for the following areas; policy makers being able to understand economic challenges; exchange rate policy supporting the competitiveness of enterprises; and labour legislation which provides an incentive to look for work.

The Business Efficiency factor examines the extent to which enterprises are performing in an innovative, profitable and responsible manner. It is measured through the five sub-factors of productivity and efficiency,

labour market, finance, management practices, as well as attitudes and values. The ranking for Business Efficiency improve to 20<sup>th</sup> position from 25<sup>th</sup> previously. Labour cost in Malaysia continues to be competitive, as wage increase commensurates with productivity growth. Malaysia continued to record top ranking in unit labour cost in the manufacturing sector. The favourable increase in labour force growth of 4.1% compared to the 1.7% growth recorded the previous year led to Malaysia being ranked 3<sup>rd</sup>.

The Infrastructure factor looks at the extent to which technological, scientific and human resources meet the needs of business. It encompasses basic infrastructure, technological infrastructure, scientific infrastructure, health, environment and education. Malaysia improved its infrastructure ranking to 31<sup>st</sup> position from 34<sup>th</sup> position previously. For internet cost, progress in the state of information technology, telecommunications and internet capabilities, Malaysia is ranked 3<sup>rd</sup>. The role of science and technology in the economy, and more specifically in education was favourable and was also ranked 3<sup>rd</sup>. This is reflective of the perception that science in schools is sufficiently emphasized.

### **3.0 Human Resource Issues and Challenges**

The Industrial Master Plan (IMP3), 2006-2020, emphasizes two aspects of human resource requirements, namely, ensuring sufficient availability of the human resources, as well as providing a facilitative environment for the workforce to acquire the necessary skills in the professional and technical fields to drive the economy into higher value-added activities. Strategies for human resource management, including human resource planning and development, will focus on the roles of education, training, lifelong learning, capacity building and operating environment to enhance Malaysia's competitive position as outlined above. In the longer term,

strategies adopted on human resources will lead to a more equilibrium labour market, as well as more competitive business operating environment. Appropriate systems and structures for human resources planning will enable Malaysia to respond to the changing global environment and enhance competitiveness at the national and enterprise levels.

### **3.1 Human Resource Policy Thrusts**

Human resource development continued to be given priority in support of the implementation of a productivity-driven growth which required highly skilled, trainable and knowledge manpower. Emphasis continued to be given to increase accessibility to education to all levels in line with the democratisation of the education policy. In addition, the education and training programmes focused on improving the quality of teaching and learning materials, teacher training the educational support services. At the tertiary level, the capacity of public tertiary institutions expanded substantially. However, it was still inadequate to meet the demand. Consequently, enrolment in private educational and training institutions also expanded significantly, which was facilitated by the liberalization of the education sector.

A trained workforce with the potential and ability to optimize the use and development of new technologies and materials will continue to be important in ensuring the growth and resilience of the economy. There will be increasing investment in human capital, with greater emphasis on nurturing creativity and cognitive skills to provide the impetus for the K-based economy. The education and training system will be geared to produce multi-skilled and knowledge manpower that is versatile, willing to learn continuously. Entrepreneurial as well as with the ability to acquire

and apply knowledge particularly in modern technology. In this regard, the human resource policy thrusts will be as follows:

- Expanding the supply of highly skilled and knowledge manpower to support the development of a K-economy;
- Increasing the accessibility to quality education and training to enhance income generation capabilities and quality of life;
- Improving the quality of education and training delivery system to ensure that manpower supply is in line with technological change and market demand;
- Promoting lifelong learning to enhance employability and productivity of the labour force;
- Optimizing the utilization of local labour;
- Increasing the supply of Science and Technology manpower;
- Accelerating the implementation of the productivity-linked wage system;
- Strengthening labour market information system to increase labour mobility;
- Intensifying efforts to develop and promote Malaysia as a regional centre of educational excellence; and
- Reinforcing positive values.

To support the above, industrial harmony is of utmost importance. Concerted efforts by all parties involved in ensuring harmonious industrial relations in the country such as the Government, Employers and Employees is of paramount importance.

## **3.2 Human Resource Practices at the Organisational Level**

### **3.2.1 Managing and Enhancing the Value of Human Capital to increase Productivity**

### **Challenges of today's organizations**

- To demonstrate the linkage between employee resilience and business performance.
- To articulate best practices in diversity strategy and leadership.
- To explore the frontier of work-life integration.
- To shift the focus from financial capital to human capital.
- To attract and retain the best possible workforce.
- To motivate, satisfy and challenge the workforce.
- To define the workforce requirements to support organizational objectives.
- To improve client or shareholder value.

### **Creating value through people**

- **Repositioning of the HR function**
  - HR integral part of the senior executive team.
  - Role elevated to strategic business partner.
  - Introduction of HR consultancy or advisory model.
- **Shifting Organisational Culture**
  - Integral role of culture, values and principles.
  - Model has shifted from employment security to an “employability” model.
  - Integrated leadership and accountability.

### **Two sides to the coin .....**

- Employer branding
- A better work place



- growth

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### **Brand Positioning**

Committed to delivering products and solutions that are :

- Designed around you
- Easy to experience
- Advanced

### **The pressure on HR .....**

- Lean – focus on outcomes rather than activities
- Not a cost centre
- Employee champions
  - Deliver competent and committed employees
  - ISO, HRPST, PBE, ICS
- Administrative experts
  - Deliver efficient HR practices
  - E-tools (salary planning, leave, requisition, HR policies & procedures, recruitment, talent track, job descriptions, etc.)
- Change agents
  - Deliver capacity for change in individual behavior and organizational culture
  - PPM, EES, talent management, rewards communication, value statements
- Strategic partner
  - Deliver business results

- Part of Executive Management Committee & Management Team
  - One page strategy supports Management agenda
  - Country BSC and HR BSC
- “Do more with less”

### **Building our employer brand from the inside out**

#### **Key Objectives:**

To be certain that we are able to attract, recruit and retain the sort of talent that will give our business competitive edge.

To be sure that our employer experience will enable and motivate our talent to work in a way that is “one Organisation”, providing maximum satisfaction for both the organization and the individual”.

#### **On-Line Interaction for New Employees**

The introduction period lasts 3 months and the new hire is supported by :

- HR, line manager and buddy
- CD-ROM
- Website / System

#### **What does it do?**

- Makes new employees feel welcome!
- Helps new employees get started quickly, by providing basic company information right from the start.
- Provides new employees with personal guidance by assigning them a buddy.
- Gives managers a proven, easy procedure for introducing new employees successfully.
- Clearly defines the roles and responsibilities of HR and line

management.

### **What is the role of HR?**

- Recruitment phase
- Initiating the introduction process by entering the details of a new employee on the website and sending a welcome package.
- Running through administrative issues with the new employee on the first day.
- Explaining the buddy system and monitoring progress.
- Evaluate the introduction period after 3 months with the new hire.

### **What is the role of the Line Manager?**

- Assign a buddy to the new hire.
- Welcome the new hire on his or her first day.
- Introduce him / her to the organization, colleagues and department.
- Explain the organizational structure and strategy of the department.
- Formulate performance expectations.
- Discuss training opportunities.
- Evaluate the introduction period after 3 months.

### **What is the role of the Buddy?**

- The buddy should be a close colleague with a similar job grade (not to be confused with the role of a mentor, who is normally a more senior manager).
- The buddy is responsible for :
  - Welcoming the new hire on the first day (develop a first day schedule).
  - Helping the new employee with practical issues (resources necessary to start working, canteen, coffee machine, etc.)
  - Explaining social rules and customs.
  - Being available for questions.

- Keeping in Touch with the new hire on a regular basis.

### **A better workplace ..... The Organisation is you**

- Simplicity is the name of the game
  - HR automation
  - Performance Management
  - Learning
  - Our website
- Communicate! Communicate!
  - Organisation values
  - Leadership competencies
  - Business principles
- It's about being open
  - Compensation and you
  - Talent management
- Employee Engagement Survey

### **3.3 People Performance Management**

#### **3.3.1 The People Performance Management philosophy .....**

- The essence of PPM is to create quality dialog between the employee and manager, which is truly focused on an employee's performance and development.
- PPM is a global process that aligns the employee's personal objectives with those of the business.
- PPM is about looking back at the past period and looking forward to the coming period.
- Performance focuses on what has been achieved (results), but also how it has been achieved.
- Development focuses on the employee becoming better at their

current job and growing into other roles in the future.

- The PPM process starts with a self-evaluation by the employee and can include co-assessment (s).
- Calibration is used to ensure a fair and realistic assessment and to increase the level of objectivity.
- The performance rating is used as input for reward decisions.
- PPM is web-based.

### 3.3.2 What's in it for me?

#### As an employee

You have a clear understanding of how you contribute to realizing business goals.

You know what is expected from you in your job.

You learn to what extent you meet these expectations.

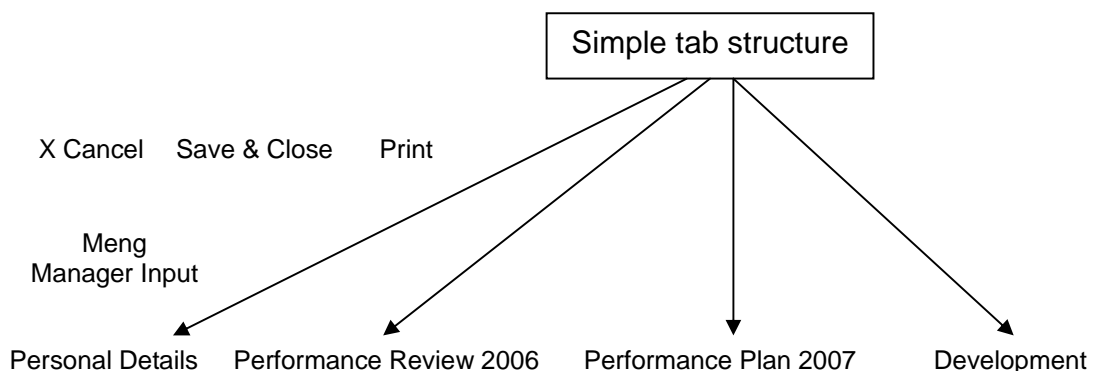
#### 3.3.3 As a manager

You deploy and realize business goals with your team.

You have the opportunity to improve the effectiveness of your team members and establish a performance culture.

You set clear objectives for your employee and evaluate your team members on what they do in their job and how well they do their job.

#### Performance Review



### 3.3.4 Key Areas of Responsibility

Leading account management team for product range X .

Planning and driving customer service initiatives for key accounts.

Setting the strategic direction for product range X.

Strengthen marketing capabilities in the organization for all new product launches.

Work together with ABC to identify product and marketing requirements for product range XYZ.

Take ownership for managing the commercial processes between business units and the different regions to achieve the business targets.

### **3.3.5 Employee comments on last year's performance**

My key areas of responsibility were the same as last year. However, this year I have been able to better lead my account management team as this is my second year in the job. Also, this year I focused more on identifying customer service initiatives for our key accounts. Based on client feedback I managed to create well received initiatives.

### **3.4 SMART Personal Objectives (including Measurable Targets)**

	<b>Employee review</b>		<b>Manager feedback</b>
<b>Objective 1</b>	Realize @ 8.2 million sales with accounts identified in the account plan 1/1/2006 and 31/12/2006		
Rating	Met		
Annual Incentive achieved	(Agreed maximum : 25)	25	(Agreed maximum : 25)
Comments	For all the key accounts I identified in my account plan, I achieved more than the @ 8.2 million sales this year.		
<b>Objective 2</b>	Improve client satisfaction for product range X by a full point to 4.3 as measure by the annual customer survey in Q4, 2006.		
Rating	Partially met.		
Annual Incentive achieved	(Agreed maximum : 15)	10	(Agreed maximum : 15)
Comments	This year, our client satisfaction was 4.1. This is already significantly		

higher than last year, when our score was 3.3. Also, we received informal feedback from clients who mentioned to be very satisfied. Based on this, I have partially met my objective.

**Objective 3**

Setting the strategic direction for product range X and deliver a strategic business plan before 1/3/2006 which is approved by the MT.

Rating

Met

Annual Incentive achieved

(Agreed maximum : 25)

(Agreed maximum : 25)

Comments

My strategic business plan was approved by the MT.

Minimum of entry boxes

Employee fields on the left side of the document manager fields on the right side

Via this button leveling guidance will be offered in terms of example behaviors in relation to corporate

The new Philips Leadership Competencies, in which the Values have been integrated, are now part of performance evaluation. Separate information will follow soon.

Leadership Competencies	Excels	Exceeds	Fully Meets	Partially Meets	Requires Action
✪ Pursue market insight	○	○	○	○	○
✪ Create innovative strategies	○	○	○	○	○
✪ Inspire commitment	○	○	○	○	○
✪ Leverage capabilities	○	○	○	○	○
✪ Champion people's growth	○	○	○	○	○
✪ Drive for results	○	○	○	○	○

**Employee review**

**Manager feedback**

Strengths

What went well this year, that

in my team sales objectives have been met. We created innovative strategies and I am aware of the market situation.

