

AWAs: CHANGING THE STRUCTURE OF WAGES?

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Abstract

This paper provides an overview of recent developments in remuneration practices in individual agreements (Australian Workplace Agreements or AWAs) and compares them to collective arrangements using data from ACIRRT's Agreements Database and Monitor (ADAM).

The data reveals two key differences in wages provisions between AWAs and collective agreements. First, wage increases in AWAs are often not guaranteed but are 'at risk', as they are typically linked to demonstrated productivity improvement through performance. Such performance is more likely to be measured at the individual rather than the group level. The second key difference is the use in AWAs of a loaded or all-in rate of pay which is usually accompanied by open-ended hours of work provisions.

The paper generally finds that there are substantial differences in the content and incidence of wages information contained in AWAs and collective agreements. The structure of wages is assessed in order to explain the discrepancy in wage outcomes and earnings for workers covered by AWAs. The key question raised by the data is whether the shortcomings of such wage increases granted in AWAs are compensated for by other aspects of the remuneration structure.

Introduction

Given the limited access to AWAs provided to researchers due to the secrecy provisions of the *Workplace Relations Act 1996*, this paper is one of the first to analyse wage trends and remuneration practices in AWAs.² The purpose of the paper is to explore

wage outcomes, weekly earnings and the types of wages provisions in AWAs and to identify how they differ from certified agreements, if at all. The paper begins with some background statistics on the scope and coverage of AWAs in Australia, and a description of the data source used and its limitations. This is followed by an analysis of wage outcomes in AWAs, which compares them with collective union and non-union agreements. A distinction is made between quantifiable wage increases and non-quantifiable wage increases (such as those based on National Wage Cases, inflation and individual performance appraisals). A further distinction is also made between guaranteed wage increases and ‘at risk’ wage increases. That is, the incidence of wage increases that are linked to demonstrated improvements in productivity or performance. There is also close analysis of the incidence of wage increases in longer duration agreements and actual wage outcomes in the public and private sectors. Beyond the aggregate level, the structure of remuneration included in AWAs, particularly in the form of a loaded rate of pay, is explored in an attempt to partly explain the discrepancy between wage increases for workers covered by AWAs and those under collective arrangements. In particular, whether the lack of wage increases in AWAs relative to collective agreements, and the lower wage increases given to workers covered by AWAs, is compensated for in other aspects of their remuneration. Finally, recent ABS data is used to show that, managerial and professional employees aside, those covered by AWAs are indeed worse off, earning lower average weekly rates of pay than those on collective arrangements.

This paper suggests that AWAs are redefining the way in which workers are being remunerated. The emphasis is increasingly on linking wage increases to individual performance. Additionally, AWAs are more likely than collective agreements to use the

concept of a loaded wage rate. It seems that such loaded rates are used by employers to control labour costs, while at the same time achieving a greater level of flexibility in deploying employees to work a more flexible range of hours. Despite these insights, the mechanisms used by employers and employees to determine wage increases in AWAs remain a mystery. This lack of precise information about AWA wage outcomes has a range of implications for both employers and employees.

Background

Despite all the attention given to AWAs, more than four years after their introduction into the Australian industrial relations system they have still not become the preferred method chosen by employers and employees to govern wages and conditions of employment. Between March 1997 and the end of March 2001, 160 347 individual employees had their terms and conditions specified under AWAs. These AWAs came from a total of 3012 employers. At face value, these figures may seem high, but when calculated as a proportion of the Australian workforce, AWAs cover less than two per cent³.

To place the proportion of AWAs in context, the most recent ABS statistics show that more than one third (35.2%) of all employees are covered by a registered State or Federal collective agreement. A further 23.2 per cent of workers rely solely on the award, 1.5 per cent have their employment conditions set by an unregistered collective agreement, and the remaining 40 per cent fall into a final category which includes individual arrangements, working proprietors, overaward pay and those under informal arrangements⁴ (ABS 2001:44).

