

# The Need for a New Wage Model for Sustainable Workforce and Business

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## Summary

This Policy Brief presents an overview of the three main limitations of the current wage system become the major stumbling blocks in pushing for a fair and reasonable wage in Malaysia.

First, there is a concern to address the wage stagnation among middle-wage earners, particularly semi-skilled workers. The implementation of a progressive wage model holds immense potential for uplifting the wages of semi-skilled workers

Second, there is a limited application of profit-sharing model for the variable wage components (e.g. allowances and performance-based incentives) in the total remuneration. The development of a guideline could better facilitate the adoption of a profit-sharing model in any company according to its capability.

Third, the current wage governance body is mandated to the minimum wage and thus it has limitations in addressing the issue of wages from a holistic perspective. Therefore, there is a need to have a governance body that monitors the overall wage ecosystem for a fair distribution of wealth and increases the productivity of overall workers.

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## Limitations of The Present Wage System

A sustainable and equitable wage system is characterized by several key features. Firstly, it ensures that wages keep pace with inflation, providing workers with a reasonable standard of living. Secondly, it promotes fairness and equality by narrowing wage disparities and minimizing wage gaps between different groups of workers. Thirdly, a sustainable and equitable wage system encourages productivity and skill development, rewarding employees for their contributions and growth. Lastly, such a system promotes social inclusion, safeguards workers' rights, and fosters economic stability, contributing to overall societal well-being and long-term prosperity.

Our assessment indicates that the current wage system in Malaysia has several distinct limitations that make it unsustainable and inequitable. This Policy Brief presents an overview of the three main limitations of the current wage system which include unequal distribution of wage among groups of workers, limited utilization of variable wage component and the existence of a regulatory vacuum. These limitations become the major stumbling blocks in pushing for a fair and reasonable wage in Malaysia. Thus, a new wage model is needed to overcome the failures of the current wage system.

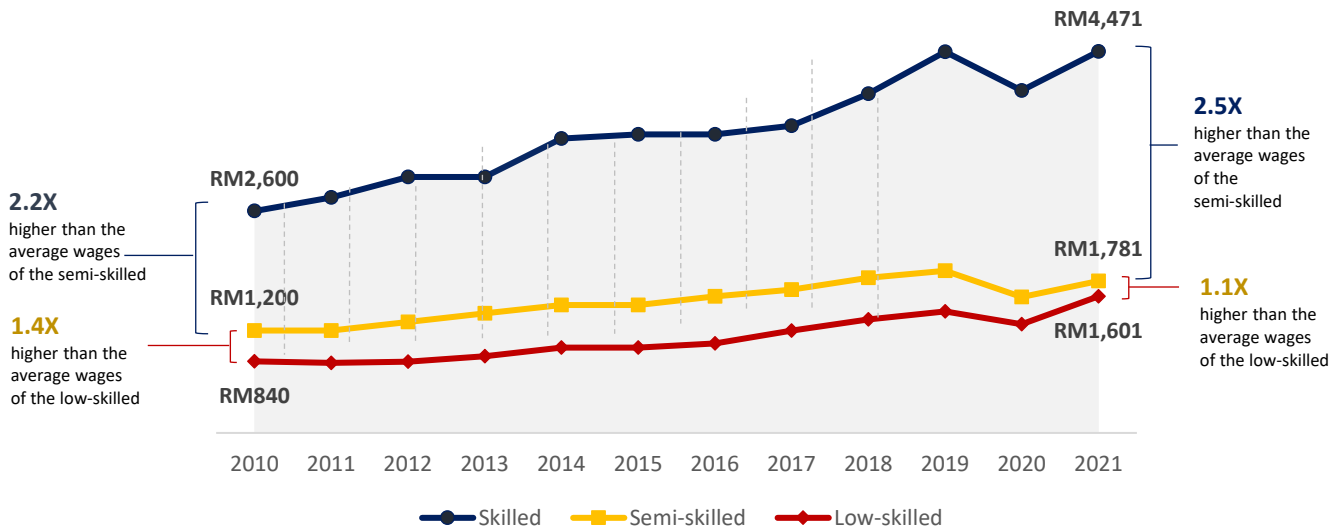
## Unequal Distribution of Wage

There is a duality in the labor market, where the income of skilled workers is the largest on one hand, the size of workforce is dominated by semi-skilled on the other hand. The data from the salaries and wages survey shows that skilled wages of skilled workers are 2.2x higher than the semi-skilled workers in 2010 and that of semi-skilled 1.4x higher than the low-skilled workers (see Figure 1). In 2021, the wage disparities between skilled and semi-skilled enlarge while the gap between semi-skilled and low-skilled closer. This indicates that the wage growth of skilled and low-skilled is higher than that of semi-skilled, leading to the wage deterioration of middle-wage workers.