Areas of improvement

However, my area for improvement is my focus on client improving the client satisfaction score, I should focus more on this. Also, I could focus more on champion people's growth. Maybe best to share my views and learning from client situations with my team.

Focus on strengths and areas for improvement

### 3.4.1 Summary of Evaluation

Please click in the grid to indicate your proposed rating.	Manager comments regarding performance and promotability.
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	Excels	Exceeds	Fully Meets	Partially Meets	Requires Action
Fast Track					
Growth Path					
Well Placed					

Minimum of entry boxes



### 3.4.2 Performance Plan

John Doe  
Manager Input

Manager can edit employee's proposal in order to define the final wording for the KARs and objectives

Personal Details   Performance Review 2006   Performance Plan 2007   Development

#### Key Areas of Responsibility New Period

Below you will find the adjusted key areas of responsibility as proposed by the employee. You can update these directly.

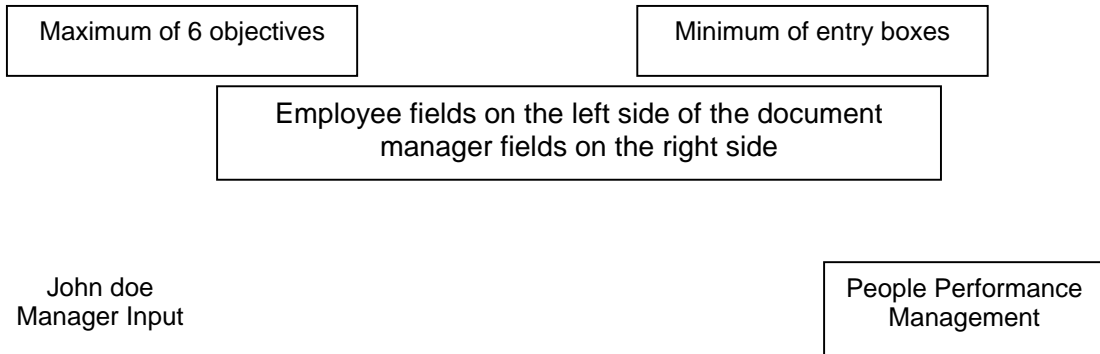
Leading account management team for product range X for the EMEA region.  
 Planning and driving customer service initiatives for key accounts in EMEA.  
 Setting the strategies direction for product range X.  
 Strengthen marketing capabilities in the organization for all new product launches.  
 Work together with ABC to identify product and marketing requirements for product range XYZ.  
 Take ownership for managing the commercial processes between business units and the different regions to achieved the business targets.

#### Proposed SMART Personal Objectives (including Measurable Targets)

Below you will find the personal objectives as proposed by the employee. You can update these objectives directly.

Employee review		Manager feedback	
	A1 Distribution		A1 Distribution
Realize @ 9.0 million sales with accounts identified in the account plan between 1/1/2007 and 31/12/2007.	30	Realize @ 9.0 million sales with accounts identified in the account plan between 1/1/2007 and 31/12/2007.	30
Improve client satisfaction for product range X to 4.5 as measured by the annual customer survey in Q4,, 2006 and conduct a midyear client satisfaction survey to track progress.	15	Improve client satisfaction for product range X to 4.5 as measured by the annual customer survey in Q4,, 2006 and conduct a midyear client satisfaction survey to track progress.	15
Set up a system to share findings and learning within my team to be better prepared for client meetings.	10	Set up a system to share findings and learning within my team to be better prepared for client meetings.	10

Hold a bi-monthly meeting with the top 10 key accounts to inform them of the latest products.	25	Hold a bi-monthly meeting with the top 10 key accounts to inform them of the latest products.	25
Coach my account team by having regular meetings with my team members.	20	Coach my account team by having regular meetings with my team members.	20



Personal Details   Performance Review 2006   Performance Plan 2007   Development

### 3.4.3 Development

#### Development Activities Previous Period

- Follow the training “focus on the markets”
- Work together with the account manager for product range X in region APAC to learn from him.

Minimum of entry boxes

#### Employee review

I have followed a training “focusing on the markets” and based on that one of my objectives is to create regular meetings with key accounts. I also worked together with the APAC regional account manager. This was very successful and made me aware of a lot of important issues.

#### Manager feedback

#### Development Activities New Period based on strengths ad areas for improvement

Below you find the new development activities as proposed by the employee. These activities are based on the employees strengths and areas of improvement derived from

the employees (Functional) Competencies. You can update these new activities directly.

I can still develop myself by using what I have learned from the training “focusing on the markets”. Further on I want to develop myself on “champion people’s growth”. For this reason I will follow a training for coaching.

Manager can edit employee’s proposal in order to define the final wording for the development activities

Functional Competencies will be available via a web link to serve as inspiration for indicating the strengths and areas for improvement, but will not be rated anymore

Employee fields on the left side of the document  
manager fields on the right side

### 3.4.4 Career

#### Employee

#### Manager

#### Career Aspirations

#### Manager comments on career

I would like to grow to a role where I have the responsibility for product XYZ in the APAC region. I know the EMEA region very well and am very interested in working in the APAC regions because of the dynamics going in here.

#### My Mobility

Mobility           Regional  
Regions           Asia-Pacific Rim & Australia  
Restrictions

Minimum of entry boxes

#### Midyear development conversation

Please Indicate if you foresee the need for an additional specific midyear development conversation. *If the employee and / or manager indicate “yes” and email will be sent to both parties halfway the year to indicate them to start the development process.*

#### Employee

#### Manager

No

Yes     No

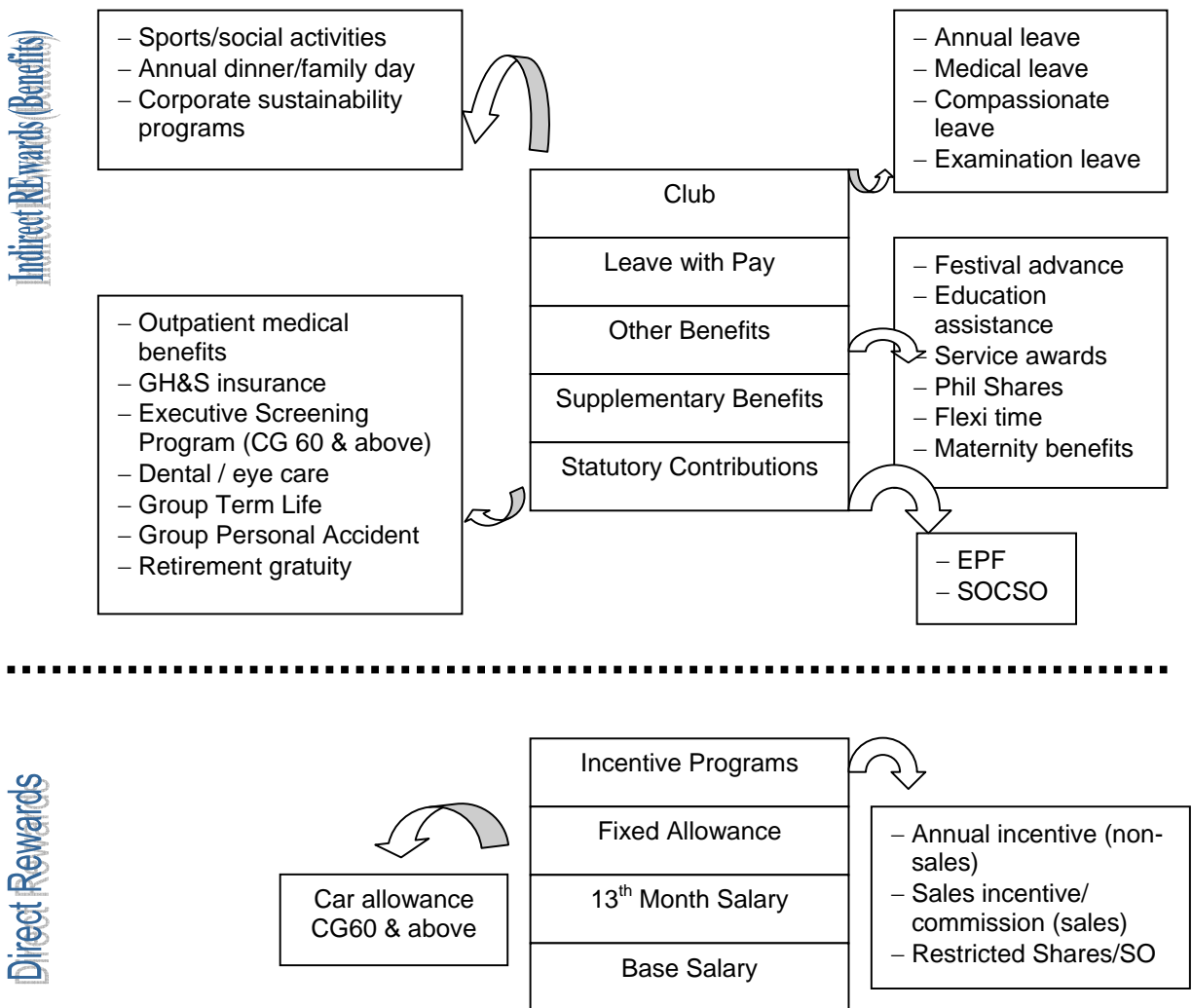
Default mode : end-year meeting focused on performance as well as development. There is an option to choose for an additional mid-year development meeting

#### 3.4.5 What else will be new?

- Tool will be **available throughout the year** to work on development and to define KPIs and objectives e.g. for new employees (manager formally accepts, HRM receives copy).
- **No colleague feedback** option anymore (only 9% made use of this).
- Co-assessor input will be much more focused and **co-assessor can start immediately** after employee has submitted input.
- More flexibility for HRM Manager in creating and importing calibration grid at all times before PPM meeting phase (administrative unburdening HRM managers).
- Please note all relevant data of the last PPM cycle **will be transferred** to PPM light.

### 3.5 Rewards & Communication

#### 3.5.1 Overview of rewards programs offered



## **3.6 Talent / Management Development**

### **3.6.1 Developing talents**

- Career planning with our Career Center
- Single website with all Philips' vacancies
- Offers hints and tips on career and development
- People Development
- Performance Management :  
Assess : not only what you do but also how you do it
- Core Curricula :  
'One Organisation' way of learning

### **3.6.2 The Management Development Process**

- Who will fill our key positions now and in the future?
- Succession planning
- Performance reviews
- How have they performed against business objectives and competencies or values?
- Competencies
- Talent Identification: What is their potential? What steps do they need to take to develop?

### **Management Development is a Partnership with Joint Accountability between :**


Company / HR

Provide tools, processes and systems to enable and support development and succession planning.

Managers

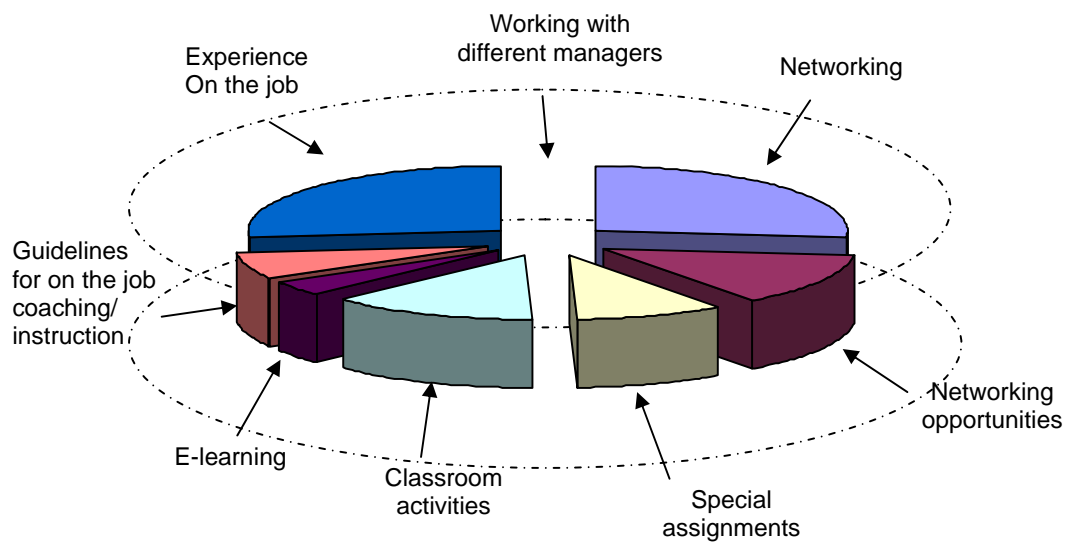
Recognize, plan, coach, develop and monitor the

skills and talents of employees.