Through the Office of the Employment Advocate's (OEA) access program ACIRRT, University of Sydney has been granted access to AWAs for research purposes. The ADAM Database is maintained by ACIRRT with detailed up-to-date information on the wages and conditions of employment in over 8,000 Federal and State collective (enterprise) agreements and close to 900 Federal AWAs. The ADAM database currently contains information from AWAs approved for 887 of the 3012 employers, or 29 per cent of employers who had AWAs approved by the OEA to the end of March 2001. The database contains information from AWAs approved in 1997, 1998 and 1999.

As with most quantitative research, there are limitations on the representativeness of the data. The key limitation of the AWA data on ADAM is that it contains a non-random sample of AWAs rather than the entire population, as ACIRRT is only provided with the first AWA approved for each employer.

Wage increases in AWAs

The Incidence of Wage Increases

The ADAM database collects information on wage increases contained in AWAs as well as union and non-union certified agreements. This quantified wage increase information is usually specified as a per centage or dollar amount paid at set periods during the life of the agreement. An analysis of the incidence of quantified wage increases in agreements found that they are less likely to be provided in AWAs than collective agreements. Just under three-quarters (73.8%) of all AWAs on the ADAM database did not include a guaranteed quantifiable wage increase during the term of the agreement.⁵ In comparison, 80 per cent of union certified agreements and just under

two thirds (63.3%) of non-union certified agreements contained set increases during the life of the agreement (Table 1).

Table 1: Incidence of wage increases in AWAs

Provision	% of Agreements		
	Union Agreements (n=3074)	Non-Union Agreements (n=697)	AWAs (n=887)
Quantifiable % wage increase specified ONLY	80.1	63.3	26.2
Any form of wage increase specified (CPI, NWC, %, \$, performance linked etc)	83.8	70.0	42.5

Source: ACIRRT, University of Sydney 2001, ADAM Database.

It has been suggested that wages data is unreliable, with one of the key criticisms being the failure of AWA wages data to capture those agreements which do not quantify an increase but include non-quantifiable rewards or payment of a higher wage on signing (Reith 1999:1). Despite this, wages data can still contribute to a picture of the structure and scope of AWAs.

Data from ADAM shows that in terms of writing specific wages provisions into the agreement, AWAs lag behind collective agreements. When the per centage of agreements that include any form of wage increase, quantified or not (for example adjustments for inflation, National Wage Cases, a set dollar or per centage amount, or performance linked increases) was calculated, it was found that such provisions were prevalent in less than half of AWAs (42.5%). In other words, Table 1 shows that the inclusion of *any form* of wage increase is half as likely to occur in AWAs compared to union certified agreements (83.8%).

There is an important difference between quantified (or guaranteed) wage increases and those that rely on other factors. In contrast to quantified or guaranteed wage increases, some increases lend themselves to a degree of uncertainty over the extent to which an employee's earnings will move during the life of the agreement. These increases can be determined by factors that are internal to the workplace or external. Workers who rely on wage increases that are determined outside the workplace (such as movements in CPI and National Wage Cases) may find that their wage falls behind wage rates in collective agreements. For example those whose wage rate is adjusted solely by the rate of CPI increases will fall behind because for the last few years, on average⁶, the inflation rate has been significantly below the rate of increase in collective agreements. Similarly, those relying on National Wage Cases for increases during the life of their AWA are also likely to fall behind, with such increases merely provided in order to reduce the disparity between those on the safety net and those on collective agreements. As the examples provided later in the paper will show, in cases where wage increase provisions are not clearly specified, employees on AWAs may be exposed to the risk of not receiving a wage increase at all (and may potentially even have their salary reduced).

The proportion of AWAs that include a wage increase drops even lower when longer term or three year agreements are considered. While, as a whole, just over one-quarter of AWAs guarantee a percentage wage increase during their life (Table 1), less than one in five (19.7%) AWAs which run for the full three year term include such a provision (Table 2). In other words, the longer the duration of an AWA, the less likely it is to include a guaranteed wage increase. In contrast, non-union and union collective

agreements are respectively three and four times more likely than longer term AWAs to provide a quantifiable wage increase during their term.