Data from the Labor Force Survey (LFS) shows that semi-skilled workers have consistently been the highest number of workers employed throughout the years. In 2021, semi-skilled workers dominate 57.7% of total employment while the low-skilled and skilled make up 12.7% and 29.6%, respectively. This concerning disparity calls for urgent and specific policy attention to address the wage stagnation among semi-skilled workers. By implementing targeted policies that focus

on enhancing the wages of this significant worker segment, Malaysia can foster greater income equality and promote social well-being. Creating an enabling environment that supports skill development, productivity improvements, and equitable compensation practices for semi-skilled workers will not only uplift their living standards but also contribute to sustainable economic growth and shared prosperity for the entire nation.

Figure 1  
Average monthly wages and composition by skill categories, 2010-2021



Composition of employment skill categories, 2021 (%)



Source: Illustrated based on the data from the Department of Statistics Malaysia (2022)

The implementation of a progressive wage model holds immense potential for uplifting the wages of semi-skilled workers. By adopting this approach, policymakers can address the pressing issue of wage stagnation among this crucial workforce segment. A well-designed progressive wage model would incentivize skill development and productivity enhancements, encouraging semi-skilled workers to continually upskill and contribute more effectively to their roles. Moreover, such a model can bridge the income gap, promoting greater income equality and social mobility. By tailoring the progressive wage model to meet the specific needs of semi-skilled workers and their respective industries, Malaysia can create a fair and sustainable compensation framework that not only elevates the livelihoods of its workforce but also drives long-term economic growth and prosperity.

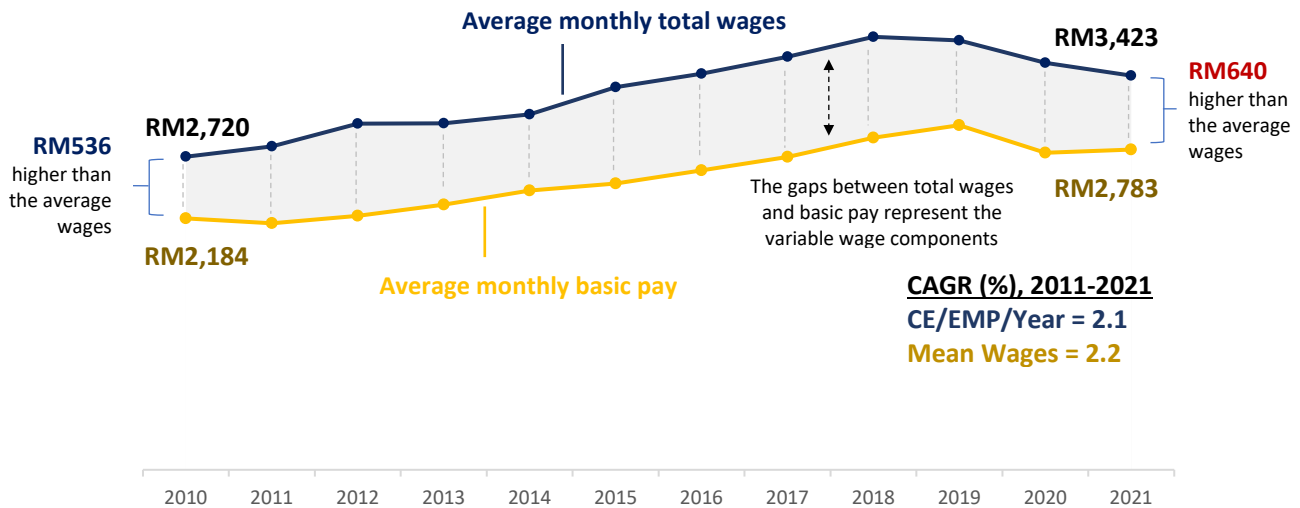
Under-Utilization of Variable Wage Components

Data show that total wages and basic pay grow in tandem at a similar rate, while variable wage components (e.g. allowances and bonus) have stagnant over the years. As seen in Figure 2 the monthly total wages in 2021 is RM3,423, while the monthly average basic pay (that is represented by salaries and wages) at RM 2,783, the balance of RM640 is considered a variable component of wages which includes allowances, bonuses, payment in kind and social security. This shows that the variable components of wages have a weak link to the growth of total wages. While looking at the high-income country, variable components of wages play an important role in increasing the share of wages to GDP (Figure 3).

Developed countries utilize variable components of wages to increase total wages. In Japan, France and European Union as seen in Figure 3, the share of variable wage components to the total wages are increasing, while the share of basic pay decreasing. This shows the

importance of variable wage components in increasing the share of wages to GDP and also an adjuster variable to the overall labor costs by firms.

