

Compensation Systems in Singapore

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Singapore has shaped compensation strategies in response to economic change.



Singapore is a resource-scarce country and yet is often regarded as one of the most celebrated cases of economic development. This is witnessed in its continued competitive ranking in prestigious world surveys conducted annually by the Swiss-based International Institute for Management Development and the U.S.-based Business Environment Risk Intelligence reports. To understand why Singapore still continues to succeed in spite of its various limitations, we have to examine

how its human resources have developed over time.

This is not to exclude other factors that have also been identified as important determinants of economic development, for example, political and social stability, Confucianism, communitarian ideology, a hardworking population, a dynamic export-oriented industrialization strategy and benefits from foreign direct investment. Without doubt, however, it is the country's pool of human resources and the qualities of its workforce that have always been regarded by the government as the key factors in scaling the economic ladder.

At the enterprise level, organizations must be able to recruit, motivate and retain their personnel to facilitate their long-term growth. Among the various human resource functions, a company's remuneration policy and practices play a particularly important role in attaining all three objectives. Whether the organization can attract top-caliber personnel (management, professionals, rank and file) depends to a large extent on the attractiveness of its remuneration package. Employees who are adequately rewarded are less likely to feel dissatisfied. A tight link between a company's profitability/productivity and its compensation strategy will improve its cost structure.

Hence, at the macro level, our concern in this article is directed toward examining how income policy in Singapore shapes the country's competitiveness. That is, we are interested in explaining how the National Wages Council (NWC) guidelines affect the wage structure of many organizations and how that, in turn, strengthens the link between a firm's productivity, wages and competitiveness. The growth rates for the Singapore economy are shown in Exhibit 1.

The first section of this article traces the evolution of the compensation system in Singapore. It focuses on the role of the NWC since its establishment in 1972, the rationale behind the launch

EXHIBIT 1 Growth Rates of Singapore Economy			
Year	Growth Rate (%)	Year	Growth Rate (%)
1961	8.5	1981	9.6
1962	7.1	1982	6.9
1963	10.5	1983	8.2
1964	-4.3	1984	8.3
1965	6.6	1985	-1.6
1966	10.6	1986	2.3
1967	13.0	1987	9.7
1968	14.3	1988	11.6
1969	13.4	1989	9.6
1970	13.4	1990	9.0
1971	12.5	1991	7.1
1972	13.3	1992	6.5
1973	11.3	1993	12.7
1974	6.8	1994	11.4
1975	4.0	1995	8.0
1976	7.2	1996	7.6
1977	7.8	1997	8.5
1978	8.6	1998	0.1
1979	9.3	1999	5.9
1980	9.7	2000	9.9

Source: www.mti.gov.sg.

of the flexible wage system since the 1985-1986 economic recession and the impact of the 1997-1998 economic downturn on Singapore's wage structure. The second part examines the compensation structure in Singapore in more detail by looking at industry differentials, occupational differences and relative earnings by gender. The third section is devoted to a detailed study we conducted on the pay and pay practices of electronics manufacturers in Singapore. The last section examines directors' pay and firm performance in Singapore, which serves as an example of senior executive compensation practices.

Evolution of Compensation System in Singapore

Singapore attained its right to self-government in 1959, and the Peoples' Action Party (PAP) government has been in power since then. Before the enactment of the Employment Act in 1968, no

deliberate attempt was made by the government to influence the wage determination process.¹ Throughout the 1960s, the main concern of the PAP was to create sufficient employment opportunities via its export-oriented industrialization program. Foreign investments moved into the country, and many labor-intensive industries were established. Despite the high level of unemployment, trade unions still demanded higher wages and better benefits.² The constant rivalry between the two union centers, one of which was communist controlled, further aggregated labor unrest.

The Industrial Relations (Amendment) Act was passed in 1968, giving employers more discretion in staff deployment. It also removed decisions on promotions, internal transfer of employees, hiring and dismissals from union negotiations. The other key piece of legislation, Employment Act of 1968, was introduced to "streamline and standardise the minimum terms and conditions of work of all categories of employees to make it equally attractive for blue and for white collar work."³ Moreover, it reduced labor costs by placing a cap on the sums payable for bonuses, annual leave, retrenchment benefits, retirement benefits and overtime.