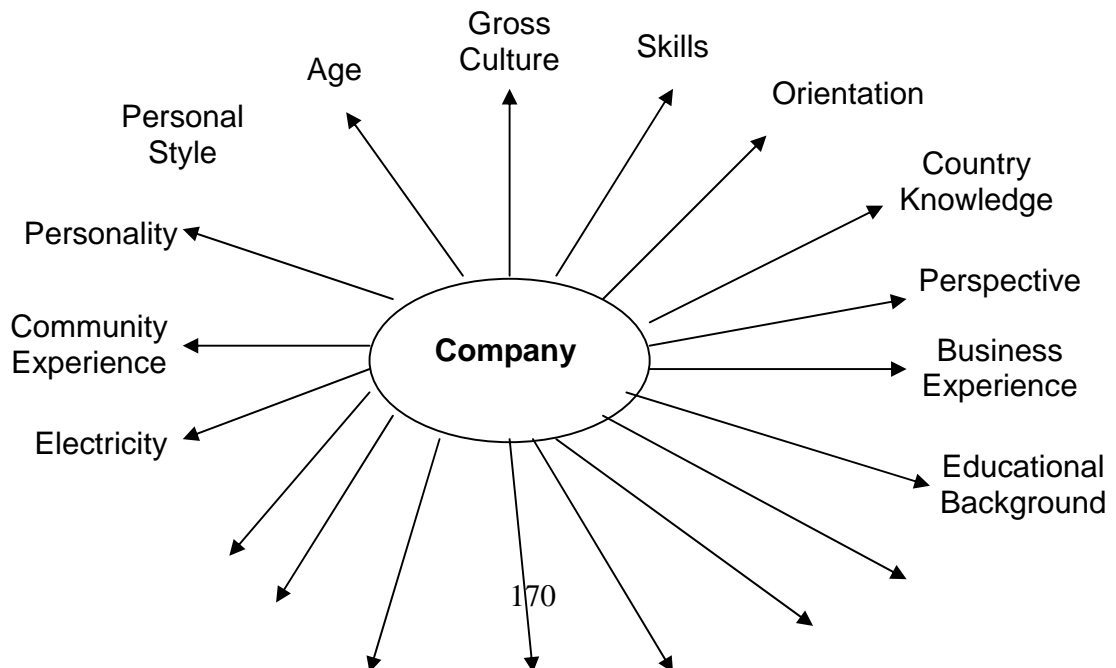
Employees  Contribute to and plan for the future. Have a self-managing mindset about careers.

### 3.6.3 Learning & Development

#### The total blended learning solution



### 3.6.4 Diversity & Inclusion



Physical  
Abilities

Faith  
Religion

Life

Experience

Language

- **Diversity** Thinking Gender Passion  
Style

The term “diversity” symbolizes our recognition that our workplaces, marketplaces and communities are made up of individuals: men and women from different nations, cultures, ethnic groups, generations, background, skills, abilities and all the other unique characteristics that make each of us who we are.

We can better understand our customers and better identify their needs when we have a diverse workforce that mirrors our worldwide customer base.

- **Inclusion**

The term “inclusion” symbolizes an environment where everyone can fully participate in creating business success, and where each person is valued for his or her distinctive talents (skills, experiences, perspectives, etc.)

An inclusive working environment engages people, enhances decision making and increases creativity and innovation in support of our vision and brand positioning.

### 3.7 Employee Engagement Survey

#### 3.7.1 Engagement is essential to achieve our business agenda

- As a company, we know where we want to be and what we need to get there.
- Engaged employees are, just like happy clients, a condition for



growth.

- Yet, there is a gap between where we want to be and what our people tell us.
  
- Topics that keep coming back are consistent through all sources; strengthen people leadership to get the best out of people, ensure alignment on direction and reduce complexity to enhance people ability to contribute, create an environment of trust and open dialog to offer space for people to add value, behave consistently to accelerate the pace of change.
- Improvement to be done in these areas is a key to increasing engagement.

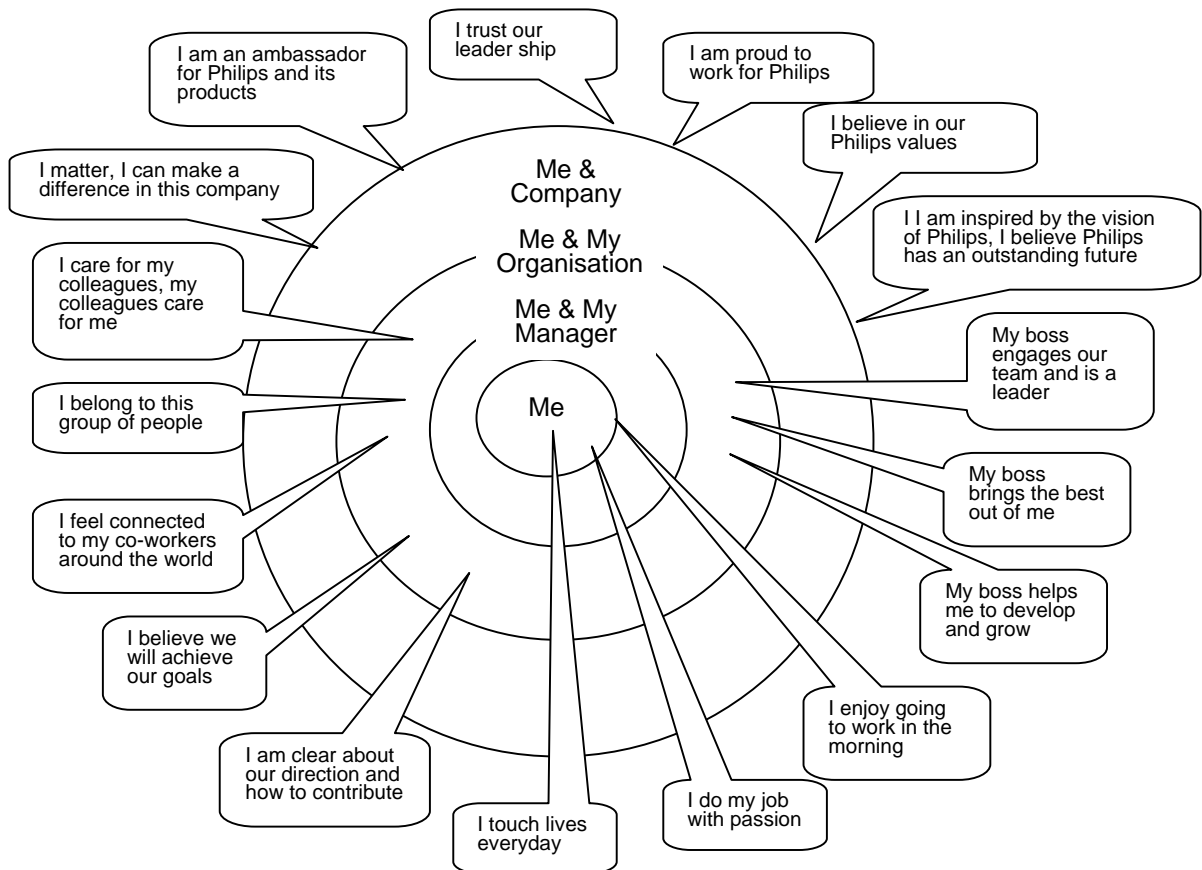
### **3.7.2 Positioning engagement?**

Engagement is about creating an inclusive and high-energy working environment, where all employees are aligned to and energized to contribute to our business success. An engaged workforce delivers a competitive advantage – our people are highly motivated to give their best every day.

Someone who is engaged typically :

- goes above and beyond the normal demand of the job
  - helps others with heavy workload
  - volunteers for extra duties
- looks for way to perform jobs more effectively
- has higher level of customer satisfaction

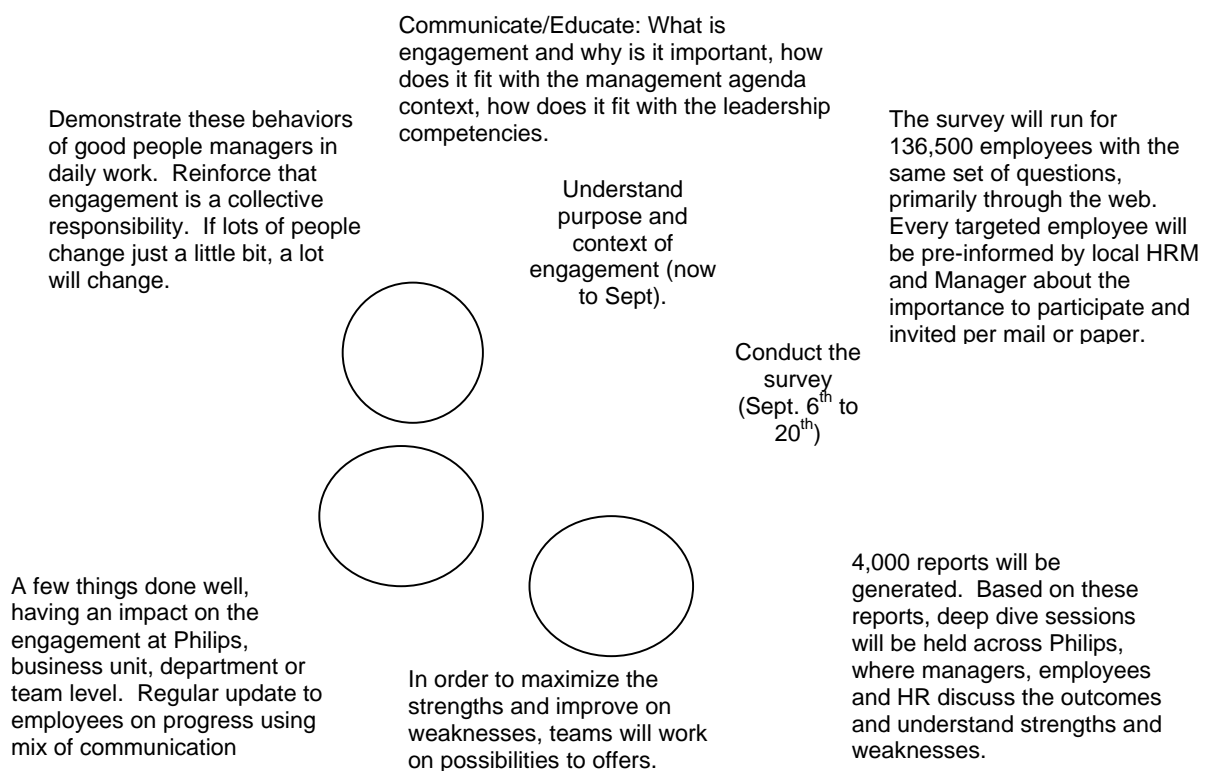
### 3.7.3 We need our workforce to say things like .....



### 3.7.4 Key themes of Engagement

Being passionate and proud	Bringing out the best in each other	Trusting and being trusted
<p>This is about being an advocate for Philips, believing in what Philips stands for and its future.</p> <p>This is about being outspoken, taking a stand for what we believe in.</p> <p>This is about having a positive attitude.</p> <p>This is about individuals</p>	<p>This is about making a personal commitment and using individual talent to play a role and contribute (Skill &amp; Will)</p> <p>This is about building on motives, values and goals of each individual to help them contribute to the best.</p> <p>This is about</p>	<p>This is about being authentic and consistent between what we say and do.</p> <p>This is about communicating and measuring progress on what we say we will do.</p> <p>This is about earning trust by acting as role model.</p> <p>This is about trusting</p>

### 3.7.5 Process of Engagement in 2006?



### 3.7.6 Whose responsibility is it?

- Engagement is a collective responsibility which needs to happen daily.
  - Be passionate and proud, bring the best in each other, trust and be trusted in all the things we do.

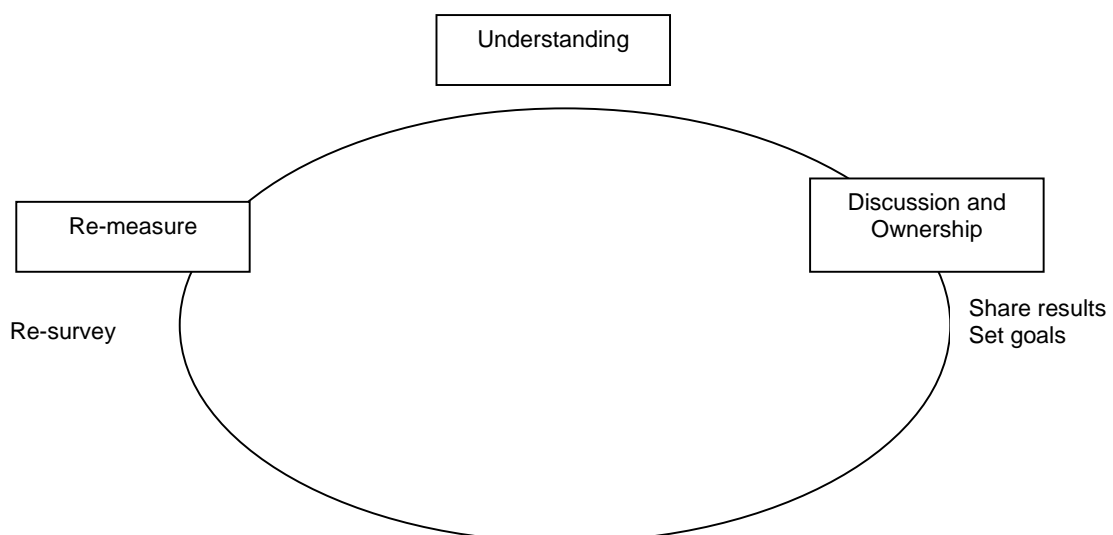
- Every individual can impact engagement within their own team.
- These changes at a local level then multiply to create significant organizational shifts.

