

# Malta: Wage flexibility and collective bargaining

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Variable Pay Systems are usually negotiated at company level in collective bargaining. The Malta Employers' Association is a fervent promoter of profit-related schemes, arguing that wage increases should only reflect productivity, the competitive situation and labour market forces. On their part, Maltese unions are adamant on safeguarding the working conditions, especially the wages, of their members. However, in recent years, especially in the manufacturing sector, the General Workers' Union has adopted a moderate approach in its requests to wage increases in order to protect its members from the threats of redundancy. There are no recent government policy initiatives which directly promote wage flexibility or variable payment systems.

## Section 1. Variable pay: forms, basic data and trends

### 1) What are the main types of variable payments systems (VPS) used in:

#### a) manufacturing companies

The main types of VPS used in manufacturing companies are production bonuses, that is, extra payments when targets are reached, overtime and shift allowances. Project-based pay and consultancy fees are also common.

#### b) retail banks

The main type of variable pay in retail banks consist of schemes which operate on direct relationship between pay and employees' output. The pay offered in these schemes is over and above the basic pay. In other words employees have to perform beyond targets set by the policy making board of the banks to be rewarded. Benchmarks set in these schemes are normally based on number of loans, new investments, new accounts opened and number of insurances sold to client as well the number of new clients registered in the various long term saving schemes offered by the banks. In a particular bank, different levels of targets are set ranging, from Target 1 to Target 4, the higher the target reached the higher the pay.

This variable pay is generally given on an individual basis. However the human resource manager of one bank stated that personal-based pay may create disenchantment among a section of employees who might not have access to clients. In view of this, part of the scheme is based on the collective, at least on a branch level.

Appraisal-based schemes are also found in the leading banks. The criteria used tend to be less objective. One criterion may be the quality of work evaluated by

management, one of the yardsticks being the number or rather the lack of complaints. These schemes may operate on a personal or collective effort.

## **2) For each type of VPS, please provide information on their quantitative significance as a proportion of earnings.**

No representative data is available in either manufacturing or retail banks. However, in the manufacturing sector, production bonuses typically have a maximum of 15% of one's earnings. In some factories, shift allowances on a two-shift basis would be equivalent to 10% of one's earnings, on a three-shift basis would be equivalent to 15% and on a four-shift basis would be equivalent to 17%. Overtime is normally paid 150% if done during normal days, 200% on Sundays and 300% on public holidays.

The bonus pay related to employees' output in retail banks varies considerably, and may sometimes be equal to one's basic pay. No data was found on the quantitative significance as a proportion of earnings in the appraisal-based schemes in banks.

The quantitative significance of VPS as a proportion of earnings varies according to a number of characteristics of the employer, but in general, it appears that the larger the employer the greater the incidence of variable pay systems. This is the case with the three large banks in Malta and the large manufacturing organisations. As the size of the organisation decreases, one finds significant variation between the extent and nature of variable pay.

## **3) What have been the main trends in VPS in recent years?**

- a) which types of scheme have become more prominent / widespread?**
- b) which types of scheme have become less widespread?**

Manufacturing companies in Malta have been driven to review the methods by which they pay their employees. The globalised industrial reality has pushed these organisations to balance their payroll costs with their need to motivate employees towards increased performance and productivity. Within this context 'traditional' union negotiated pay systems did not allow for the differentiation of wages between good and poor performance, as well as individual merit and efforts. In view of this, large manufacturing companies sought out alternative pay methods to control their cost structures whilst increasing production quotas and manufacturing targets. This was, to a considerable degree, solved through variable pay for performance, wherein employees were rewarded above and beyond basic wages for successful attainment of specific measurable objectives. This has been translated into new collective agreements designed to include incentives and payments for achievement based on company performance, group performance, and individual performance. Company-profit-related schemes and project-based pay have thus become more prominent.

The main component of the remuneration structure in retail banks is normally the fixed salary which is regulated by collective agreements. Salary scales are categorised into employee grades with minima and maxima set for each grade. In one of the largest banks, HSBC Bank Malta, an annual increase is granted accordingly to the performance of the individual during a particular year. Procedures for determining salary increases are usually covered by collective agreements.

It is the policy of the banks that once a high level of profit is registered, more

funds are put in the pot of the bonus schemes. Bonus pay is more widespread among the management of banks, especially those which are foreign-owned. At HSBC Bank Malta, the bonus scheme is not regulated by a collective agreement. The rise in importance of bonus pay is related to the increasingly aggressive stance of banks in a highly competitive environment.