Figure 2  
The gap between total wages and basic pay, 2010-2021

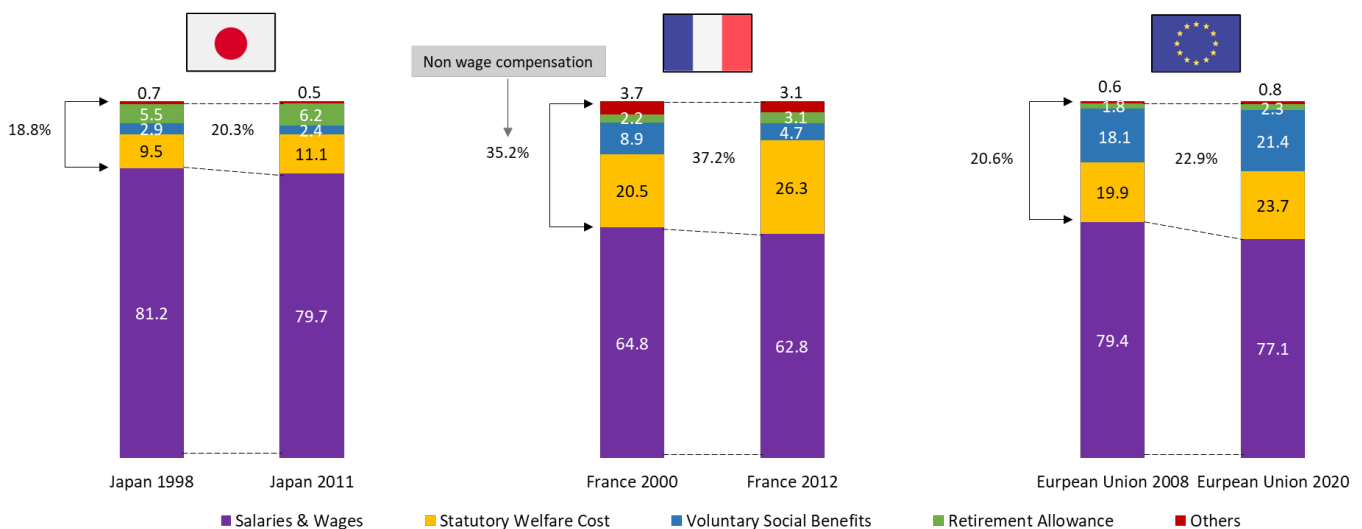


Note: The value of labor compensation in this figure is calculated by dividing the real labor compensation by 12, to ensure the data are monthly based. Due to the different data sources, slight differences may be comparable.  
Source: Illustrated based on the data from the Department of Statistics Malaysia (2022)

Lack of awareness and exposure to profit-sharing models is one of the explanations for the under-utilization of variable wage components. Our engagement with the industries indicates that there is an issue in determining how much workers should be paid in the labor market given the complexity of their jobs and the range of industries in which they operate. For

example, an education-related healthcare sector finds it difficult to determine the wage of a medical lecturer borrowed from a university for a practical course. In addition, some industries have adopted a certain profit-sharing model but are not aware of it because no specific formal structure of profit-sharing model existed in the market.

Figure 3  
Share of basic pay in Japan, France and European Union, 1998-2012



Note: Voluntary social benefits in Germany, and France includes apprentices' welfare expenses. The data components are specifically in manufacturing sector.  
Source: Japan Institute for Labour Policy and Training (JILPT) (2017), Japan: Ministry of Health, Labour and Welfare, (2012), E.U: Eurostat Labour Cost Survey (2020)

After an initial assessment of the stocktaking of the current profit-sharing practices in Malaysia, a guideline for adopting the profit-sharing model can be developed to better facilitate the implementation of the model, especially for the micro, small and medium enterprises (MSMEs). As the findings from our engagement with Malaysia Productivity Corporation (MPC) and the selected eSPO companies stated the lack of awareness of the profit-sharing model among MSMEs in Malaysia. Therefore, by developing the guideline could better facilitate the adoption of a profit-sharing model in any company according to their capability. This could help increase the share of wages to GDP.

The European Union had compiled the structure of the profit-sharing model by country, occupation, economic sector, size of company and ownership of the company. This effort can help understand the adaptability of profit-sharing model by sectors and occupations.

### Existence of Regulatory Vacuum

Wage ecosystems are closely related to the labor market ecosystem. Wage levels and structures should be monitored and intervened end-to-end labor market ecosystem, encompassing pre-employment, employment and post-employment. The available minimum wage order only intervenes in the employment of private sectors and did not apply to other parts of labor markets (Figure 4). The roles and key functions of the Malaysian National Wage Consultative Council (MPGN) are limited to the minimum wage and thus it has limitations in addressing the issue of wages from a holistic perspective. Therefore, there is a need to have a governance body that monitors the overall wage ecosystem for a fair distribution of wealth and increases the productivity of overall workers.

