

IMPLEMENTATION  
OF **MVC**

Monthly Variable Component

Jointly Issued by:



**SNEF**

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***“ We should begin to build up the MVC once companies start paying wage increases. This is the right time to do so. The flexible wage system has just undergone its first major test and its effectiveness and limitations are still fresh in people’s minds. Also the economy is doing well and wages are rising. In the same way we built up the annual variable bonuses after the 1985 recession, it will take several years to build up a significant MVC of say 10%. If we do not start now, we will miss a rare opportunity to do so.”***

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**DPM BG Lee Hsien Loong**  
*Inaugural National  
 Manpower Summit,  
 29 September 1999*

In 1987, the Wage Reform Committee introduced a flexible wage system that enables companies to reward employees and to adjust wage costs in line with business performance. It also recommended that the annual variable component should constitute 20% of total wages. By 1998, the annual variable component had built up to about 16% of total wages in the private sector.

The economic recession in 1998 has shown that while our wage system is flexible in allowing companies to link performance to rewards, it is not flexible enough to enable them to make quick adjustments to their wage costs in the event of a sudden and sharp business downturn. To further enhance the flexibility of our wage system, the National Wages Council recommended that a monthly variable component (MVC) be introduced.

The MVC should come from part of the wage increase. The percentage of the wage increase to be set aside as MVC would be determined by employers in consultation with unions. To be an effective mechanism for wage

adjustment in a sudden business downturn, the MVC should be built up progressively to form about 10% of total wages. Over time the present 80:20 flexible wage structure could evolve into a wage structure of 70:10:20 representing basic wage, monthly variable and annual variable components respectively.

With the MVC in place, companies will be able to adjust wage costs to help remain viable and save jobs for employees in times of sudden business downturn when companies’ viability are severely undermined. It also means that we could minimise the need to cut CPF contributions which employees would depend on to service mortgage repayments as well as for medical and old age needs.

**KEY PRINCIPLES****3**

An effective MVC scheme must be guided by the following principles:

**(a) A good-sized buffer**

The MVC should form a significant share of the monthly wages to add to the flexibility of the annual variable component.

While there are certain jobs where the current monthly and annual variable components are not in line with the 70:10:20 wage structure, companies should as far as possible work towards the recommended structure.

**(b) Simple to administer**

Where the MVC percentage is different among employees, the system will be complicated and costly to administer. It would hence be ideal if MVC could be built up at the same pace for all employees in the company. This could have the following advantages:

- (i) It would be easier to administer over the years;
- (ii) It enables employers to implement an across-the-board reduction in MVC; and
- (iii) It would convey a sense of equity.

**(c) Responsive**

Companies and their unions should formulate and agree on a set of clear criteria that enables MVC to be adjusted quickly in time of need. The criteria should be pre-agreed and determined before the 'crisis'. Trying to set criteria for reduction at the point of 'crisis' may be too late. The criteria must have enough safeguards for the wages of the employees while giving employers the flexibility they need.

**(d) Applies to all levels of employees**

The MVC should as far as possible apply to all levels of employees – management, executive and rank-and-file – whether unionised or not.

**(e) Must not add to wage costs and erode competitiveness**

The MVC should be built up from wage increases which are affordable by companies, taking into account performance and productivity increases.

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**OPERATIONAL DETAILS****Timing**

Companies should start to build up the MVC component as soon as they are able to award wage increases. To date, some 300 companies have implemented the MVC and the average amount set aside is about 2% of the monthly wages.

**Pace**

Companies with the base-up wage system would find it easier to integrate the MVC into their salary system. The base-up wage system provides for salary ranges which better reflect the value of the job and closely links wage increases to productivity growth. Accordingly, companies are advised to adopt the base-up wage system so that the MVC could be more smoothly implemented.

The percentage of MVC build-up should be the same for all employees. Companies will have to deal with a very complex salary management system if the pace of building up the MVC varies from employee to employee.

**New entrants**

For easy administration and to ensure that the same pace of MVC build-up among all employees is achieved, new entrants to a company where existing employees are already on the MVC should have their MVC calibrated into the offered salary. For companies which have implemented the base-up wage system, the problem of MVC calibration for new employees will not arise.

For companies not on the base-up wage system, the MVC would progressively become a bigger component of the minimum salary of the range, until it reaches the target rate. This, however, should not be perceived as reducing the minimum salary. Rather, it should be viewed as a way to ensure that new entrants into the company would start off on the same footing as existing employees. Some companies may resist adjusting the starting pay thinking that it is one way to save on starting wages. This may not be advisable as the salary for new job entrants is determined by the condition of the labour market and adjustment is often needed.