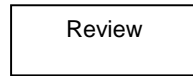
### **3.7.7 List of Questions from the Engagement Survey**

1. I believe the company has an outstanding future
2. I trust the leadership of the Company
3. I trust my manager
4. My manager is an active role model for the company's values
5. The leadership of the company has communicated a vision of the future that motivates me
6. I have a clear picture of the direction in which the company is headed
7. My organization has a climate in which diverse perspectives are value
8. The management style in this organization brings out the best in employees
9. My management has acted on issues identified in the previous employee engagement survey
10. I feel adequately informed by my management on our business goals
11. There is good cooperation between my department and other departments
12. I rarely think about looking for a new job with another company
13. I would gladly refer a good friend or family member to the company for employment
14. Overall, I am extremely satisfied with the company as a place to work
15. I feel proud to work for the company
16. My job makes good use of my talents and abilities
17. I have the training I need to do my job effectively
18. My manager has facilitated my growth and development
19. My manager provides me with coaching that is helpful in improving my performance

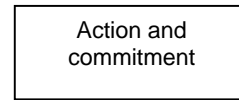
20. I receive the information and communication I need to do my job effectively
21. In my organization there is open and honest two-way communication
22. My manager clearly communicates what is expected of me
23. My manager is usually receptive to suggestions for change from employees
24. I feel that I am part of a team
25. My ideas and suggestions count
26. My manager really cares about my well being
27. I am encouraged to come up with new and better ways of doing things
28. All employees in the company are treated as individuals regardless of age, race, gender, physical capabilities etc
29. I am involved in decisions that affect my work
30. I am given sufficient authority and freedom by the organization to do my job well
31. My manager provides me with timely and helpful feedback
32. I think my performance is evaluated fairly
33. I regularly receive appropriate recognition when I do a good job
34. My organization provides equal opportunities to all employees
35. The compensation plans of Philips reward outstanding job performance
36. In my current job, I am satisfied with my pay and benefits

### 3.7.8 How should the process look like?





Monitor and support progress



Develop an action plan  
Share the plan

### **As a result**

We create the readiness for the organisation to seize business opportunities and gain competitive edge through workforce globalization.

## **4.0 Labour Market Situation**

During the first half of the Second Industrial Master Plan (IMP2), 1996-2005, the manufacturing sector recorded a tight labour market, largely due to the full employment situation and the robust performance of the sector. The Asian financial crisis adversely affected economic growth and employment. In response, measures were undertaken to accelerate economic recovery and address unemployment. These included Government initiated programmes to improve employability through retraining and skills upgrading, as well as greater emphasis on productivity and competitiveness.

While Malaysia offers a pool of talented human resources, there is presently a shortage of skilled workforce in specialized fields in engineering, information and communication technology (ICT) and high technologies. To overcome this shortage, companies engaged foreign experts and specialists. As of 2005, there were 35,480 expatriates employed in Malaysia, with 18,679 (52.6%) in the services sector, 40.6 % in the manufacturing sector, 2.8% in the construction sector and 0.2% in the plantation sector. Expatriates were generally employed in the higher managerial category and specialized fields, such as oil and gas, biomedicine, research and development (R&D), ICT consultancy and

software management. To increase the availability of local experts, the Government implemented the Brain Gain Programme to attract Malaysian talents abroad to return.

A large number of foreign workers are employed in tasks which require lower skills. As at 2005, there were 1.8 million foreign workers in the country, with 581,379, or 32%, in the manufacturing sector, 26.1% in the plantation sector, 15.5% in the construction sector and 8.8% in the services sector. These workers were employed in jobs for which Malaysians were not available or not willing to fill.

#### **4.1 Industrial Relations in Malaysia**

Generally, the extent of unionization in Malaysia is low for two main reasons, first the predominance of small-scale manufacturing and services establishments; second the prevalence of contract labour. The Labour Law in Malaysia is well established. Among the Labour Laws in Malaysia are the Employment Act 1955, Workers Housing and Amenities Minimum Standards Act 1990, Workers Compensation Act 1952, Young Person and Children Act 1966, Wages Determination Council 1947, Weekly Holiday Act 1950, Employment Information Act 1953, Employment Limitation Act 1968, Industrial Relation Act 1967 and Trade Union Act 1959.

The extent of unionization in Malaysia is low for two main reasons, the predominance of small-scale industries and service establishments; as well as the prevalence of contract labour. The Congress of Union of Employees in the Public and Civil (CUEPACS) represent the public sector while the Malaysia Trade Union Congress (MTUC), registered with the registrar of societies functions as the voice of Malaysian trade unions at both the national and international levels. It also represents workers on

tripartite organizations such as the National Labour Advisory Council (NLAC),

Private sector employers in Malaysia are represented in the central organization known as the Malaysian Employers Federation (MEF). Established in 1978 following the dissolution of the Malaysian Council of Employers' Organisation, the MEF is registered under the Societies Act 1986 and includes both ordinary and associate members. The MEF advises its members on how to deal with trade union claims, helps to prepare counter-proposals and assists in negotiations of collective labour agreements. It also represents employees in the NLAC and Wages Council.

It is important to note that matters pertaining to labour and industrial relations come within the jurisdiction of the federal government as stipulated by the Malaysian constitution. Hence the Trade Unions Ordinance and the Industrial Relations Act apply throughout the country. Voluntarism is the basis of collective bargaining in Malaysia. When an employer or a trade union serves notice of its intention to commence collective bargaining, the receiving party is required to respond within 14 days. If the response is positive, collective bargaining should commence within 30 days of the reply. If negative or if the bargaining otherwise does not commence within the 30 days period, the party serving notice may notify the Director General of Industrial Relations who may then take the necessary action to persuade both parties to the commence bargaining. If there is still no success at that stage, then a trade dispute will legally exist.



## 4.2 Legal Environment for Employment

The present labour laws include:

<b>Act</b>	<b>Major Provisions</b>
Employment Act 1955	<ul style="list-style-type: none"><li>- all manual and non-manual workers earning RM1,500 and below;</li><li>- minimum benefits and rights of employees, including working hours, annual leave and public holidays, overtime rates and sick leave;</li><li>- issues such as termination and retrenchment</li></ul>

The act was amended in 1998 to allow, among others, for workers earning RM5,000 and below to complain to the Labour Department for violation by the employer of any term and condition of the employee's contract of service. The Act was last amended in 2000.

Industrial Relations Act 1967	Governs the relationship between employers and employees and their trade unions, and the prevention of settlement of differences of disputes arising from the relationship.
Social Security Act 1969	Covers workers who earn RM3,000 and below. The act provides for benefits and pension if a worker is injured or disabled during working

hours, or while traveling to and from work. It was last amended in 2005.

Occupational Health and Safety Act 1994	Protects the worker against unsafe work sites and unhealthy work practices.
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#### **4.2.1 Industrial Relations Act, 1967**

The Industrial Relations Act regulates relations between employers and employees and their Unions. The main objective of the IR Act is to resolve trade disputes. The Act embodies four important principles:

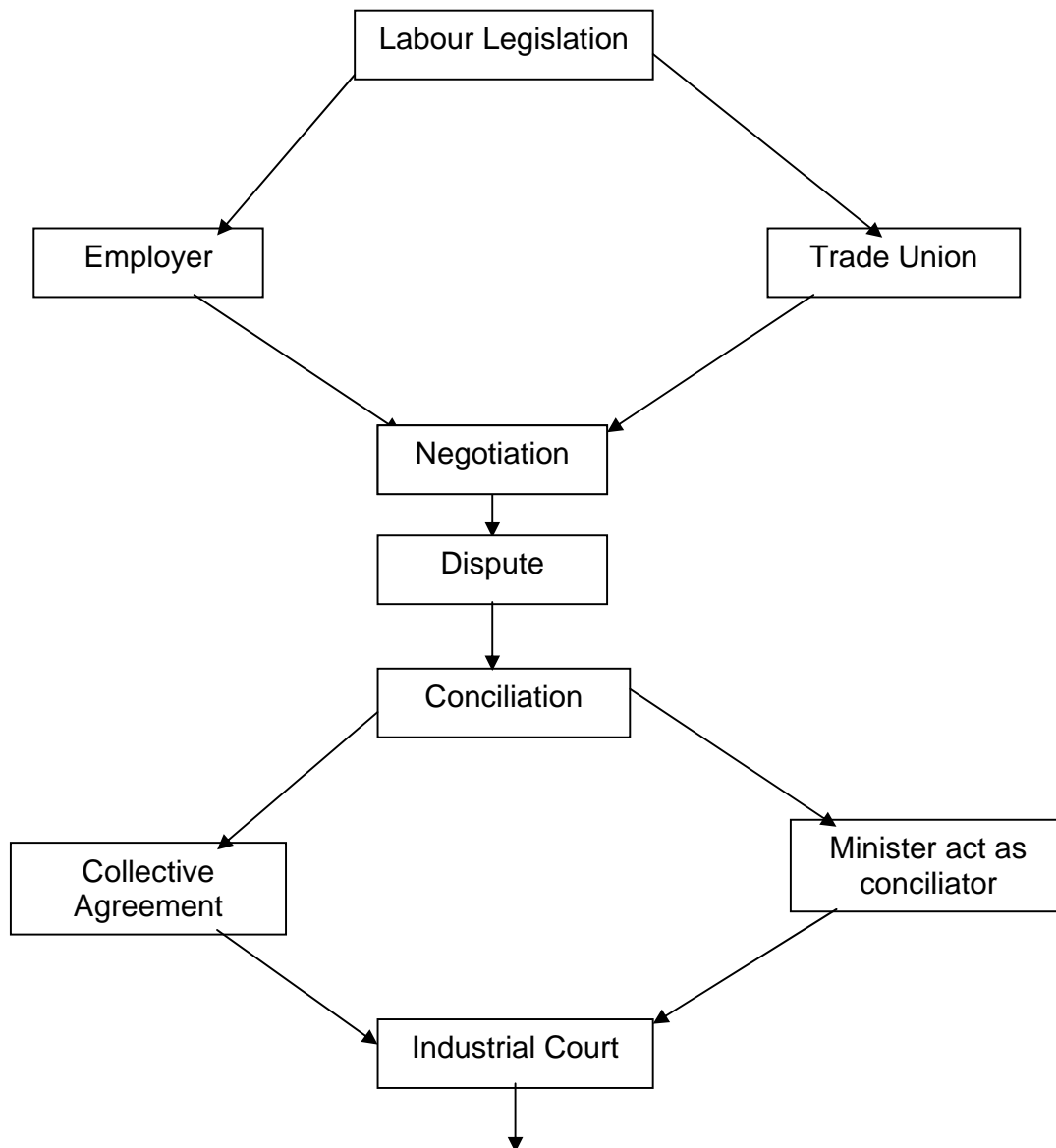
- The principle of trade unionism
- The principle of recognition
- The principle of collective bargaining
- The principle of resolving disputes

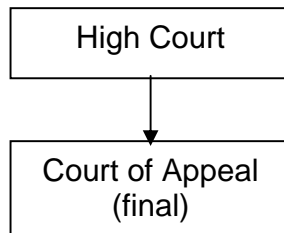
The Industrial Relations Act requires that a collective labour agreement be concluded and deposited with the Industrial Court every three years. Once the court takes cognizance of the agreement it becomes binding, and any violation of its provisions constitutes an offence under the law. However, before taking cognizance of the agreements, the court sends some of them back to parties for amendments.

The dispute settlement machinery in Malaysia provides for conciliation and arbitration. The Industrial Relations Act empowers the Director General of Industrial Relations and the Minister of Human Resource to conciliate labour disputes. The Director-General can inquire into the causes and circumstances surrounding the dispute and bring the parties together or appoint an arbitrator if both parties agree. The Minister can intervene in any dispute for the purpose of conciliation and if appropriate, may refer the case to the industrial court of arbitration.

The Industrial Court, constituted under section 30 of the Industrial Relations Act, 1967, hears cases brought by the parties or referred by the Minister. The Court has jurisdiction over four types of cases : (a) unfair dismissed claims, (b) interest disputes, (c) interpretation of collective agreements or awards and (d) complaints of non-compliance. The mechanism through which labour disputes are heard by the Industrial Court is illustrated in Figure I.

**Figure 1**  
Industrial Relations Process in Malaysia





### **4.3 Industrial Relations: Issues and Challenges**

The industrial relations in Malaysia is increasingly moving towards cooperation and collaboration rather than confrontation. It has been recognized that in the context of changing times, there is a need to work together to survive. In any society, there is necessarily conflict in industry between employers and employees, between the owners of goods and services and those who work to produce these goods and services. The objective of Malaysia's industrial relations system is to direct the forces producing conflict towards constructive ends.