The unemployment rate subsequently fell from 7.3% in 1968 to 4.8% in 1971. By the early 1970s, Singapore experienced a labor shortage and rising wages because of rapid economic growth and prosperity. With the increasingly tight supply of both skilled and unskilled labor, workers and unionists were pressing for higher wages again. To avoid an imminent wage explosion, the PAP government decided to establish the NWC in 1972. The NWC was set up as a tripartite advisory body to formulate national wages policy. It was made up of representatives from the unions, employer organizations and government agencies.

Every year, the NWC meets to formulate general guidelines on wage policy. The duties of the NWC include the following:

- assisting the government in the formulation of general guidelines on wage policy;
- recommending necessary adjustments in wage structure, with a view to developing a coherent wage system consistent with the country's long term economic and social development; and
- advising on desirable incentive systems for the promotion of skills development, operational efficiency and productivity at the enterprise level.⁴

NWC recommendations are applicable to both the private and public sectors but are not mandatory. They are not regulations backed by legal status. Although not binding on the employers or the unions, the guidelines, if accepted by the government, provide a useful platform for initial wage negotiations. Because the government, unions and employers' interests are all represented in the forum, NWC recommendations are widely followed.

The government spearheaded an economic restructuring initiative in the late 1970s with a three-year corrective wage policy to phase out labor-intensive and low-technology industries. Wages were to be increased annually by about 20% across the board from 1979 to 1981. The government raised the wage expectations of the workers. According to Sharma and Chew (1992), "this strategy was too simplistic. Singapore did not have the technological infrastructure to move up so quickly to skill- and capital-intensive industrialization. As a result, productivity growth lagged behind wage increases. The economy began to run into problems, culminating in a negative growth of gross domestic product in 1985" (p. 18).

When the economy went into a recession in 1985-1986, the NWC called for severe wage restraint and a freeze on wages until the economy could improve. One of the lessons learned from the recession was that the prevalent wage structure was too rigid for employers to adjust labor costs downward. This was because fixed annual increments given out to employees were based on their loyalty/seniority. Little attention was given to individual performance. Furthermore, wage guidelines issued by the NWC were across the board and hence did not take into consideration a company's profitability or the performance of different industries. Because the recommendations were widely followed by employers, some employers had to top up pay increases even though their companies and/or the industry as a whole were not performing satisfactorily.

A tripartite subcommittee was appointed by the NWC in 1986 to assess the problems associated with the so-called traditional wage system and to come up with a more flexible wage structure for Singapore. At the enterprise level, the primary objective of such a system was to ensure the cost competitiveness of companies and to strengthen the link between remuneration and employee performance. This was achieved by linking employee rewards with the company's and the individual's performance through a variable wage

payment. Companies would then be able to reward their staff without having to give high basic wage increases. The workers could look forward to getting a fair share of their company's success. They would be better motivated to perform as financial rewards were now tied to theirs and their firms' performance. At the national level, pay flexibility was perceived as an important instrument to buffer against future recessions. The need for large-scale retrenchments would be reduced as companies adopting the flexible wage system could cut their labor costs without much difficulty.

The tripartite subcommittee recommended that the new wage structure should consist of

1. a basic wage, which would reflect the value of the job;
2. an annual increment (to recognize employee loyalty, experience and contribution);
3. an annual wage supplement (AWS), which could be adjusted downward when the firm performed badly; and
4. a variable wage component based on the firm's performance, which could be paid half yearly or annually.⁵

The flexible wage system thus calls for a more decentralized wage negotiation process. Under this structure, remuneration can be adjusted quickly according to business conditions and the profitability of individual companies. With the diminished role of the NWC in wage recommendation since 1987, workplace bargaining had become more prominent. This required mutual trust and more information sharing between labor and management.⁶

The wage structure of Singapore since the late 1980s therefore had been geared toward building flexibility. For example, the NWC guidelines for 1988 and 1989 recommended first that total wage increases be given in two parts—a moderate basic wage increase and a variable payment linked to company/individual performance or productivity, and second that total wage increases should lag behind productivity growth. The long-term objective of the flexible wage system is to have 80% of the total wage fixed and 20% variable. The variable component usually consists of two parts: the AWS, which for most organizations is equivalent to one month's pay, and variable bonuses.