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If a company does not make regular salary revision, it would have to make significant adjustments to their starting salary sometime in the future and this would lead to consequential adjustment to the salary of existing employees, in order to maintain relativity.

**Employees on top of the scale**

The same problem would exist for employees at the top of the scale in companies which have yet to implement the base-up wage system. For such companies, the management and union should work closely to explore how to build up the MVC for such employees, taking into account the key principles.

Such companies, however, will face the same complications as those which do not adjust the starting pay regularly. In fact, the majority of companies have made regular adjustments to the minimum and maximum salaries of the salary ranges as a result of changing job requirements and the improved skills and productivity of their employees. Between the years 1990 and 1998, the minima of selected occupational groups were adjusted by between 3.9% to 5.2% per annum. During the same period, their maxima were adjusted by between 3.1% to 5.6% per annum.

Companies should upgrade the skills and capability of these employees so that they can contribute further to the performance of the company. Such employees must also be willing to be retrained or be deployed to where they can continue to add value to the operations of the company.

For these reasons and for the purpose of enabling the company to reduce the MVC uniformly and responsively, companies should implement the base-up wage system without delay.

**Employees on Fixed Annual Increments**

Some companies have entered into agreement with their unions on fixed annual increments applicable for several years. In such cases, employers and their unions could negotiate to set aside part of the future fixed annual increments to build up the MVC. In companies that practise NWC "top-up" payments, such payments could also be used to build up MVC.

**6 Criteria For MVC Adjustments**

For greater responsiveness, there should be clear indicators

- (a) for initiating discussions with the unions on the need to manage wage costs;
- (b) for implementing a cut in the MVC; and
- (c) for restoring the MVC.



**PROCESS FOR INITIATING USE OF MVC**

Indicators for MVC adjustment can only be qualitative at the industry level and should be quantitative at the enterprise level. This is because the application of the MVC is company specific and should therefore be tailored to the need of different businesses and circumstances of each company.

Some of the following indicators (which are by no means comprehensive or prescriptive) could be considered by companies in various industries:

- (a) Electronics**  
Orders, book to bill ratios, utilisation/ production capacity
- (b) Hotels**  
Tourist arrivals, occupancy rate, gross operating profit as percent of gross operating revenue, room rates
- (c) Financial Services**  
Profitability
- (d) Retail, Sales and Services**  
Sales, profitability
- (e) Construction**  
Contract value, property indices, profitability
- (f) Transport & Logistics**  
Passenger load factor, yield, cargo load factor

Each company, together with its union, should decide on its own group of indicators and quantify them so as to determine the extent of and the timing for MVC adjustment. More importantly, the criteria should be agreed upon before a 'crisis' occurs, and not when the 'crisis' happens.

Where necessary, employers and unions may approach MOM, SNEF and NTUC for advice.

In the event of the need to cut the MVC, it is recommended that:

- (a) Management leads by example.** This could mean earlier and/or bigger cuts in their MVC or basic wages. Leadership by example would serve as a strong proxy indicator for the need to cut the MVC of employees. This was clearly demonstrated in the 1998 recession. Where management had led by example, companies found it easier to implement wage reduction.
- (b) Management informs and updates employees,** as appropriate, of the sequence of measures taken to reduce non-wage and wage costs, prior to initiating discussions on the MVC cut. This will prepare employees and enable them to understand the rationale for MVC cut as an appropriate measure to address the deteriorating business condition.

### Rebuilding Of The MVC

The MVC should be rebuilt in line with the subsequent performance of the company. While the pace and rate of rebuilding should depend on each company's cost competitiveness, it is in the interests of both employers and employees to rebuild the MVC as soon as possible.

### Conclusion

Companies and their unions are urged to implement the base-up wage system as soon as possible to enable the MVC to be built up. Having a MVC would introduce additional flexibility to our wage system and enable companies to adjust their wage costs more readily in a severe business downturn. This would help companies to stay viable and sustain employment.



## FREQUENTLY ASKED QUESTIONS

### 1) Is MVC considered as part of the basic rate of pay?

As MVC is built up from annual wage increases, it should form part of the basic rate of pay and hence should attract overtime payment, allowances, CPF contributions, etc. The MVC should be viewed as a "standby component" to be drawn down only in time of sharp business downturn.

### 2) How should the MVC be built up?

In their wage negotiations, union and management should determine an appropriate portion from the annual wage increase to be set aside as MVC.