In accordance with this philosophy, employers and workers have grouped together to advance and protect their separate interests. Trade Unions have long been accepted as lawful, and the rights to strike and bargain collectively have been similarly recognized. Likewise, employers have been allowed to organize themselves into groups and to take legitimate action to protect their interests. It has also been accepted that the Government should provide the facilities to help the parties agree, but not to actively interfere to impose a settlement on them. The issues surrounding industrial relations should be centred on employability.

In the process, the following key challenge has to be resolved:

- **Enhancing Employability**  
In line with the human resource policy thrusts mentioned earlier, knowledge and skills of workers must be continuously enhanced.

Specifically, generic skills are a pre-requisite for employability and workers must be more oriented towards technical skills and utilization of high level technology. Management and Unions must work together to develop a trained workforce who has the potential and ability to optimize the use and development of new techniques and materials as this will continue to be important in ensuring the growth and resilience of the economy.

Human resource development facilities provided by both public and private sectors in ensuring that workers are adequately trained must be utilized. Negotiations between employers and unions must make this issue a priority.

- Information Sharing

There is insufficient sharing of information between employers and unions especially on financial issues. For the purpose of carrying out his functions, the Director General for Industrial Relations under subsection (4A) of the Act shall have the power to require the trade union of workmen, the employer or the trade union of employers concerned to furnish such information as he may consider necessary or relevant.

- Conflict in Collective Agreements

Trade Unions would normally maintain their rights as per collective agreement which is concluded once in three years. The Trade Unions main concern is to protect the workers in terms of wage increments and benefits while Employers normally plead understanding in the context of intense competition and affordability. The Government had proposed a wage system that is linked to performance as a fair way to accord wage increments and bonuses. There is also a call to review the Industrial Relations Act, to make it more in tune with the current economic developments.

- **Outsourcing and Mergers**

In the face of globalization and more intense competition, more and more firms are going for outsourcing and mergers. In the process, employees find that they have to cope with new environment, new conditions of employment and security of tenure. The industrial relations is currently inadequate in coping with this new trend. The Industrial Relations Department is thus undergoing a reorganization of their structure to be in line with the current economic scenario.

- **Minimum Wages**

The Malaysian Trade Union Congress (MTUC) has made a request to the Government for establishing a minimum wage. A decision on the matter is yet to be made. Another alternative to minimum wages is to establish a wage system that is linked to performance/productivity, where the wage system consist of two components; the fixed component that ensures wage stability and the variable component that ensures enhance performance.

## **5.0 Productivity and Wages**

### **5.1 International Productivity Comparison**

In 2006, the productivity growth of Malaysia at 3.7% surpassed many of the Organisation of Economic Cooperation (OECD) countries such as Sweden (2.8%), Japan (2.5%), Germany (2.0%), Denmark (1.8%), USA (1.5%), United Kingdom (1.7%), France (1.4%), Australia (1.0%), Canada (1.0%) and Ireland (1.0%). Amongst Asian countries, Malaysia registered higher productivity growth than Thailand (3.5%), Chinese Taipei (2.7%) and Singapore (1.2%). However, China (9.7%), Indonesia (6.4%), India (6.0%) experienced higher growth. The ongoing shift of the economy towards higher value added and knowledge based activities, adoption of

new technologies and innovations into business applications, strong economic growth, increasing inflow of foreign investment and intensive utilization of information and communication technology (ICT) had contributed to the productivity performance.

The productivity level of Malaysia at US\$11,716, was higher than that of India (US\$ 2,128), China (US\$2,885) and the Philippines (US\$2,914). However, highly industrialized and matured economies such as Japan, Norway, USA and Ireland with high GDP per capita, high degree of innovation and a large pool of educated workforce recorded higher productivity levels. Total research and development (R&D) expenditure as a percentage of GDP of the OECD countries such as Sweden (3.9%), Finland (3.5%) and Japan (3.2%) was higher than that of Malaysia (0.6%). In addition, almost all the selected OECD countries showed higher education achievement.

**Table 4.1 Productivity Levels and Productivity Growth, 2006**

<b>Country</b>	<b>Productivity Level (2000 Constant Prices, US\$)</b>	<b>Productivity Growth (%)</b>
<b>Malaysia</b>	<b>11, 9716</b>	<b>3.7</b>
<b>Selected OECD Countries</b>		
Japan	79,907	2.5
United States	77,989	1.5
France	58,190	1.4
United Kingdom	53,764	1.7
Canada	50,029	1.0
Australia	46,681	1.0

Korea	28,956	3.7
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**Selected Asian Countries**

Singapore	48,782	1.2
Chinese Taipei	38,622	2.7
Thailand	4,202	3.3
Philippines	2,914	1.6
China	2,885	9.7
Indonesia	2,128	6.4

*Source : National Productivity Corporation, Annual Productivity Report 2006.*

The productivity growth of Malaysia which was higher than the OECD countries was indicative that Malaysia is progressing towards achieving better competitiveness globally. Malaysia has to continuously ensure that productivity grows at a faster rate than the developed economies to achieve a higher productivity level which is on par with these economies.

**5.2 Labour Cost Competitiveness of the Manufacturing Sector, 2006**

The manufacturing sector continued to improve its Labour Cost Competitiveness by registering a 3.1% growth in Sales Value per Employee as compared to a 2.5% growth in Labour Cost per Employee (Table 2). Human resource development, cost rationalisation initiatives and productivity and quality improvement programmes undertaken by the manufacturing industries



contributed to this performance. Unit Labour Cost (ULC) which is the labour cost of producing one unit of product or service declined and thus enhanced competitiveness as it is now cheaper to produce a unit of output. Unit Labour Cost declined by 0.7%.

Table 4.2 shows the sales value per employee (proxy for productivity, Labour cost per employee (proxy for wages) and unit labour cost. It is observed that in situations where labour cost per employee grows faster than sales value per employee, unit labour cost will increase such as in year 2002. It is therefore imperative that wage increases should be commensurated with higher productivity growth to enhance competitiveness.

**Table 4.2: Labour Cost Competitiveness, Manufacturing Sector**

	2002	2003	2004	2005	2006
Labour Cost per Employee	4.47	4.42	3.14	4.42	2.5
Unit Labour Cost	0.68	-3.40	-12.04	-3.40	-0.7
Sales Value per Employee	3.69	8.11	17.24	8.11	3.1

Source : National Productivity Corporation, Malaysia

### 5.3 Wage System in Malaysia

In the private sector, the wage structure may be in the form of a salary scale. There is also a system of using the salary range. Minimum and maximum annual increment may or may not be pre-determined until the employee reaches the maximum in the salary range. In the unionized sector, employees have their wages and other conditions of employment determined through collective bargaining. At each renewal of a collective agreement there is always upward revision of the starting salary, followed by annual increments in predetermined steps which usually, but not necessarily, ends with a maximum. Besides the

annual increment there is also the salary adjustment at the end of each three-year period when a new agreement begins. An employee therefore receives an annual increment each year and a salary adjustment once every three years. The total increase over a six-year period was 81 per cent. The increase is not in any way related to the company's performance or the employee's productivity. The increase will be permanently built into the employee's salary.

The main weakness of such a wage system is its inflexibility of any adjustments either to the company or employee performance. Among the inhibiting features are:

- The general trend of wage increase is rapid and not related to productivity improvement;
- Collective agreements are usually fixed for a period of three years and binding on both parties. The phasing in of wage increments is often out of synchronization with economic reality at the time of implementation because of the protracted delays in many wage negotiations;
- Annual increments are pre-determined and are given automatically to all workers regardless of the level of performance;
- Remuneration is not related to company performance;
- Terms in the collective agreement cannot be reduced even when a new agreement is being concluded on the premise that once a benefit is granted, it cannot be subsequently withdrawn even through in lean times.

Recognising the weaknesses of the current wage system; the Government initiated a tripartite task force to develop guidelines on a Wage Reform System which is linked to productivity in 1997 and in 2004, a Guiding Principles for the implementation of Performance Linked Compensation among Government Linked Corporations (GLC) had been developed.

#### **5.4 Performance Linked Compensation: Guidelines and Implementation**

“From a human capital standpoint, the right Performance Linked Compensation (PLC) programme will enable corporations to attract, retain and motivate the best people. From a corporate viewpoint, PLC programme is consistent with the economic ownership model whereby ownership is institutionalized and management is left to professionals who are to be adequately incentivised to drive performance. The alignment of shareholder and management’s interest is in the interest of both. From a national perspective, the pressure for better accountability and performance in Corporations has never been greater. New engines of growth need to be identified and existing economic engines need to be competitive if we are to survive in the global economic order. In the period immediately following the financial crisis, we have spent much effort restructuring. But we cannot stop there; all the past efforts would be for nothing if we do not move on to the next level. By driving GLCs towards higher performance and global competitiveness, GLCs will lead the private sector in generating long term sustainable growth for Malaysia.”

Speech by YB Tan Sri Nor Mohamed Yakcop,  
Finance Minister II, Malaysia, 14 May 2004.

The focus of the Guiding Principles<sup>8</sup> has been on the implementation of Key Performance Indicators (KPIs), and the introduction of Performance Linked Compensation (PLC). PLC is not about compensation structure alone, it is an all encompassing process of:

- Identifying the strategic direction and targets for the company,
- Aligning management's focus towards these goals,
- The ongoing process of review and appraisal to keep the company on track, and
- In the process, sharing the success of the company in terms of rewarding employees.

The governance structure of each company will be the proper channel for implementing the PLC programme. There are four main areas:

- KPI Design
- Base Pay
- Performance Bonus
- Eligibility

#### **5.4.1 KPI Design**

Balanced and wholistic set of KPs

As a business foundation, any organization will have its corporate mission and strategy. In formulating the KPIs, there should be a clear link with corporate mission and specifically business plans. The choice and selection of the right KPIs cannot be overemphasized and has to be developed with the corporate strategy and mission in mind:

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<sup>8</sup> Performance Linked Compensation: Guidelines & Implementation by YB Tan Sri Nor Mohamed Yakcop, Finance Minister II, Culture of High Performance for Government Linked Companies, Seminar on 14 May 2004, Ministry of Finance, Putrajaya.

- i. KPIs selected must be actionable; that is they should be within the control of management and the outcome is capable of being influenced by management's action or inaction.
- ii. KPIs must be measurable. The objectivity of measurements is critical but it does not mean that KPIs should not include subjective areas. In areas such as customer satisfaction, independent surveys may be used as a proxy measure
- iii. Avoid KPIs that encourage short term outlook. KPIs design must allow for progressive growth. Do not for example, sacrifice efforts which bring benefits in the long-run such as training and research, just to show better results.

Targets should be benchmarked against industry peers, either domestically or if available, internationally. It is not sufficient that targets are based on historical trends if those trends have not been up to the mark. In many cases, industry-wide data are available as comparisons. The number of KPIs should not be too many to ensure clarity and focus. Best practice would suggest scorecards containing between five to eight KPIs. The KPIs selected should also be weighted to ensure that more important business objectives are given emphasis. Targets should be set annually in line with changes in business objectives. Where actual results to-date are behind targets, remedial action should be taken to review and address the situation.

#### **5.4.2 Base Pay**

As a guide, executives base pay should be set at the market average of comparator companies. The choice of comparator companies is critical as the results may be skewed depending on the companies selected. The companies selected should have common operational characteristics such as size and markets. There should not be indiscriminate use of data to justify higher

compensation without regard to the local conditions. Nevertheless, in the quest for specific talent, specific compensation package which is personal to holder could be offered; such situation should be referred to the major shareholder.

### **5.4.3 Performance Bonus**

#### **Achieving minimum threshold**

When setting performance threshold, there should be a minimum threshold below which no performance bonus should be made. There should not be a situation where an executive achieves 20% of the target and still be entitled to receive 20% of the performance bonus. The guidelines suggest that bonuses should not be payable for performance below 50% of the KPIs targets.

#### **Linking payout to KPI score**

There should be correlation between KPI score and payout. Nonetheless, a “modifier” should be introduced to limit the performance payout for exceptional situations arising in the year. For example, it may be decided that despite management achieving the KPIs, the business reputation has suffered as a result of a major negative event such as a major industrial accident that could have been avoided. In this situation, it is appropriate to limit the extent of the pay-out.

#### **Market Competitive Bonus**

To attract the best candidate and ensure the best performance, the performance bonus should be a real incentive. Good performance should be rewarded. However, there should not be an over-skewed compensation where there is no internal equity and the payout has no linkage to performance. Perverse behaviour focusing on short term gains, non-congruence of overall corporate goals and manipulation of results should be avoided.

#### **Use of Cash Rewards**

Rewards can be a combination of cash or shares and the concept of “self-funded” performance bonus should be used. The ability to afford the payout is a given. Hence, performance bonus should only be given out from profits earned out of superior performance. If the base financial targets are set at, say, 12% ROE, no performance bonus may be paid out if this is not achieved. The bonus pool established should be shared between executives and shareholders to preserve equity to the providers of capital.