## **Section 2. Wage flexibility and collective bargaining**

Please state, for each sector,

**i) whether it is governed by single or multi-employer collective bargaining arrangements; ii) the coverage (percentage of companies and employees) of collective bargaining; iii) the percentage of the workforce that is female**

Wage flexibility is governed by single collective bargaining arrangements in both manufacturing and retail banks sectors, as collective bargaining in Malta takes place at company level. Nevertheless, it has to be pointed out that within their respective sectors, collective agreements carried out in particular organisations influence those in others. In fact, many manufacturing companies have been pushed towards improving pay conditions and offer VPS in order to attract and retain the best performing employees. This social process has also affected the banks operating in Malta.

No exact data can be given about the coverage of collective bargaining in manufacturing and retail banks sectors as no study has recently been carried out about this topic. However, employees in these two sectors are highly unionised and most, if not all, of the large manufacturing companies as well as the banks are covered by collective bargaining. Around 23% of all workers in the manufacturing sector and around 49% of all workers in the financial intermediation sector are women (National Statistics Office).

### **2a. Wage flexibility under multi-employer bargaining arrangements**

This subsection is not applicable.

**1) In the sector(s), are there any recent instances of**

**a) sector agreement(s) which have provided for a wage freeze or wage increases below inflation? b) 'unauthorised downwards' wage flexibility, whereby companies have effected wage freezes or wage increases below inflation which are not authorised by a sector agreement?**

**2) Is there scope for derogations from the wage norms established by the sector agreement(s) through mechanisms such as hardship, opt-out or discount clauses?**

**3) Is there scope for supplementary negotiations over wages**

**at company level (two-tier negotiations) within the sector agreement(s)?**

**4) Are VPS regulated by provisions in the sector agreement(s)?**

**5) Is there provision in the sector agreement(s) for individual employees to make choices trading an element of wages against e.g. working time (hours/ holidays) or deferred income (pension contributions)?**

**6) Are there instances of any of the above forms of wage flexibility becoming the focus of industrial disputes?**

**7) Is there any evidence or debate about a gender dimension to wage flexibility, in terms of its effects?**

## **2b. Wage flexibility under single-employer bargaining**

**1) Are there any recent instances in either/both sectors of wage freezes or wage increases below inflation concluded under company wage agreements, with unions and/or works councils?**

There have been no recent wage freezes or wage increases below inflation concluded under company wage agreements with unions and/or works councils. The absence of such cases is due to the statutory wage increases linked to the cost of living index awarded annually. However, in cases where organisations are going through difficult periods, a special request for derogation can be made to the Department of Industrial and Employment Relations (DIER), under whose jurisdiction each case is considered on its own merits. It is then up to the Director of DIER, the employer and the union to come to an agreement to adopt such mechanisms.

**2) In the relevant sector(s), are organisations without collective bargaining**

1. any more likely to implement wage freezes or below-inflation increases to base pay?
2. more or less likely to use VPS than organisations covered by collective bargaining?

Manufacturing companies covered by collective bargaining appear to be more likely to use VPS. On the other hand, since all the retail banks are covered by collective agreements, the issue is not relevant to the sector.

**3) Are VPS in the relevant sector(s) regulated by provisions in company agreements with unions and/or works councils?**

All types of VPS in the manufacturing and retail banks sectors are normally regulated by collective agreements. Collective agreements usually deal with both

procedural and substantive aspects of variable pay. The issue of VPS does not generally feature on the agenda of the few existent works councils as these are mainly concerned with the dissemination of information.

**4) Are there any examples of company-level agreements concerning provision for individual employees to make choices trading an element of wages against either working time (hours/ holidays) or deferred income (pension contributions)?**

Some collective agreements contain flexible arrangements involving trade offs between wages and working time. For instance, the collective agreement at Methode Electronics Malta, a relatively large manufacturing organisation, stipulates that employees are expected to work overtime whenever is deemed to be necessary by the management. However, the agreement also states that “when an employee works overtime on three consecutive weekends, he will be allowed to refuse overtime during the fourth weekend”. Collective agreements also normally deal with the circumstances relating to paid and unpaid leave.

**5) Are there instances of any of the above forms of wage flexibility becoming the focus of industrial disputes in the applicable sector(s)?**

No information is available.

**6) Is there any evidence or debate about a gender dimension to wage flexibility, in terms of its effects?**

There is no evidence or debate about a gender dimension to wage flexibility directly. However there is social dialogue concerning, for example, family friendly measures and mother-child provisions, which may affect wage flexibility indirectly.