### 3) Can the MVC be implemented with the base-up wage system?

Yes. For easy administration of a wage system, it is recommended that companies implement the base-up wage system together with the MVC. The base-up wage system helps to ensure that wages closely reflect the value of the job and reward workers based on their

contributions. In the case of MVC, it provides the companies with an added flexibility and responsiveness when they encounter severe financial difficulties. The two reinforce each other to help ensure that wage increases are closely linked to productivity and profitability, and yet allows for flexibility.

### 4) Should MVC be set aside as a percentage or a dollar quantum?

It is recommended that MVC be identified as a percentage of basic salary so that the ratio between MVC and basic salary can remain constant despite salary changes in subsequent years. A constant ratio would make the administration of MVC much easier. This arrangement is different from that of fixing MVC as a dollar quantum. If MVC is fixed as a dollar quantum, the ratio between MVC and basic salary would be lowered as basic salary increases. The employer would then have to make periodic adjustments to the quantum of MVC in order to maintain it at a fixed percentage of the employees' monthly wages. It would therefore be advisable to implement the MVC in the form of a percentage instead if a dollar quantum.

An example of a company building its MVC to 5% of wages is shown below:

Year	AI	Base Salary	New Salary	MVC
Y1	5%	\$1000	\$1050	3% of \$1050 (\$31.50)
Y2	5%	\$1050	\$1102.50	5% of \$1102.50 (\$55.13)
Y3	2%	\$1102.50	\$1124.55	5% of \$1124.55 (\$56.23)
Y4	Freeze	\$1124.55	\$1068.32 <i>(after MVC cut)</i>	Nil

### 5) If the annual increment is given in the form of a dollar quantum, would a company still be able to implement MVC?

While it would be easier to implement the MVC in the form of a percentage, company could still implement the MVC by means of a dollar quantum if they so decide. They could compute and convert the MVC dollar quantum into a percentage. If annual increment is given as a dollar quantum, MVC could be computed as a percentage of basic salary.

**6) Can a company choose to build up MVC to only 5%, instead of the recommended 10%?**

The desirable percentage should be determined taking into account the needs and objectives of the company. However, it should constitute a significant portion of monthly wages so that when a wage cut is implemented, it could help the company to lower their operating cost substantially and to save jobs.

The appropriate quantum as recommended in 1999 by the National Wages Council is 10% of basic salary. This would help companies to evolve a wage structure comprising 70% basic wage, 10% MVC and 20% annual variable component.

**7) Can the MVC for future years be pre-determined?**

Since the MVC is built up from future wage increases, it should be negotiated yearly, taking into consideration due wage increase for the year. Hence, unless wage increase has been fixed for future years, MVC should not be pre-determined for the future years.

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**8) How does a company implement MVC for new staff and those at the maximum salary?**

For new employees joining a company where existing employees have already built up the MVC, the management should calibrate the MVC into their starting salary. This is to ensure that all employees have the same percentage of their wages as the MVC at any point of time. If the MVC for new employees are built up from future wage increases, there will be many cohorts of new employees with different percentage of MVC in the company. This will be administratively cumbersome. Management should, however, note that if the starting salary is not adjusted, the MVC will eventually constitute a larger proportion of a new entrants' basic salary.

For those at the maximum point of salary, management should build up the MVC from wage increases, which are awarded to them, either at the time of salary revisions or through the base-up wage adjustment.

**9) Can a company effect MVC cut for certain categories of employees only?**

It would be advisable for management to effect the MVC cut across the board to ensure equity in implementation. However, the company can cut the MVC of managerial and executive staff first, based on the principle of management leading by example.

**10) Under what circumstances could a MVC cut be effected after it is built-up?**

Companies should develop a set of indicators for triggering MVC cut. These indicators should be made known to employees so that they could readily accept the cut when it is activated. The indicators could vary from company to company depending on the nature of their business operations.

Examples of indicators could include declining orders, sales and profitability. Before the management effects a cut in MVC, they should share relevant information with their employees including measures adopted or to be taken to reduce non-wage cost items (eg. reduction in overtime, freeze recruitment, shorter workweek, etc).

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**11) In what order should wages be cut and rebuilt?**

In bad times, the order of the cut should be – annual variable payment, MVC, AWS and basic wage. During good years, MVC should be rebuilt progressively in the following order – basic wage (back to market level), MVC and then annual variable payment.

However, depending on economic and company performance and timing, there may be situations where it is appropriate for the MVC to be cut first.

**12) If a company retrenches workers after reducing the MVC component, should the retrenchment benefit be payable based on the last drawn salary before or after the MVC cut?**

Workers' retrenchment compensation should be based on workers' salary before the MVC cut as they have already accepted a reduction in total basic wage to help their companies tide over difficult period.



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