### **Use of Shares**

Typically long term incentives comprise shares provided this is applicable to the company and the major shareholder can afford to dilute the shareholding. No discounts from market are to be given for share options under the scheme as the value to the staff needs to be earned from improved market price of the shares in the future rather than existing shareholders at the present.

#### **5.4.4 Eligibility**

##### **Senior Management**

Senior management typically comprises the CEO, the direct reports and those immediately below that. However, the definition of senior management will vary depending on the organization structure. What is key is that this group of people have a direct influence on the company’s performance. It is expected that the CEO and direct reports, should gradually become contract positions. The possibility of non-renewal of contract is one way to encourage performance; and any vacancies should be made available to internal and external candidates. Terminations should be exercised for non-performance.

##### **Other Employees**

The principles of performance linked compensation must be applied to all levels of the organization. It is however recognized that there is a difference in risk and return between management and other employees. Under the scheme, senior

management will be subject to employment contracts, a high variable element to wages and very much tied to the company's performance. Other employees whilst subject to performance will not be burdened with as much risk.

### **Non Executive Directors**

Non-executives such as non-executive Directors are not eligible under this scheme; however they may participate in the standard ESOS scheme. This prohibition is to ensure proper check and balance.

### **5.4.5 Implementation**

A project Steering Committee for the implementation of the PLC should be set up. This committee would report to the Board or Board of Remuneration Committee. The Guiding Principles should be used in the implementation and any variation has to be referred to the PLC Steering Committee for clarification and guidance.

### **5.4.6 Performance Based Elements in Collective Agreements**

In 2006, the National Productivity Corporation<sup>9</sup>, Malaysia carried out a study to gauge the extent of performance-based elements adopted by unionised firms. It is encouraging to note that 61% of 373 unionised firms had incorporated performance criteria in their Collective Agreements as follows:

<b>Performance Elements</b>	<b>%</b>
Discretionary bonus that is based on individual, department or overall company performance	22.5
Commitment in ensuring timeliness, discipline	20.6

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<sup>9</sup> Performance Based Elements in Collective Agreements, NPC Malaysia, 2006



and ensuring quality of output

Merit increment whereby the quantum of increment 12.8  
Varies according to employees performance

Profit-based Bonuses 10.2

Service or performance incentives that are 7.5  
Distributed based on performance of employees

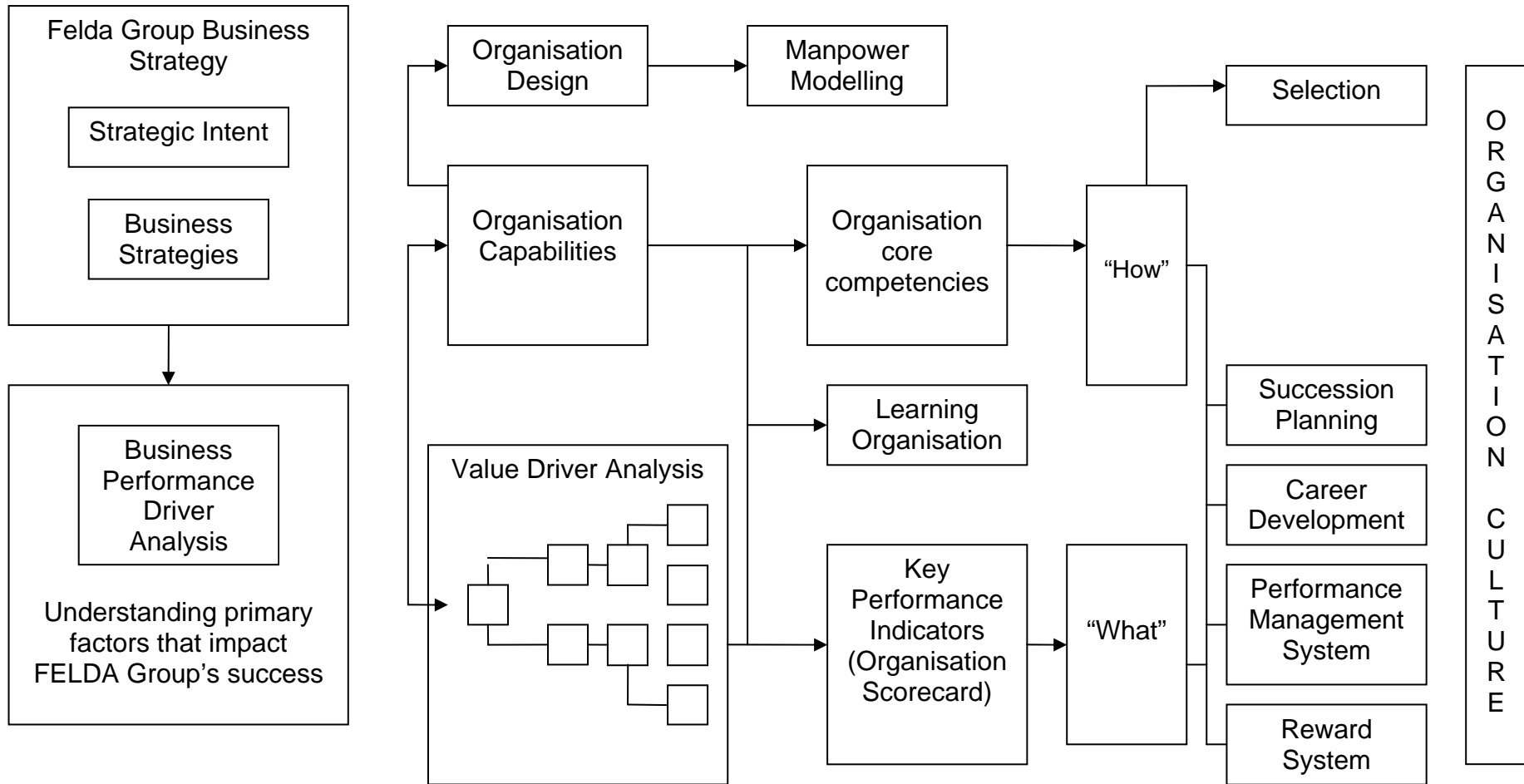
Skills allowance that provides additional incentives 3.0  
For utilization of skills and knowledge acquired

## **6.0 Case Experience: Performance Management System of Corporation XYZ**

The challenges facing Corporation XYZ include:

- To be a global player
- To realize full potential of the Corporation with competent leadership
- To become a value added organization with high performance culture
- To sustain 15% dividend from our investment

### 6.1 OVERALL APPROACH OF THE GLC



Performance Management is a shared responsibility between the organization, staff, reporting managers and reviewing managers.

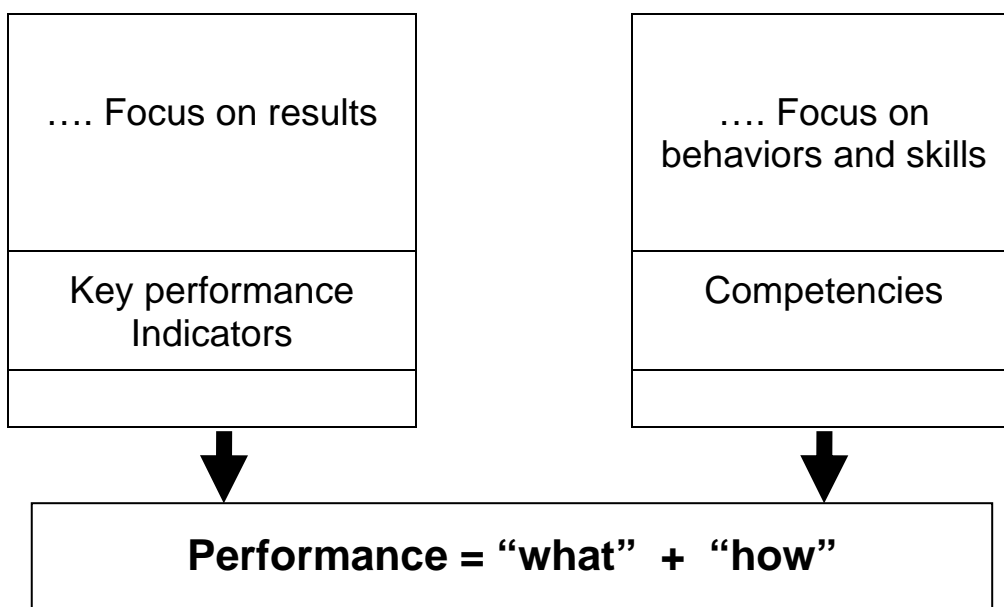
Staff who is the appraisee, takes responsibility for self in the process, sees feedback on performance and uses organizational resources for self development. Reporting Manager who is the direct superior of the appraisee and is accountable for his/her performance evaluation and reviewing manager who is the direct or indirect superior of the reporting manager and is responsible for the overall performance of the business unit/group function and department.

Performance management should reinforce the importance of both results and behaviours/skills. The focus is on both results (Key Performance Indicators) and behaviours and skills (competencies).

## 6.2 The “What” and “How” of Performance Management System

Performance Management (PM) should reinforce the importance of both results AND behaviors / skills

If what people achieve is important ...    If how people achieve it is important ..



Performance = KPIs (60%) + Competencies (40%)

### **Results Based Goals (KPIs)**

#### Financial

- ROE
- Revenue Growth

#### Customer

- Customer Satisfaction Index

#### Internal Process

- Cost to income ratio

#### Learning and Innovation

- Employee Engagement Index
- High Performer Attrition Rate

#### Project Goals

- IT Project
- HR Strategy Project

### **Competency Indicators**

#### Communication

#### Teamwork

#### Innovation and Change

#### Leadership & nurturing talent

#### Drive & resilience

#### Cultural sensitivity

#### Business Acumen, negotiation

#### & deal making

#### Strategic thinking

The Corporation's definition of performance includes both KPIs and Competencies in the PMS to ensure that both leading and lagging indicators of performance are measured which will lead to long-term sustainable performance:

- Measuring results help strengthen the link between individual goals and business strategy
- Measuring competencies increases the focus on employee development to enable the to achieve individual goals and align their behaviour to the organisation's values
- Both of these outcomes increase employee motivation to improve business performance.

## **6.3 The Performance Management System Cycle**

### **Step 1 : Performance Planning**

- Business goals, KPIs and targets set upfront and cascaded down the organization
- Competencies are reviewed and development objectives identified
- Mid-year reviews conducted

### **Step 2 : Performance Assessment**

- Quantitative targets independently computed
- Supervisor solicits inputs from peers, subordinates, clients

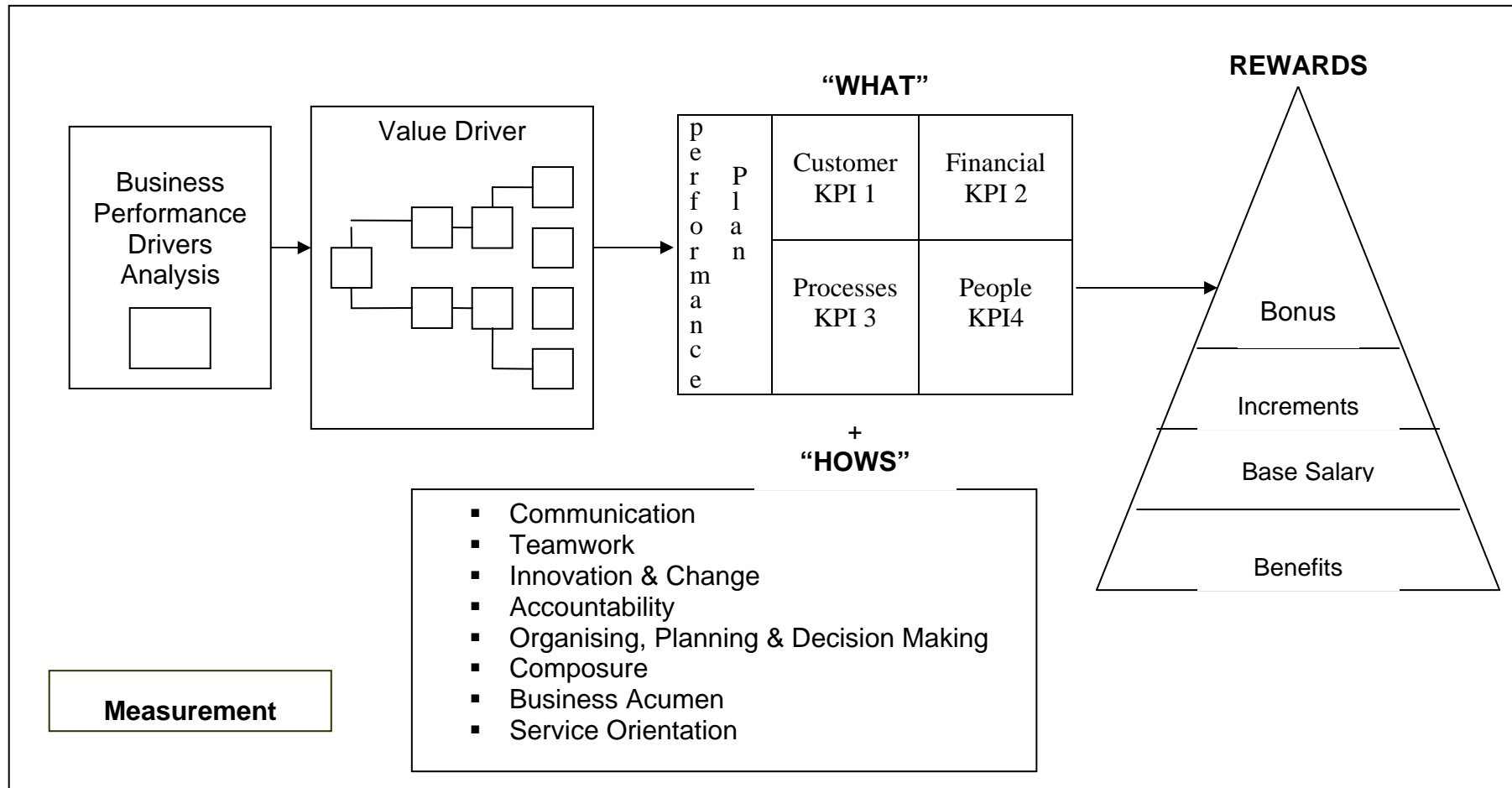
### **Step 2 : Performance Rewarding**

Performance results determine:

- Annual increments
- Bonuses and options
- Promotions

## 6.4 LINKING PERFORMANCE WITH REWARDS

The value drivers at business unit level are “translated” into focused performance objectives, which can be measured and rewarded.