## **Section 3. Views of social partners and government**

### **3a Employers' organisations**

**1) Under multi-employer bargaining arrangements, Is enhancing scope for ‘downwards’ flexibility in basic wage levels (e.g. via hardship clauses etc.) a prominent objective for employers’ organisations?**

Multi-employer bargaining is not carried out in Malta.

**2) Under multi-employer bargaining arrangements, is enhancing scope for ‘upwards’ wage flexibility through greater scope for supplementary negotiation at company level a prominent objective for employers’ organisations?**

Multi-employer bargaining is not carried out in Malta.

**3) Is the promotion of wage flexibility through VPS a prominent**

## **objective for employers' organisations?**

The Malta Employers' Association (MEA) is a fervent promoter of profit-related schemes. The MEA argues that wage increases should only reflect productivity, the competitive situation and labour market forces. The association strongly believes that the existing mandatory cost of living mechanism is outdated, and that it should be awarded only to minimum wage earners to protect them from inflationary pressures. The MEA argues that giving cost of living increases to all workers interferes with the free operation of the labour market and inflates wages, threatening the employment of many workers especially in price sensitive industries such as low value added manufacturing.

The association has often urged other social partners to be more receptive to a flexible wage setting system that "allows for relativities to reflect productivity and levels of responsibility". It argues that the high relative cost of the Maltese lower skilled workers is scaring out of Malta companies employing mainly unskilled or semi-skilled workers, while on the other hand, the relatively low wages of professionals and highly skilled workers may be leading them to migrate.

According to the association, since collective agreements in Malta are negotiated at enterprise level, employers and unions have the opportunity to devise customised packages, including VPS for individual companies. The MEA argues that when family friendly measures incur increased costs and may thus threaten competitiveness, compromises must be sought between introducing such measures and other benefits such as wage increases.

### **4) At organisational level, in each of the two sectors, what are the key rationales leading companies to implement each type of VPS, as applicable?**

The manufacturing business environment of the last decades can be summarised as consecutive periods of recession and rapid technological change. This business climate has put pressure on Maltese organizations to get the job done with less wage-related costs, especially in the Clothing and Garment Sector, where such firms as Bortex, Denim, and VF Malta had to close down. These three closures within one year made about 1,500 employees redundant. Others manufacturing entities have made it through with layoffs, consolidations and mergers, whilst some others have moved towards operating through lean management which operates more efficiently with less people. The search for a solution has led organizations to analyze productivity and the methods by which they reward their people. Many have come to the realization that in order to succeed, they will need to encourage a partnership with their employees.

Traditionally Maltese manufacturing companies have utilized collectively bargained wage-systems to reward their employees. Their goal was to develop payroll structures which distribute 'budgeted' funds equitably among employees. It is acknowledged that at times the problem with such pay structures is their design and administration. Most merit pay structures call for annual 'performance' and pay increases. This long time frame makes it difficult to link pay to employee performance. In addition to this, such pay systems do not cater for the differences between employees whose performance is exemplary and those who perform at average or below average level. On top of this, employers' associations claim that wage growth has been higher than productivity in a number of sectors, leading to an unsustainable situation

In view of the above manufacturing organisations have reverted to consider incentive-based variable pay plans that are better suited to the Maltese changing

economic environment. Large employers have also re-designed their compensation programmes.

**5) Have employers' organisations considered or addressed any potential gender dimension to wage flexibility, whether in terms of rationale or effects?**

No instances where this was done directly have been reported. However the gender dimension to wage flexibility occasionally becomes topical whenever the issue is raised about the effect of particular working time and wage flexibility mechanisms. Thus, for example, the "on call" system used in some manufacturing firms is mostly suitable for wives who cannot work on a full-time basis.

### **3b Trade unions**

**1) What is the position of trade unions towards proposals aimed at enhancing the scope for downwards wage flexibility?**

Maltese unions are adamant against downward revisions of wages. Collective bargaining in Malta has traditionally centred on wages and earnings. Unions are vocal opposers to the reduction of any working conditions, especially wages, which they have managed to obtain throughout the years. However, in recent years, especially in the manufacturing sector, the General Workers' Union (GWU), Malta's largest union, has adopted a policy of restraint in its requests to wage increases in order to protect its members from redundancy.

**2) Where applicable, how have trade unions sought to regulate use of any increased scope in sector agreements for downwards wage flexibility?**

No sector agreements are carried out in the manufacturing and in retail banking in Malta.