In March 1993, the NWC appointed a tripartite Review Committee to ascertain the progress of

the implementation of the new wage system and to recommend any necessary fine-tuning. It was found that by 1992, almost 85% of the unionized companies in Singapore had adopted the flexible wage system. Even in the nonunionized sector, 70% of the companies had already done so. Although the flexible wage system was widely adopted across different sectors, it was most popular in the finance sector, where 91.6% of the unionized companies had adopted the system.⁷

The NWC-revised guidelines included a reduction of employers' Central Provident Fund (CPF) contribution by half, from 20% to 10%, for a period of two years beginning January 1, 1999.

Throughout the 1990s, the flexible wage system was further refined. Recommendations in the 1995-1997 NWC guidelines spelled out some of the key features. For example, the guidelines proposed that total wage increases should reflect the economy's performance, that built-in wage increases should lag productivity growth and that firms should pay as much as possible of their wage increases in the form of variable components reflecting the performance of the company. The ultimate question was this: Would all these safety valves be sufficient to enable Singapore to ride out any future economic downturn?

The test came in mid-1998 when the economy was adversely affected by the regional economic turmoil. In addition to giving out the regular May guideline in that year, the NWC was forced to meet again in September and October 1998 to reexamine the deteriorating environment. Wage restraint and reduction of nonwage costs, as recommended earlier, were not sufficient to revive the economy to positive growth. Unemployment rose to 4.5% by September 1998, up from 2.2% in March 1998. With the steep depreciation of some

Asian currencies, which made Singapore's products and services more expensive, and the country's rising relative unit labor costs over the years, the urgency to preserve jobs and regain cost competitiveness was obvious. The Ministry of Trade and Industry estimated that Singapore had to significantly reduce overall wage costs by about 15% to bring back the relative unit labor cost back to the 1994 level.

The NWC-revised guidelines included a reduction of employers' Central Provident Fund (CPF) contribution by half, from 20% to 10%, for a period of two years beginning January 1, 1999. The CPF was a fund set up in 1955 to provide financial security for workers on retirement or when they were no longer able to work. Both the employer and the employee contribute to the fund. This cut would represent an 8% reduction in overall wage costs. The remaining cut would come from other parts of the flexible wage system, in particular, the variable component—bonuses, AWS and cumulative variable payments. Firms could also consider reducing or eliminating existing employee benefits. Retrenchments would only be carried out as a last resort. On the other hand, companies that were profitable or performing well could reward their staff with a special bonus.

In its 1999 recommendations, the tripartite body proposed that the variable component of total wage costs be increased from 20% to 30%. The existing flexible wage structure, it noted, was not flexible enough for companies to weather a sudden business downturn. This was because companies generally have to wait until the end of the year to cut bonuses and other variable wages. As noted by the NWC, "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 sudden and severe business downturns."⁸

A new monthly variable component (MVC) of up to 10% of monthly wages for employees in the private sector should thus be built up over time. Money for this component could come from part of the annual wage increase. This 70/10/20 split, representing the basic wage, monthly variable and annual variable components, respectively, would make a company's wage structure more responsive to economic recession and, perhaps more important, reduce the likelihood of mass retrenchment. It also meant that any across-the-board CPF cuts would be minimized. The civil servants' pay structure had already built up such a contingency many years ago, and the govern-

ment had been able to implement immediate pay cuts in November 1998. This variable monthly amount, on average, accounted for 8% of the monthly pay in the civil service.⁹

In addition to the above “long-term” adjustment, the NWC also cautioned that companies that were not doing well should cut or freeze total wages to save jobs. However, firms with uncertain prospects but that were still profitable could make a special one-time payment, such as a midyear bonus. Those that were doing better and with fairly good prospects could announce a midyear bonus or a wage increase. Companies doing exceptionally well and having promising prospects could, in addition to giving out midyear bonuses, announce a pay raise that was not integrated entirely into the basic pay.