Figure 4

#### End-to-end wage ecosystem



Source: (\*) Ministry of Higher Education and (\*\*) Department of Statistics Malaysia

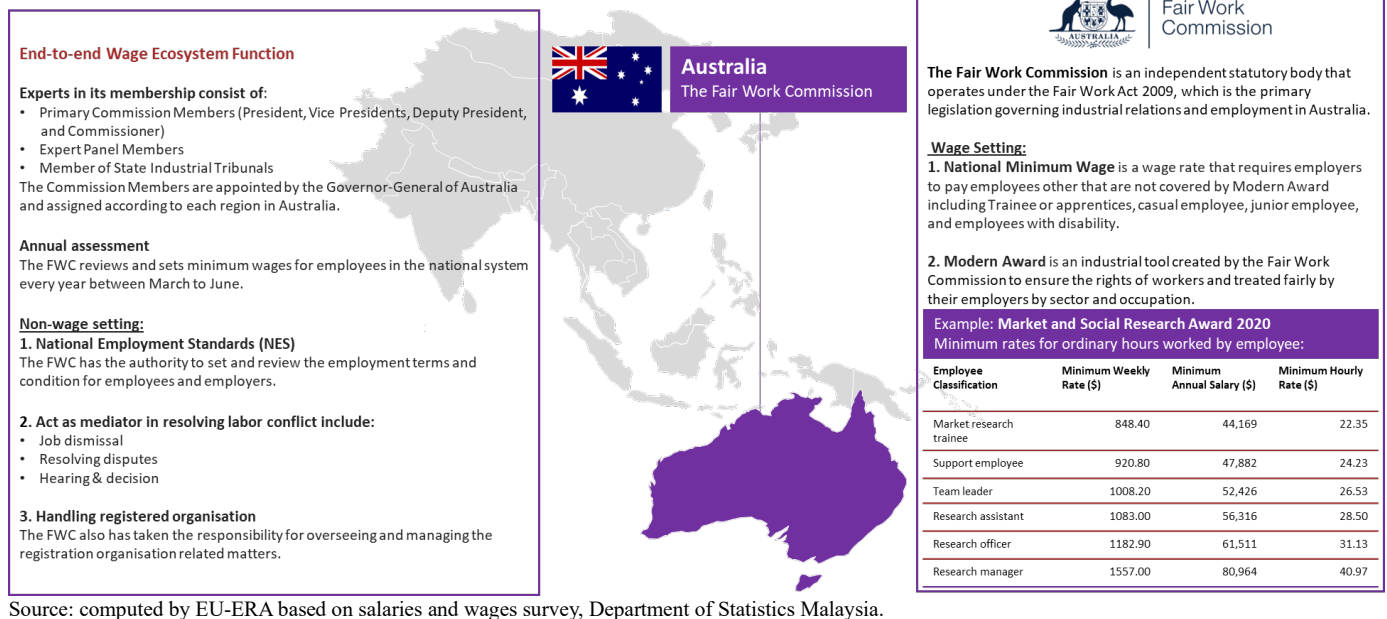
Action is needed to address the flaws in the current mechanism that monitors Malaysia's wage structure. Current wage regulatory practice only focuses on the minimum wage for the current workers regardless of type of occupation, size of industry or economic sector. The unregulated wage levels and growth for other wage brackets in the private sectors, pre-employment and post-employment components need to be paid attention. Therefore, a governance body that oversees the whole wage ecosystem should be considered. Australia and Singapore are examples of countries that had efficient governance bodies for monitoring and enhancing wage structure.

The Fair Work Commission in Australia plays a pivotal role in governing the end-to-end wage ecosystem within

the country. As an independent statutory body, it is responsible for setting and reviewing minimum wages, modern awards, and workplace conditions, ensuring fair and equitable remuneration across various industries and occupations. The Commission conducts thorough research and consultations to assess economic conditions, labor market trends, and the needs of both employees and employers when determining wage adjustments. Moreover, it resolves workplace disputes and offers expert guidance on employment-related matters, fostering a balanced and harmonious labor environment. With its comprehensive oversight and commitment to promoting decent wages and working conditions, the Fair Work Commission plays a crucial role in safeguarding the interests of Australian workers and fostering a sustainable and just wage ecosystem. Some of the functions are provided in Figure 5.

Figure 5

## Australia Fair Work Commission



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## EU-ERA Policy Brief

EU-ERA Policy Brief offers a short note with combined analysis and policy recommendations in addressing developmental issues that are directly and indirectly affect the labor market in Malaysia. This policy brief aims to generate a forward-looking and proactive discussion among policymakers, researchers and stakeholders in identifying emerging trends, challenges, and opportunities in the economy. The orientation is toward the real-world policy challenges and opportunities, with an emphasis on providing practical recommendations that can help guide decision-making.


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