#### 6.4.1 Overall Performance Rating for Salary Planning Purposes

The overall performance rating shall be based on the performance matrix ranging from 1.0 – 5.0:

Performance Range				
1.0 – 1.5	1.6 - 2.5	2.6 – 3.5	3.6 – 4.5	4.6 – 5.0
Needs most	Need some	Meets	Exceeds	Exceed
Improvement	Improvement	Requirement	Some	All

#### 6.4.2 Assigning Rating

Each goals/target is assessed according to the employee's level of achievement

- Quantitative goal : % of target achieved
- Qualitative goal : Assessment of goal and to what extent it was achieved eg; full, partial etc.

An appropriate rating (1-5) is assigned for each goal

Only whole number ratings to be assigned

The weight rating for that category is derived.

## 6.5 Simplified Example of Performance Appraisal Calculation : Top Management

### 6.5.1 Performance Goals (KPI Weightage : 60%)

KPI	Weight (Min 10%)	Actual Achieved	Rating (1-5)	Weighted Score
Profit before Tax	30%	13.1	5	1.5
Total Production	20%	1008	5	1
Yield	15%	21.9	3	0.45
Cost	15%	110	3	0.45
Participation	10%	95	4	0.4
Mechanisation	10%	5	3	0.3
	<b>100%</b>	<b>TOTAL</b>		<b>4.1</b>
		<b>KPI Score</b>		<b>2.46</b>

### 6.5.2 Competencies

#### Competencies Weightage : 40%

Competency	Required Level	Rating	Comments
Communication	A1+	4	
Team Work	A1+	4	
Innovation & Change	A1+	3	
Leadership	A1+	4	
Drive & resilience	A1+	4	
Cultural sensitivity	A1+	4	
Business Acumen	A1+	5	



Strategic Thinking	A1+	4
	<b>Total</b>	<b>32</b>
	<b>Average Score</b>	<b>4</b>
	<b>Competency Score</b>	<b>1.6</b>

### 6.5.3 Overall Rating

**KPI Score + Competency Score = Overall Rating**

$$2.46 + 1.6 = 4.06$$

The staff who achieves the overall rating of 4.06 falls into the category “exceeds some requirements” and the salary increment and the bonus for the year will be paid accordingly to pre-determined levels, which will be less than those who “meet all” but more than those who just “meet requirements”, “need some improvement” and “need most improvement”.

### 6.5.4 Success Criteria

The system enables the corporation to achieve the following:

- Demonstrate that the performance management is a shared responsibility between the employer and staff
- Increase focus on performance
- Align individual staff goals/KPIs with Group, Company and Departmental objectives
- Improve rigor and calibration when setting target for the KPIs
- Set mutual performance expectations
- Increase focus on ongoing feedback and coaching
- Identify opportunities for staff development
- Increase focus on evaluating actual performance
- Improve the linkage between individual staff performance and rewards

### **6.5.5 Common challenges faced:**

- Projects are often given in the course of the year
- Goals keep changing throughout the year
- Too many external factors beyond my control
- Inappropriate targets
- The boss keeps giving me new things to do

## **7.0 The Productivity Linked Wage System**

The Productivity-Linked Wage System (PLWS) has been recognized as one of the measures to enhance Malaysia's competitiveness. This system will ensure that wage increases commensurate with productivity increases. With higher productivity or performance, both employees and firms should enjoy higher returns in terms of wages and profitability respectively and ultimately contribute to higher standard of living and better quality of life. The PLWS takes into account workers' basic needs and recommends that those who excelled in productivity are rewarded for their efforts. Companies should strategize and link wages to productivity to ensure that they remain competitive in a globalised economy.

The importance of PLWS has been mentioned in several National Plans. One of the human policy thrusts in the Eighth Malaysia Plan, 2001-2005 emphasises the need to accelerate the implementation of PLWS to ensure that wages are closely linked with productivity. The Third Outline Perspective Plan, 2001-2010 (OPP3) stresses that wage increases should commensurate with improvement in productivity to enhance the competitiveness of the economy. It was also stated in the National Economic Recovery Plan (1998) that wage increases should reflect productivity gains of the country in order to remain competitive and

recommended the implementation of a flexible wage system that is linked to productivity/performance.

There is a need to accelerate implementation of the PLWS, so as to ensure that wages are closely linked with productivity. By implementing the PLWS, employers will be able to develop a wage structure that is able to withstand economic changes and improve its competitive edge. At the same time, a wider and systematic approach towards improving productivity and wages through the active involvement and cooperation of employees can be developed. The system also provides the motivating factor, as employees will be rewarded for their efforts and will obtain a fair share of the gains for productivity improvements.

### **7.1 Productivity-Linked Wage System Models**

PLWS provides a formal framework linking wage increases to productivity growth and comprises two main components namely the fixed and variable components. The fixed component comprises the basic wages and annual increment which provides income stability, acts as an indicator of the value for of the job in the market and reflects the cost of living. The variable components provide the variability determined by workers' performances, company's profitability and performance of the economy. Three generic models were developed for companies to adapt and adopt:

- Profitability model
- Productivity model
- Profitability/Productivity Matrix

### **7.1.1 Profitability Model**

In this model, the variable performance bonus payment is dependent on the company's profitability. The quantum to be paid will be determined by a profit-sharing formula that is agreed upon by management and union/workers representative which is reviewed periodically. Wage incentives are paid if profits exceed a pre-determined or threshold level.

### **7.1.2 Productivity Model**

Companies can also adopt the productivity model. A variable productivity payment will be paid based on productivity improvement of the company or individual. Wage incentives for the year would commensurate with productivity increases. The formula for productivity measurement should be discussed and agreed upon by both management and workers.

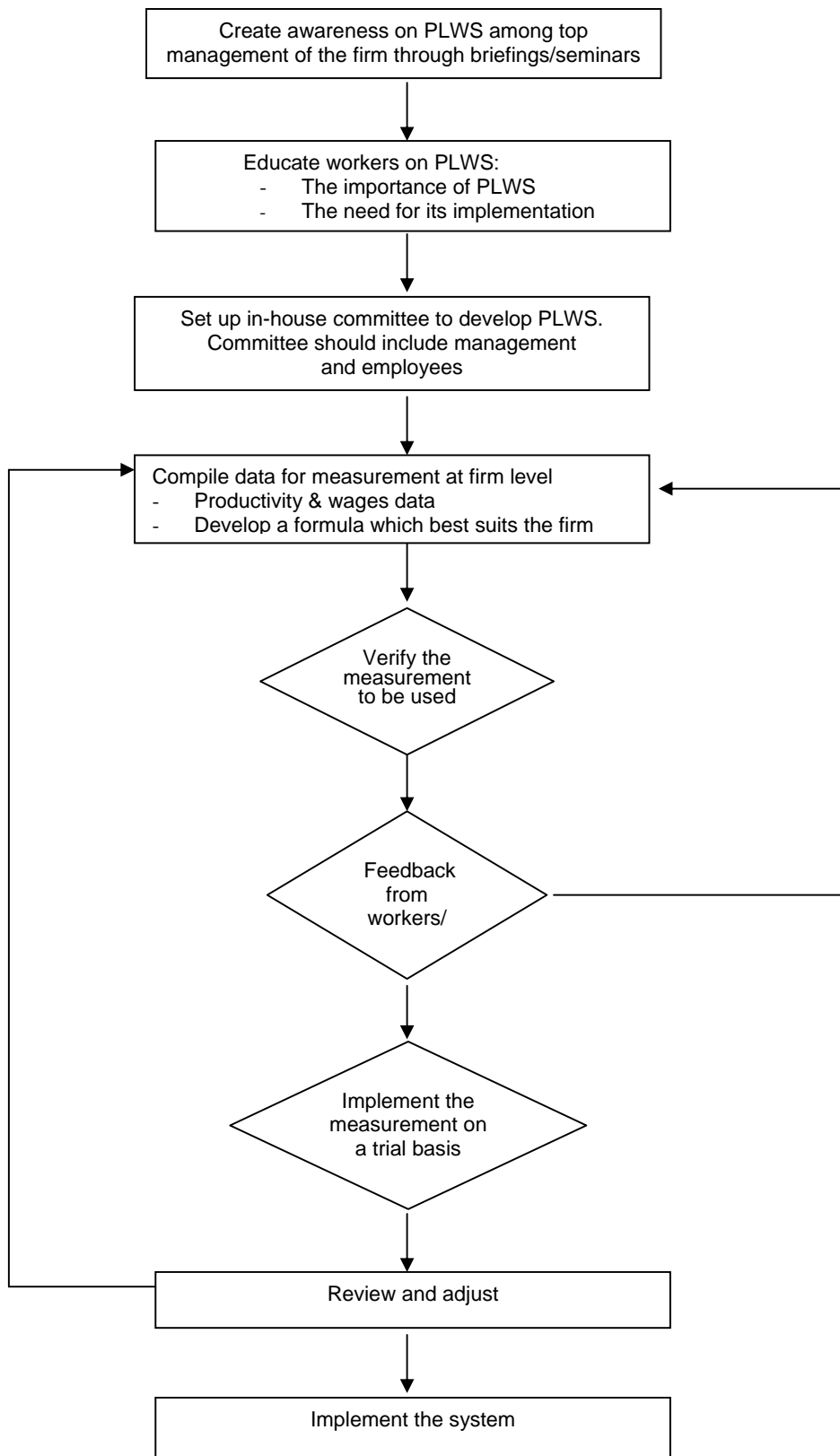
### **7.1.3 Profitability Productivity Matrix**

This two dimensional model links profitability and productivity. The bonus payment made is dependent on both the worker's productivity and company's profitability.

## **7.2 Steps in Implementing PLWS**

To encourage firm level implementation of a wage system that is linked to productivity or performance, concerted efforts from the government, employers and employees are required. There are various steps which a firm needs to fulfill before PLWS can be successfully implemented. The following flowchart will provide a guide for firms intending to implement PLWS (figure 5.1).

**Figure 5.1: Steps in Implementing PLWS**



**The steps in implementing PLWS are as follows:**

**Step 1: Creating Awareness of PLWS**

To encourage firms to adopt the PLWS, all employees must be made aware of the system and educated on the rationale of the benefits of the system. Employees must be convinced of the gains that will be shared by both parties in the long run. Frequent discussions need to be organized over a period of time to ensure that everyone in the organization is aware of the new system. A feedback mechanism must also be established to accept views and opinions from employees. An in-house /working committee or taskforce responsible for the implementation of the system should be set up to facilitate the process. Ideally, the committee should comprises representatives from different departments and different levels of employees to ensure that everyone's concerns are incorporated and understood.

**Step 2: Development of Measurement Tools**

One of the easiest ways to integrate productivity as part of an organizational culture is to constantly make reference to it in quantitative terms. When measurable, it becomes easier to monitor progress, provide feedback, evaluate performance and set quantifiable productivity objectives. Management and workers should work together to develop the best formula for linking wages to productivity. This can also be linked to their profitability or other performance indicators that are deemed suitable for the company. By having a measurement system in place, the variable component can be adjusted according to the company's performance. These measurements does not need to be too technical but must be agreed upon by both management and workers. The key for developing the measurement will be to identify the key areas for improvement and link them to the wage system. Any improvement in the key areas identified will lead to an increase in the variable component of wages. For firm level

measurement, National Productivity Corporation (NPC) has developed the Company Productivity Assessment (COMPASS) which is a software containing a host of measures for firms to adopt and adapt.