In the NWC guidelines for 2000-2001, the immediate implementation of the MVC was strongly recommended. Companies granting wage increases were urged to set aside part or the entire wage increase as MVC. Employees should be rewarded with wage increases in line with the better economic environment, taking into account the restoration of the two percentage points in employers’ CPF contribution in April 2000. For companies that had performed well and could afford it, bonus payments could be given out as well. The NWC further reiterated that built-in wage increases should lag behind the rate of productivity growth and that total wage increases should reflect company and individual performances. To benefit the lower income group, employers should consider the inclusion of a dollar quantum in pay increases.¹⁰

The Compensation Structure in Singapore

In June 1999, Singapore’s labor force totaled 1,885,867 persons. The labor force participation rate, defined as the percentage of economically active persons in the population who are aged 15 and older, was 65%. The unemployment rate dropped from a high of 3.5% for 1999 to 2.5% in September 2000. The September figure was still higher than the 1.8% recorded before the onset of the Asian economic crisis in July 1997.

The *Labor Force Survey* of June 1999 also revealed that 23.1% of the workforce was employed in community, social and personal services; followed by manufacturing (21.0%), wholesale and retail trade (14.8%); transportation and communications (10.8%); business and real

estate (10.4%); and other (19.9%). With respect to employment by occupation, 40.3% of the employed persons were classified as managers, professionals and technicians; followed by production, cleaners and laborers (32.6%); and clerical, sales and service workers (27.1%).

Information from the *Report on the Labor Force Survey of Singapore 1999* revealed that the median gross monthly income from work of all employed persons was \$1,700 in 1999. Males registered a higher median monthly income of \$2,000, compared with females who earned an average of \$1,408. About one in four of the employed persons earned \$3,000 a month or more. Slightly more than one third of all employed persons earned between \$1,500 and \$2,999, whereas close to one fifth of the workers earned between \$1,000 and \$1,499 a month. As expected, more females fell into the lowest earnings category. The share of females earning less than \$1,000 was 32%. This was more than twice that of males at 15%. On the other hand, one in two of the males earned at least \$2,000 a month, compared with slightly more than a third of the females.

With regard to household income growth, the average household income increased from \$3,080 to \$4,940 per month from 1990 to 2000. Half of the households earned at least \$3,600 per month in 2000. Given the low inflation environment, household income in Singapore also increased in real terms. Measured in 1990 dollars, the average figure rose from \$3,080 in 1990 to \$4,170 in 2000 (Singapore Census of Population, 2000—Advance Data Release No. 7). The median household income rose by 2.8% per annum in real terms.

According to the *1999 Singapore Yearbook of Manpower Statistics*,¹¹ average nominal monthly earnings were highest for those working in financial services (\$4,528), whereas the lowest was recorded in the hotels and restaurants sector (\$1,291). The next two highest categories were those employed in the business and real estate services (\$3,056) and community, social and personal services (\$2,955).

As for specific occupations for both sexes, the mean and median monthly basic wages in 1999 for managers were \$6,300 and \$5,099, respectively. For professionals, the amounts were \$3,855 and \$3,350, respectively. For other employee categories, the mean and median were for technicians and associate professionals, \$2,564 and \$2,210; clerical workers, \$1,628 and \$1,515; service workers and shop and market sales workers, \$1,342 and \$1,175; production craftsmen and

related workers, \$1,623 and \$1,500; plant and machine operators and assemblers, \$1,222 and \$1,108; and cleaners, laborers and related workers, \$1,042 and \$1,015.

In terms of gender differences, the 1999 *Singapore Yearbook of Manpower Statistics* revealed that male managers on average earned a basic wage of \$6,805 in 1999 (median = \$5,500), whereas female managers earned \$5,267 (median = \$4,425). As for professionals, males earned \$3,973 on average (median = \$3,415), and females earned \$3,639 (median = \$3,200). Male technicians and associate professionals in 1999 earned \$2,738 (median = \$2,232), whereas their female counterparts earned on average \$2,350 (median = \$2,200). Finally, for production craftsmen and related workers, males earned \$1,655 (median = \$1,532) and females \$1,295 (median = \$1,229).

