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Economists welcome Dr M's call to trim execs' pays

ECONOMISTS yesterday reacted favourably to Prime Minister Datuk Seri Dr Mahathir Mohamad's call for the private sector to trim down unreasonably high salaries of the top and middle-rung executives.

An economist, Dr Ghazali Atan, said during the present economic situation, salaries must be reflective of the sector's "real" production capabilities.

"If a company produces 100,000 units of goods but can only sell 60,000 units, its "real" production capability need not be the former. It must be based on the one that yields returns," he told Business Times.

As such, the corporate sector may have to base the salaries, perks and benefits of these top-level executives on their respective financial performances during the present economic situation.

"It is a wise move if one looks at it from the perspective of reducing unnecessary expenditure during the present economic conditions," he added.

An economist with a local securities firm said wages have been spiralling without a similar increase in productivity.

The increase of salaries, he said, must be parallel with an increase in productivity otherwise this will jeopardise the competitiveness of the country in the long run.

"The increase in salaries has been much faster, even if the inflation of the country is taken into consideration.

"Salaries have probably increased between 11 and 12 per cent for the past year compared with productivity increase of between 5 and 7 per cent," he said.

When asked if a salary freeze is possible for the private sector, he said: "If the free market is going crazy, then it should be done."

Malaysian Employees Federation deputy executive director Shamsuddin Bardan, while supporting the Government, said the private sector situation is not as simple as the government sector.

"It is a different scenario as their wages are determined by contracts between employers and their employees.

"A reduction of salary for the private sector should be done voluntarily, otherwise it is a breach of contract between the two parties," he said, adding that executives are usually paid according to their job value.

Executives, he said, usually have lower basic pay with an annual increment of between 3 and 4 per cent and some incentives.

Some management staff, he added, are not entitled to a contractual bonus and this may affect their income during the slower times.

The recent spiralling wages, he said, is due to the shortage of the required skills and job hopping.

In an economic slowdown, however, this practice will not be rampant.

Malaysian Trades Union Congress secretary-general G. Rajasekaran claimed that executives' incentives such as housing and entertainment allowances, income tax payment, club membership and other perks may even double their salaries.

"In an economic slowdown, a company may trim their production from three shifts to two and this will affect the workers as a wage deduction will occur.

However, the managers may not be affected at all as they will receive the same salary but probably with a reduced workload," he said.

Malaysian Holiday Timeshare Developers' Federation president Khor Poh Waa said top and middle-rung executives in the timeshare industry are "pegged" to their performance.

"For example, the basic salary of the sales people are not too high, but they get high remuneration if they sell well. It is very clear cut ... if they sell more (timeshare memberships), they get more. If they sell less, they get less," he said.

A sales executive's basic salary in the timeshare industry is some RM1,500 per month.

"However, if they get 10 sales per month (valued at some RM200,00), they can get a total of RM10,000 in commission, which is 5 per cent of their total sales," Khor said.

As for a sales manager's salary, Khor said it is based on an incentive scheme depending on the performance of the sales force.

International advertising agency Dentsu Young and Rubicam Sdn Bhd's regional director Rishya Joseph in welcoming the move, said employees should be ready to make adjustments in salaries including incentives and bonuses, in anticipation of a profit reduction.

"This is not just unique to Malaysia as salary adjustments to senior executives were made in the US and Japan when there was a slowdown in their respective countries," he said.

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