

CLIMBING THE WAGE LADDER: UNDERSTANDING MALAYSIA'S PROGRESSIVE WAGE POLICY

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The **Progressive Wage Policy** (“PWP”), piloted by Malaysia in 2024, represents a significant shift in the country’s approach to wage management and employee compensation. The PWP aims to address wage stagnation and enhance the living standards of Malaysian workers by introducing multiple wage floors above the minimum wage.

Wage stagnation has long been a challenge in Malaysia, despite various initiatives such as minimum wage regulations, the productivity-linked wage system, collective bargaining, and wage support schemes.¹ Recognising the need for a more impactful approach, the Minister of Economy tabled the White Paper on Progressive Wages in November 2023, estimating an implementation cost of RM2 billion to RM5 billion annually.²

The PWP draws inspiration from Singapore's Progressive Wage Model.³ It sets wage floors corresponding to job specifications, training, and skill development. While Singapore enforces mandatory compliance along with a proportional wage credit scheme, Malaysia’s PWP will initially operate on a voluntary basis with fixed wage subsidies.

Key Features of the PWP

The PWP is characterised by three primary features: voluntary participation, incentive support, and productivity linkage.⁴

(a) Voluntary Participation

Participation in the PWP pilot is voluntary. Only registered “Progressive Wage Employers” are eligible for incentives, providing flexibility for companies to prepare and adjust to increased labour costs.

(b) Incentive Support

Incentives are offered to encourage participation and reduce the burden of increased labour costs. Entry-level employees will receive up to RM200 per month, while non-entry-level employees will receive up to RM300 per month for 12 months. These incentives are contingent upon companies meeting specified criteria, including offering skill enhancement training for employees.

[1] <https://www.thestar.com.my/business/insight/2024/06/13/wage-stagnation-and-productivity>

[2] <https://www.malaymail.com/news/malaysia/2023/11/30/rafizi-tables-white-paper-on-progressive-wage-policy-to-prioritise-smes-workers-paid-below-rm5000-eligible/105040>

[3] <https://www.mom.gov.sg/employment-practices/progressive-wage-model/what-is-pwm>

[4] <https://www.gajiprogresif.gov.my/>

(c) Productivity Linkage

The PWP emphasises the link between wage increases and productivity. Participating employees must complete at least 21 hours of approved training,⁵ ensuring that wage hikes are accompanied by skill development and productivity improvements.

The pilot project is slated to involve 1,000 companies with employees earning between RM1,500 and RM4,999. The pilot project is scheduled for evaluation in September 2024 to determine its readiness for broader implementation. There is, however, a possibility that the pilot project could be extended to June 2025.⁸

PWP Pilot Project

The PWP pilot project will take place from June to September 2024.⁶ The PWP pilot project focuses on five sectors: manufacturing, construction, wholesale and retail trade, information and communication, and professional, scientific, and technical activities.⁷ Excluded sectors include public administration, defense, compulsory social security activities, and extraterritorial bodies.

Key Considerations

The PWP aims to uplift wages for both entry-level and non-entry-level employees, aligning them with productivity growth. Employers must navigate increased labour costs, compliance requirements, and the need for continuous training and skill development. Financial planning, strategic workforce management, and leveraging government support programmes will be crucial for successful implementation.



The government’s exit strategy for the PWP aims to avoid long-term dependence on incentives, focusing on evaluating the programme’s effectiveness and financial sustainability. Should the PWP fail to deliver the anticipated productivity gains and companies struggle to absorb the increased labour costs without corresponding subsidies, significant financial strain may arise. Businesses could be compelled to undertake cost-cutting measures to stay afloat. This could include retrenchment to reduce operational expenses - impacting job security and potentially exacerbating unemployment issues. The success of the PWP is thus crucial in determining whether it will lead to job preservation through enhanced productivity or necessitate retrenchment due to financial challenges.

Companies implementing the PWP may encounter resistance from trade unions. Disputes could arise over the interpretation and implementation of the PWP. The PWP may introduce challenges during collective bargaining and could lead to trade disputes. Companies with unionised workforces will need to navigate the complexities of incorporating PWP provisions into existing collective bargaining agreements. This process could be intricate and contentious, as both parties strive to balance the PWP’s requirements with existing terms of employment contracts. Ensuring that the PWP is effectively integrated into these agreements without compromising other negotiated benefits will

[5] https://www.linkedin.com/posts/rafiziramli_the-implementation-of-the-progressive-wages-activity-7199591861160722433-kKUF/
 [6] <https://www.nst.com.my/news/nation/2024/05/1054287/updated-1000-employers-participate-progressive-wage-policy-pilot>
 [7] <https://www.nst.com.my/news/nation/2024/05/1054287/updated-1000-employers-participate-progressive-wage-policy-pilot#:~:text=He%20said%20companies%20from%20five,participate%20in%20the%20pilot%20project.>
 [8] <https://www.thestar.com.my/news/nation/2024/06/06/progressive-wage-policy-pilot-project-may-be-extended-till-june-next-year-says-hr-minister>



require careful negotiation and a collaborative approach to avoid potential conflicts and disruptions in labour relations.

The introduction of the PWP may also lead to claims of constructive dismissal.⁹ Constructive dismissal could arise under the PWP if employees perceive that increased productivity demands and mandatory training alter their job roles and responsibilities substantially or drastically, such that the same may amount to fundamental change in the terms of their employment.

Conclusion

Malaysia's PWP represents a bold step toward enhancing employee compensation and productivity. As the pilot project unfolds, continuous evaluation and adaptation will be critical to ensure the policy's long-term success and sustainability. Employers must therefore navigate the implementation of the PWP cautiously, ensuring transparent communication and involving employees throughout the transition process. Providing adequate support, clear explanations of the policy's benefits, and addressing any concerns proactively will help mitigate any legal risk.

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[9] "Constructive dismissal" refers to an act of an employee in terminating his employment due to a breach of contract committed by the employer. The breach committed must have been so severe that it had altered the essential terms of an employee's employment contract, leaving the employee no choice but to resign.