A 1998 study on 107 companies by the management consulting firm Watson Wyatt Worldwide found that the general management job family commanded the highest salaries in Singapore. Average annual total cash paid for those in general management amounted to \$261,476. This was followed by sales and marketing (\$88,566), research and development (\$67,005), human resources and administration (\$65,978), finance (\$59,349), information systems (\$58,650), customer service (\$51,601), engineering (\$44,066) and manufacturing (\$41,263). As for the different industries, electronics and electrical/information system consulting was the highest paying industry (\$74,510), followed by finance and banking (\$65,993), pharmaceutical and consumer product (\$64,721), publishing (\$48,542) and other manufacturing (\$47,205).

The *Watson Wyatt Compensation Report* further highlighted that more companies were giving discretionary bonuses (from 73% in 1997 to 81% in 1998) and that more firms were implementing sales incentives, share options and share purchase. In addition, more companies were providing dental and, to a lesser extent, optical benefits for their employees. In contrast, fewer companies were providing life insurance benefits, loans (housing, car and others) and social/sports club memberships to local staff, except the head of the organizations.

Pay Practices of Electronics Manufacturers

The electronics manufacturing industry in Singapore is one of the key driving forces of the

national economy.¹² The *Straits Times*, on September 15, 1998, reported that the manufacturing sector accounted for a quarter of the country's GDP, with half of it coming from electronics products. Furthermore, 55% of Singapore's exports were electronic products. We surveyed the pay and pay practices of this important sector. Questionnaires were sent to the human resource managers of the 200 electronics manufacturers in Singapore. The mailing list was extracted from the latest Singapore Electronics Trade Directory Board. Thirty companies indicated nonparticipation because of changes in business profile.

Twenty-one valid questionnaires were received, giving a response rate of 12%. Because of the relatively low number of responses, it is important to note that the findings are suggestive rather than conclusive. Of the 21 companies that participated in this study, 6 were local, whereas the remaining 15 were foreign. Seven of the foreign firms surveyed came from the United States, and 6 were from Japan.

The most predominant type of production method was mass production (8 companies), followed by fabrication/assemblies (4 companies) and continuous process (4 companies). In addition, the use of microelectronics appears to be low. It was introduced in only 6 of the 20 companies responding to the question.

Deployment of microelectronics technology has led to the introduction of new products in all of the companies. Only two companies noted an increase in the pay of their employees and an "improvement" in the grading of workers. Three companies cited a decrease in overtime work and an increase in the flexibility of workers. Although there were no changes in the workers' overall responsibilities, adoption of the new technology did call for an increase in the skills required of employees by four companies.

The use of skill-based pay and pay for knowledge was fairly widespread. As expected, the practice was common among employee groups such as skilled workers (11 companies), technical/professionals (13), supervisors (11) and managers (11).

The companies involved in this study varied widely in terms of organizational hierarchies. Managerial titles from entry level (junior management) to the most senior level ranged from two to more than six levels, with three as the mode. The number of pay levels for managers again ranged from two to more than six, with four

as the norm. The percentage differential between the lowest and the highest pay level for managerial employees ranged from as low as less than 25% to a high of 379%. Nine of the companies had a pay differential of between 25% to 50%, whereas another seven had a range from 50% to less than 75%.

Three quarters of the companies did not give any pay adjustment to employees for completing a management development or employee training program. For those that rewarded their employees for completing such a program, the size of pay adjustment as a percentage of the annual salaries for top management (CEOs, presidents and managing directors) varied from a low of 5% to a high of 25%. For senior managers (vice presidents, division heads and department heads), the range varied from 6% to 15%. For other executives and professionals, it was between 6% and 15%, whereas for nonexecutives, the increase varied between 6% and 20%.

The use of skill-based pay and pay for knowledge appeared to be fairly popular. This is in line with the deputy secretary general of the National Trades Union Congress' call to add a third dimension, a skills component, in the country's wage system so as to enhance the employability of Singapore workers.¹³ There is room for improvement, however, as many of the surveyed companies did not give a pay adjustment for staff who completed their training or management development programs.