**3) Under multi-employer bargaining arrangements, is enhancing scope for 'upwards' wage flexibility through greater scope for supplementary negotiation at company / organisational level a prominent objective for trade unions?**

Multi-employer bargaining is not carried out.

**4) What is the position of trade unions towards each type of VPS? What objectives have they pursued in negotiations and consultation over the introduction and operation of different types of VPS?**

Traditionally, Maltese unions tended to favour VPS that result in pay increases for the widest possible numbers of workers, such as profit-related schemes, over more individual schemes such as those based on individual performance appraisals. The latter were often the matter of dispute between unions and employers, on the basis of alleged unfairness. During the last decade, such issues have become less contentious as VPS schemes, agreed upon and adopted in a number of collective agreements, have become clearer and based on more objective criteria. Unions focus on the effectiveness of VPS and scrutinize their design, implementation and overall structure maintenance. Their officials usually request clear goal definitions and avoidance of ambiguity whilst making sure to link performance measures to employee efforts.

### **5) Have trade unions considered or addressed any potential gender dimension to wage flexibility, whether in terms of rationale or effects?**

The Maltese unions, especially the large ones, strive to ensure gender equality and fairness according to national law. When negotiating collective agreements, they put their efforts into addressing the gender issue, often dealing with wage flexibility indirectly. For example, in recent years, unions have strived to introduce family friendly policies such as flexible working hours affecting wage flexibility especially among women.

## **3c Role of Government**

### **1) Have there been any recent government policy initiatives to promote 'downwards' or 'upwards' wage flexibility, or variable payments systems?**

There are hardly any recent government policy initiatives which directly promote wage flexibility or variable payment systems. It appears that throughout the years, the Maltese government has acted more towards setting minimum standards of pay and pay increases through the minimum wage regulations, the sectoral orders, and the cost of living increases. However, the government appears to be increasing the importance it attributes to performance appraisals in relation to bonuses in the public sector, especially among the managerial grades.

### **2) Are there any legal provisions which regulate any of the different types of VPS?**

Apart from collective agreements, which are legally binding, there exist legal provisions regulating other aspects of wages. For instance, the Wage Council Regulation Orders establish minimum wages, minimum remuneration, shift premium, and overtime rates in various employment sectors, especially those not covered by a collective agreement. Besides, government and cost of living bonuses exist in local legislation. With regard to other types of bonuses, appraisal-based or profit-related schemes, employers are free to operate within the legislative employment framework.

### **3) Are there any fiscal incentives aimed at promoting the take up of different types of VPS?**

There are no direct fiscal incentives aimed at promoting the take up of different types of VPS. However, there are taxation arrangements relating to fringe benefits which are mainly given to Senior Management and employees who reach their set targets.

### **4) Have there been any significant developments in wage flexibility, as broadly defined in the introduction, in the public sector in recent years?**

The overall effect of the Performance Management Programme in the public sector over employees' wages is unknown. However, there is the shared perception that, especially among the lower grades, performance appraisal is carried out ineffectively. On the other hand, it appears that the wages of higher management posts in the public sector are often affected by their performance.

The last collective agreement for employees in the public service (covering the



period 2005 – 2010) introduces a ‘bonus of 10% to 25% on basic salary for flexibility in working arrangements such as duties beyond those expected from the substantive grade, and for working to flexible time-tables and outside established hierarchical structures’ for public officers deployed on public-private partnership government projects. Besides, the agreement states that ‘cash bonuses may also be paid by the management of the partnership related to performance, responsibility and multitasking’.

**5) Has the government considered or addressed in any way the potential for forms of wage flexibility to have differential impacts according to gender?**

Government policies are scrutinised to ensure that there is no gender discrimination. Besides, the National Commission for the Promotion of Equality (NCPE) aims to address situations leading to gender inequality. However, no official studies have been conducted nor any actions taken seeking to address the potential of wage flexibility to have differential impact according to gender.

## **Commentary by the NC**

Some VPS, especially in the large foreign-owned organisations, in both manufacturing and retail bank sectors, were directly ‘imported’ from abroad. Other organisations, including the smaller companies, have adopted some of these VPS, but with varying vigour and impetus.

From an industrial relations point of view, these schemes are often seen as token efforts rather than a grand design to radicalize the industrial relations system. The trade unions are aware that these schemes may be used as a managerial strategy to bypass them or to keep in check their membership. However, since Maltese trade unions tend to be strong at enterprise level, they feel that they can control any manipulative attempts to undermine them.

There are few legal provisions regulating wages. This makes it more congenial to employers, as they find it easier to modify VPS to meet their exigencies, as long as they manage to convince the unions.

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