### **Step 3: Transition Period**

The transformation of the present wage system to a more variable one needs to be facilitated. A phasing-in period should be allowed to put the PLWS into practice and periodic reviews need to be made to rectify any discrepancies. Normally, during the phasing-in period, employees will not suffer any undue loss in income. Employees will still be getting wages from the present system while a simulation of the new system is being carried out. An effective communication channel needs to be established to keep employees informed of the development and to give feedback on any suggestions for improvements. Management and unions should appreciate the constraints in implementing the PLWS and should work together during the transition period to sort out any differences and allow provision for adjustments from time to time.

### **Step 4: Implementation of PLWS**

After the phasing-in period, increment in wages could be freely negotiated on an annual basis at firm level. By then, management and workers should have prepared themselves for such enterprise level negotiations and the wage determination formula and data would also have been developed by them. The choice of the method to link wages to productivity depends on the nature of the enterprise and on the consensus between employers and employees on the formula to be used. The following factors are relevant for the successful implementation of the system at firm level:

- There must be harmonious labour management relations and mutual trust, information sharing and understanding.
- Ensure annual increments are realistic after taking into account inflation, economic growth and productivity growth when determining annual increments.

- Document a formula to determine the variable payment. Any system developed must be simple to administer and the process of determining the formula should be consulted between employers and employees.
- The wage system should be applicable to the whole company. There must be sufficient dissemination for the employees on the formula developed, to ensure that employees understand how their variable payments are calculated.
- Allow for transition period where both the present and new systems run at parallel levels and are constantly monitored. During this period, there must be willingness to review and make adjustments and changes.
- Overall, the wage system should be specific, measurable, achievable, realistic and time specific.

### **7.3 Criteria for Successful PLWS Implementation**

- **Awareness and Commitment from Top Management**

Top management should be made aware of PLWS, and how the system can contribute to improve the company's competitive edge. Commitment from management is mandatory to ensure that the system can be successfully implemented at company level.

- **Information Sharing and Element of Trust**

Effective implementation of the system requires, management disclose relevant financial information, future prospects of the company as well as the company's and industry's performance. This is to avoid unwarranted union resistance and employees' suspicion.



- **Consideration for Workers Welfare**

A major concern among workers is job stability and stable income. The general consensus among workers is the unwillingness to change from a wage system which incorporates automatic wage increases to a system that is based on performance/productivity. An acceptable wage system should also take into account the workers' welfare and livelihood.

- **Reward for Improved Performance**

The PLWS basically consists of two components, the fixed component which comprises the basic salary and an annual increment plus an additional component in the form of variable payment. Thus, the fixed component would serve as the measure of stability while the variable component ensures that improved performance is properly rewarded.

- **Collaborative Effort**

The productivity/performance measurement should be collaboratively developed by both employer and employee. The key indicators to be used should be agreed upon by both parties to avoid any misunderstandings.

- **Assurance of the New System**

A transition period where the PLWS is phased-in is encouraged during the implementation of the system. During this period, the PLWS could be simulated and reviews should be made to ensure that the system is fair to both employer as well as the employee.

- **Global Competition**

Employees should be exposed to the reality of global competition and its effect on competitiveness at both national and firm level. Lack of knowledge and exposure of the international market scenario will create unnecessary resistance and rejection towards the system.

### ▪ **Human Resource Development**

Human Resource Development is important in ensuring that a wage system linking to productivity is successful. Staff training in areas of productivity improvement and skills enhancement will enable workers to contribute significantly to both output and productivity enhancement.

## **8.0 Company Case Experiences**

It is imperative for companies to enhance competitiveness. This can be achieved through the implementation of PLWS which link the payment of wages to productivity and or performance. Two case studies of companies who had implemented the system are presented:

- SKF Bearing Industries (M) Sdn. Bhd
- Maestro Swiss Management Services Sdn. Bhd.

### **8.1 SKF Bearing Industries (M) Sdn. Bhd**

#### **8.1.1 Overview of the Company**

SKF bearing industries (M) Sdn. Bhd. was established in 1992. It is a Swedish owned company that produces deep groove ball bearings and spherical roller bearings that are used in elevators, paper making machinery, electric motors, excavators, industrial fans, cars and household appliances. The products are marketed to Japan, the Asia Pacific and Europe. The company uses state of the art equipment for producing quality bearings. The company adopted the Total Quality Management (TQM) concept which emphasized on improving customer satisfaction and expectations. Among the TQM activities which were practiced by the company included Quality Improvement Teams, KAIZEN

activities, and the Just In Time system which resulted in cost and quality improvements.

To further improve these processes, the company benchmarked against other SKF factories around the world and is now a benchmark for many Malaysian industries. The company also emphasized the human factor which includes facilities for staff and allowances as well as opportunities for career advancements. An intensive start up human resource development programme for staff was provided for the employees in Europe while 2% of the company's budget is allocated for human resource development. The company has in-house trainers and provides on the job training. Employees are encouraged to contribute innovative ideas and rewards given for feasible ideas.

### **8.1.2 SKF's Wage System**

To improve productivity and company performance, the company has shifted from an automatic annual increment system to one that is linked to performance. The system comprised of the following:

**Total Salary = Base Salary + Fixed Bonus + Variable Bonus.**

The new model was developed in line with the SKF's group renewal mission "To contribute to SKF shareholders value expectation". In this model, bonus schemes were developed the both non-management and management groups.

## **Non-Management Group Variable Bonus**

The variable bonus was paid based on

- Company's Profits
- Business Operating Income (BOI)

And is payable at the end of each financial year.

### **Example of variable bonus calculation:**

Variable Bonus = BOI Threshold one month (X) + Over and above normal performance (Y).

The bonus is then determined on the X and Y factors. If for a certain year the company's profits are below par, then each employee will receive one month bonus. However, if the profit level is above the threshold level set, then the management will pay according based on the performance:

### **8.1.3 Performance Based Bonus System**

<b>Business Operating Income (RM Million)</b>	<b>Fixed Bonus (X)</b>	<b>Variable Bonus (Y)</b>	<b>Total Months)</b>
Less than 10	1	0	1
11	1	0.25	1.25
12	1	0.5	1.5
13	1	0.75	1.75
14	1	1.0	1.0
15	1	1.25	2.25
16	1	1.5	2.5
17	1	1.75	2.75
18	1	2.0	3.0

## **Management Group Variable Bonus**

**Total Bonus = Fixed Bonus + Variable Factors**

**Variable Factors and weighted and these include:**

- BOI
- Productivity
- Zero Accident
- Efficiency
- Working Climate Analysis : level of improvements

### **8.1.4 Factors for Successful Implementation**

- Objectives of the organization are defined to suit employees scheme
- Employees are encourage to develop their own performance level in line with business objectives
- Communication and transparency is important. This has helped employees accept the system
- Identify gaps in performance
- Performance gaps identified and human resource development undertaken to enhance performance.

## **8.2 Maestro Swiss Management Services Sdn. Bhd.**

### **Overview of the Company**

Maestro Swiss Group is a leading manufacturer and marketer of chocolates and chocolate products namely cocoa powder, cocoa butter, other cocoa based products including chocolate malt food drinks, sweets, wafers and other confectioneries in Malaysia. It has been in the business for over 27 years and currently, the group is ISO 9001 certified. Prior to 1999 it was known as Chocolate Products (M) Bhd. Among the brands that the company produces are “Vochelle”, “Darry”, “CP”, “Maestro Swiss”, and “Vico”.

The group has about 350 employees comprising 50% males and 50% females. Most of the employees have been with the company between 10 – 30 years and have vast working experience in the industry. The workers are unionised under the Food Industry Employees Union. The company’s wage system before the group was formed was based on fixed annual increments and the number of years of service.

### **Maestro Swiss Wage System**

Since the inception of the new group “Maestro Swiss”, the company embarked on a new wage system which takes into account productivity of the company and links this productivity to wage increments. This is to ensure that competitiveness of the company is sustained and employees are rewarded according to their performance. To calculate productivity the company adopts the Added Value concept.

## Added Value Concept

Added Value measures the wealth created through the production process and is distributed to those who have contributed to the value creation. The Added value formula is as follows :

$$\text{Added Value} = \text{Total Output with less Bought-in Materials and Services}$$

From this added value, productivity is calculated. The company uses labour competitiveness to obtain its productivity ration.

$$\begin{aligned} \text{Labour Competitiveness} &= \text{Added Value / Labor Cost} \\ &= \frac{\text{Added Value / Number of Employees}}{\text{Labor Cost/Number of Employees}} \\ &= \frac{\text{Labor Productivity}}{\text{Wage Rate}} \end{aligned}$$

For Example : If added value = RM1,650,000 and number of employees is 200, labour productivity will be :  $\text{RM1,650,000}/200 = \text{RM8,250}$  per employee

If labour cost = RM200,000 then average wage rate for each employee will be :  $\text{RM200,00}/200 = \text{RM1,000}$  per employee

The company's productivity will therefore be :

$$\text{RM8,250}/\text{RM1,000} = \text{RM8.25}$$

For every RM1.00 of labour cost, RM8.25 of value added is generated.

## Productivity Model

The Productivity model is used to link productivity to wage increments. The formula used is as follows : **T = A + P** where,

**T** = Salary Increment

**A** = CPI Adjustment Based on 2/3 of Average increase of last 3 calendar years of CPI x Basic Salary

**P** = % P (% variable increment x Basic Salary (Refer to Table 1) where maximum CPI taken for any particular year is

6.0%

### Example of Productivity Model

#### Year 1

If a worker's basic salary is RM1,000.00 per month and the CPI for the past 3 years is 2.5, 3.5 and 4.0 respectively and productivity improvement of the worker is >4-8% (Table 1), then based on the productivity model his salary increment will be as follows :

$$T = A + P$$

$$A = (2/3 \times 3.33\% \text{ (average CPI for 3 years)}) \times \text{RM1,000.00 (base salary)} = \text{RM22.00} + P = (3\% \text{ (variable productivity payment)} \times \text{RM1,000}) = \text{RM30.00}$$

$$\text{New Salary} = \text{RM1,000.00} + \text{RM22.00} + \text{RM30.00} = \text{RM1,052.00}$$

#### Year 2

Based on an average 3 years CPI of 3.5% and a variable productivity payment of >8-12% (Table 1), his salary increment will be :

$$T = A + P$$



$A = RM1,052.00 \times (2/3 \times 3.5\% \text{ (average CPI for 3 years)}) + P = RM25.00 + (RM1,025 \times 5\% = RM53.00)$

**New Salary = RM1,052.00 + RM78.00 = RM1,130.00**

In year 2, productivity has improved, therefore, the increment is higher :

**Table 1 : Productivity Improvement / Variable Increment Table**

<b>Performance</b>	<b>Productivity Improvement (Current period vs. Previous Period) %</b>	<b>% P = Variable Increment</b>
Excellent	> 12	9
Good	> 8 – 12	5
Average	> 4 – 8	3
Improvement Needed	< 4 or = 4	1

Based on Table 1, if the company achieves a productivity improvement of between > 4-8% then an employee will receive a 3% increase in the variable payment. The higher the productivity improvement, the higher the variable increments thus rewarding an employee with a bigger quantum. No matter what the productivity increments, the employee is still guaranteed his basic salary plus annual increment which will not be less than 2/3 of the average increase of the CPI over the previous three year period.

Based on the above examples, the table for the Salary Structure is as follows:

SALARY STRUCTURE					
JOB GRADE	POSITION	MIN RM	FORMULA FOR ANNUAL INCREMENT	MAX RM	PROMOTION INCREMENT QUANTUM
1	Senior Technician 1 Senior clerk	900	$T = A + P$ where, $T$ = Salary Increment $A$ = CPI Adjustment based on 2/3 of average increase of Last 3 calendar years of CPI X basic Salary; $P = \% P$ (% variable increment : Refer to productivity table) X basic Salary;  Where maximum CPI taken for any particular calendar year is 6.0%.	2,000	120
2	Senior Technician II Senior Clerk II	800		1,800	100
3	Technician Clerk II	700		1,700	80
4	Clerk I Production Worker 1	600		1,400	50

### Factors for Successful Implementation

- Good relations with the union and continuous negotiations helped the company introduce the new wage system.
- The company was transparent in its dealings with the workers and this made the workers willing to accept the system
- The company used a step-by-step approach whereby the workers were given time to absorb the intricacies of the new system. The workers were also well informed of any changes to the new system.

## **9.0 Conclusion**

The implementation of the Performance based Remuneration System among enterprises in Malaysia had been identified as one of the initiatives to enhance productivity and competitiveness of the country. The economy will be more competitive if companies rationalize cost through higher productivity. Various national development plans had also emphasized the need for linking wages to performance, specifically the Productivity Linked Wage System (PLWS).

The PLWS will enable enterprises to adopt a systematic approach in linking wages to productivity and to sustain labour cost competitiveness. Three approaches had been developed to link wages to productivity based on Profitability, Productivity and the Productivity/Profitability Matrix. By implementing the PLWS, performance of the enterprise will improve and adjustments to accommodate changes in the business environment can be made promptly. The system will ensure a Win-Win situation for both employers and employees.

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