Directors' Remuneration and Firm Performance

Effective boards are indispensable to the growth and survival of any organization. Companies looking for strong candidates for directorship have to offer very attractive pay and benefits. This is justified if the relationship between reward and firm performance can be reasonably ascertained. The apparently weak link between the two, as suggested in both the local and overseas literature, led to our own research on the subject in 1998. The main objective was to find out whether the competitiveness of listed companies on the Stock Exchange of Singapore was affected by their directors' remuneration.

In Singapore, only three academic studies have examined this relationship. An earlier work by Ta, Leong and Pang on directors' rewards in Singapore and Malaysia found that between the years 1975 and 1989, there was no direct relation-

ship between remuneration and firm performance.¹⁴ Exceptions to the overall trend were found in the cases of property and finance companies in both countries. A more recent but rather limited study by Leong and Pang revealed that of the 26 companies with annual reports with financial year ends between June 30 and November 1996, total directors' and CEO remuneration were highly correlated with company profitability.¹⁵ However, the very small sample limits the conclusion that can be drawn.

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The most recent attempt to pinpoint the relationship was conducted by Ta, Chong and Ong.¹⁶ They examined the largest 42 listed firms in Singapore in terms of market capitalization and concluded that directors' remuneration was tied to both firm size and performance, with size being the most important determinant of directors' pay.

Studies on executive compensation have also been carried out by management consulting firms in Singapore. A study conducted by Remuneration Data Specialists in 1994 found little or no correlation between directors' remuneration and company performance.

In our study, we collected data on directors' remuneration and net profit before taxation for listed companies from 1991 to 1996.¹⁷ Total compensation for directors refers to the salary and bonus paid. The difficulties of getting a full breakdown of compensation components arise in Singapore as in the case of other Western studies. The Granger causality test was used to check for possible lead-lag relationship between remuneration and net profit.

The results indicate that over a five-year period from 1992 to 1996, the bulk of the cases showed an independent relationship or no causality between the two variables, although variations in findings existed among different sectors. In sum, the link between directors' pay

EXHIBIT 2
Does Higher Directors' Pay Lead
to Higher Company Performance?

Year in Analysis	Sector			
	Electronics	Finance	Hotel	Property
1992-1993	No	No	No	No
1993-1994	No	No	No	No
1994-1995	No	No	No	No
1995-1996	No	Yes	Yes	Yes

Source: Wan, Ong and Pong (1998). Please refer to this article for detailed statistical results.

and firm performance was weak, and directors in our sample companies were probably not rewarded on the basis of corporate performance. Our findings therefore support the conclusion by Ta et al. (1992) that there is no direct relationship between remuneration and corporate profitability. See Exhibit 2 for more details.

Conclusion

To understand the structure of the pay system and workers' wage expectations in Singapore, it is important to appreciate the role played by the NWC. Although the wage and other recommendations given out by the tripartite body are not binding on individual employers and unions, they do provide a basis for constructive negotiation and reference. The aim of the NWC deliberations is to come up with a win-win situation so that the country's competitiveness and the welfare of its citizens will not be jeopardized. Because the underpinnings of these guidelines have been thoroughly discussed and agreed on, it is less likely that the outcome will be strongly in favor of one particular group of stakeholders.

Competitiveness at both the national and enterprise levels remains the foremost concern in the country's compensation structure. Over the years since the 1985-1986 recession, the pay system has been improved to enhance the responsiveness of its adjustment mechanisms. This was done through building up the variable component of the flexible wage system. The 1997-1998 economic downturn gave the NWC a good opportunity to enhance the variable component of the total pay package. Prior to the 1999 NWC deliberation, the wage system was basically made up of 80% basic wage and 20% annual variable component. With the call for the addition of a

new component by the NWC, the final equation will consist of 70% basic wage, a 20% annual variable component and a 10% MVC. Judging by the previous success of the flexible wage system, which has gained acceptance over the years, it is foreseeable that this new call will be answered, particularly in the unionized sector of the economy.