The proportion of AWAs that contain a wage increase is higher when any form of wage increase (quantifiable or other) is considered. The data reveals that there is an emphasis in longer term AWAs on non-quantifiable forms of remuneration. In contrast to the 19.7 per cent of longer term AWAs with a quantified wage increase, when including *any form* of wage increase, the proportion of AWAs containing increases doubles to 40.5 per cent.

Table 2: Incidence of wage increases in long duration AWAs (3 years)

Provision	% of Agreements		
	Union Agreements (n=447)	Non-Union Agreements (n=212)	AWAs (n=476)
Quantifiable % wage increase specified ONLY	81.2	65.1	19.7
Any form of wage increase specified (CPI, NWC, %, \$, performance linked etc)	84.3	73.1	40.5

Source: ACIRRT University of Sydney, 2001, ADAM Database.

Note: Long duration agreements are those whose term runs for 3 or more years.

These trends suggest that, over time, earnings for workers covered by longer term AWAs are likely to, over time, lag behind those on longer term collective agreements. This is worthy of concern, given that some AWAs continue to operate beyond the legislative three year cap. Unless replaced by a new agreement, the conditions stipulated in the old AWA may still apply. Effectively, this arrangement implies that such workers may be worse off in the longer term firstly, because of the lack of opportunity to gain wage increases during the life of the AWA, and secondly, because

they may remain covered by the same AWA that does not provide for a wage increase after it has nominally expired. In fact, some workers may not receive a wage increase for more than three years because of the lack of any projected and transparent wage review process in such AWAs, and may in fact fall behind the award rate.

Case study analysis of a workplace that moved to AWAs from the award, concluded that under the AWAs, all employees were being paid more per hour than they were under the previous award/overaward. However, had employees remained on the award and had the proportion of their overaward pay been maintained⁷, most workers would have been financially better off under the award than moving onto the AWA. This was certainly the case for workers on the lowest classification where an analysis of pay advices revealed significant differences between the AWA rate, the current award rate and estimated overaward payment. For example, for a Labourer Level 1 the difference between the AWA rate and the projected overaward rate was equivalent to a 'loss' of \$1.23 per hour, or \$46.74 for a 38 hour week. (ACIRRT 1999c).