With the firm establishment of tripartism in the country, Singapore recovered from the 1997-1998 recession quickly. Salaries went up by 2.8% in 1999. In 2000, there was a 5.1% increase. Employers' CPF contributions rose from 10% to 12% in April 2000 and again from 12% to 16% in January 2001. Economic growth, however, slowed in 2001. The 2001 NWC recommendations therefore called for a "cautious approach on wage costs" as economic growth was expected to slow down from 9.9% in 2000 to 3.5%-5.5% in 2001.¹⁸ Indeed, the situation started to look less rosy by the second half of 2001. Chartered Semiconductor Manufacturing, Panpac Media.com, DBS Group Holdings, Creative Technology, Singapore Airlines, Holiday Inn Park View and Singapore Press Holdings, among others, announced various cost-cutting measures.¹⁹

Following the September 11 terrorist attacks in the United States, the world economic condition worsened, and Singapore's economy was expected to contract by about 3%. Members of the NWC met again for the second time in a year to discuss the situation. It was decided that although a CPF cut was not necessary, severe wage restraints (wage cuts, wage freezes) for firms doing badly could not be ruled out. In this respect, top management and senior managers should lead by example. Furthermore, employers should try other ways of reducing costs by cutting overtime, having a shorter workweek, getting workers to clear their leave and so forth before turning to retrenchment. Firms should also send their surplus workers for training to prepare them for the eventual economic upswing.

Males on average earn slightly more (1.4 times) than their female counterparts (median for males = \$2,000 monthly and \$1,408 for females). In addition, the former group is better represented in the high-income category, with 29.9% of the males earning \$3,000 or more, compared with only 16.8% for the females. Age and educational attainment further complicate the picture. It is generally true that the better educated employees get better pay. For example, in 1999, the median gross monthly income for

degree holders was \$4,000. This was 2.2 times the median figure for secondary-educated persons and 3.4 times that for workers with primary education only. With better access to higher education and skills upgrading in Singapore, the overall economic welfare of the workers will improve over time.

Data from the *Singapore Yearbook of Manpower Statistics* also did not indicate an excessive pay difference between managers and the rank and file. The mean and median monthly gross wages for managers as a group were \$6,644 and \$5,285, respectively. For plant and machine operators and assemblers, the mean and median gross wages amounted to \$1,694 and \$1,563, whereas for cleaners, laborers and related workers, the figures were \$1,360 and \$1,288, respectively. Of course, variations occurred within each broad category. For example, a managing director on average earned \$13,740 (median = \$11,000), and a general manager commanded an average of \$11,163 (median = \$9,395). Furthermore, gross salary here did not include bonuses, other lump sum payments and payment in kind, or employers' CPF contributions.

Our concern here is the overall pattern, and there will always be cases of senior executives and professionals whose pay deviates significantly from the norm. Our view is that, in comparison with the U.S. experience where excessive pay is of great concern occasionally, the pay gap between senior executives and rank-and-file workers in Singapore has not been significant enough to call for or receive as much attention.

Nevertheless, the gap between top and bottom earners in Singapore is expected to widen. In an age of globalization and the new economy, the demand for knowledge-based workers will continue to increase, and labor mobility will grow. The highly skilled will be able to enjoy first-world salaries, whereas those at the other end of the skills continuum may only receive third-world wages.²⁰ Income inequalities are rising, and the country is facing structural unemployment due to the excess supply of unskilled workers.²¹

The future of Singapore's competitiveness depends on how its human resources are nurtured and developed over time. At the national level, the effort to develop a more flexible wage structure has been under way since the recent Asian economic crisis. A key component is the recommendation to incorporate the MVC into wages. This should reduce the need to cut employers' CPF contributions or to invoke exces-

sive retrenchments in any future economic downturn.

Furthermore, the call from the general secretary of the National Trades Union Congress to introduce a base-up wage system is echoed by the NWC. The purpose of having a base-up wage system is to better reflect the value of a job and to reward workers for productivity gains. At the company level, recognition and reward schemes will have to be reexamined from time to time to ensure their appropriateness in attracting, motivating and retaining human capital. Employee rewards involve more than the payment of salaries and wages. More companies in Singapore are offering family-friendly schemes and, to a lesser extent, employee stock options. Whether we like it or not, as the compensation expert Richard Henderson once remarked, "Whatever the percentage, no other major expenditure component has a greater influence on organisational profitability than employee compensation. This is even true for non-profit and public-sector organisations that do not have a 'profit' motive."²²

Notes

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