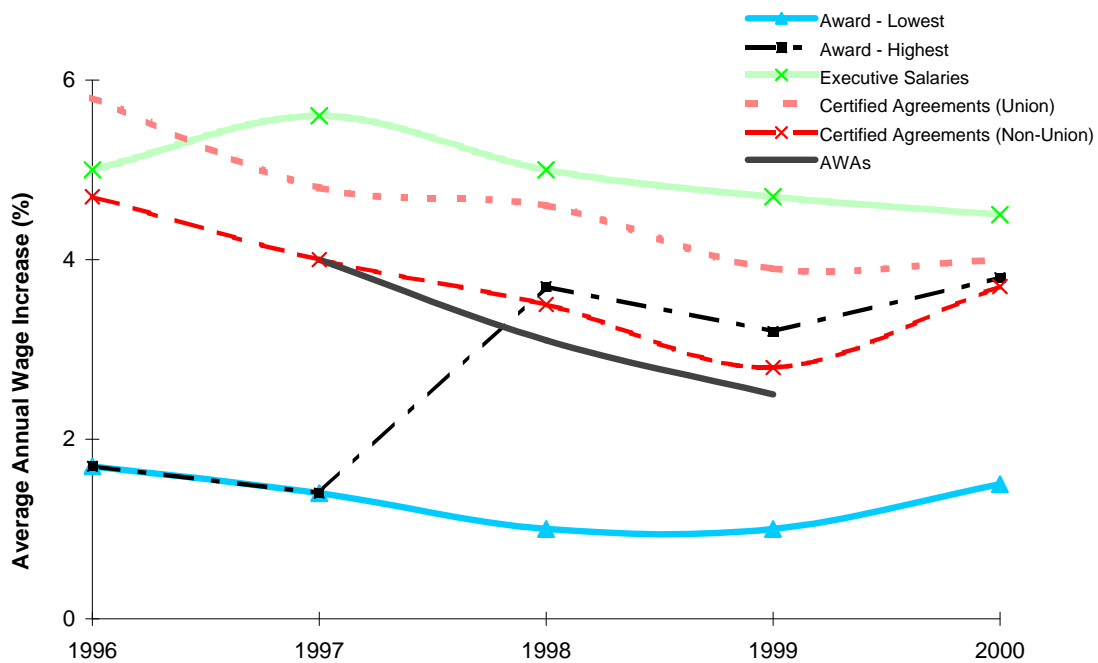
Quantum of Wage Increases

An analysis of wage outcomes in those AWAs that provide for quantified wage increases shows that AWAs deliver lower average annual wage increases than union-collective agreements but are on par with non-union collective agreements. For instance, the average annual wage increase for all AWAs approved to the end of 1999 was 3.2 per cent. This compares with 4.5 per cent for collective union agreements and 3.3 per cent for non-union collective agreements over the same period.

Observation of wage movements in the various agreement types since 1996 depicts these differences clearly over time. Figure 1 shows that the average annual wage increase in AWAs has been decreasing since their inception in 1997, and the rate appears to be moving in line with wage increases in non-union certified agreements. As expected, executive salary earners have consistently received the highest annual percentage increase, while movements in the award rate of pay through living wage cases have been the lowest.

It is important to note that such aggregate statistics fail to reveal the full impact of AWAs on earnings as most AWAs do not specify a wage increase during the life of the agreement.⁸ However, it is clear is that in cases where AWAs do specify a quantified wage increase, they tend to provide lower increases than collective agreements.

Figure 1: Wage movements by employment type, 1996 – 2000



Source: ACIRRT (2001) ADAM Report, No. 28, March, ACIRRT, University of Sydney.

Public and private sector wage outcomes

The statistical analysis thus far has shown that, in terms of wage increases, workers on AWAs fare worse than those on collective agreements. This outcome is particularly evident for workers in the private sector. Annual wage outcomes in private sector AWAs delivering 3.0 per cent compared to 3.4 per cent for public sector agreements. This is in contrast to the collective agreement stream where private sector agreements generally deliver higher outcomes than public sector agreements. For example, the average annual wage increase in private sector collective union agreements was 4.6 per cent compared to 4.0 per cent in the public sector. Similarly, non-union collective agreements in the private sector delivered an average annual wage increase of 3.5 per cent, higher than the public sector wage increase of 3.3 per cent.

Table 3: Wage outcomes in AWAs and Collective Agreements by Sector

Provision	% of Agreements		
	Union Agreements (n=2386)	Non-Union Agreements (n=439)	AWAs (n=227)
All Agreements	4.5	3.3	3.2
Public Sector	4.0	3.3	3.4
Private Sector	4.6	3.5	3.0

Source: ACIRRT University of Sydney 2001, ADAM Database.

One possible explanation for this is that AWAs in the public sector are predominantly used to cover senior managers, with a significant number of Victorian Public Service managers on AWAs (Bracks 1999). Another explanation for the low wage increases in the private sector, certainly one that holds in the West Australian jurisdiction, is that those who are covered by AWAs tend to be in industries which are highly competitive. In such cases, employers will use AWAs to reduce labour costs in order to maintain

their competitive edge. In Western Australia it has been no secret that individual contracts are being used in this manner. BHP in the Pilbara is a prime example of an organisation that has used the competitive argument⁹, as is what has occurred in the West Australian contract cleaning and security industries (Bailey and Horstman 1999:6). Bailey and Horstman also noted that this use of AWAs often occurs in sectors where employees do not have a great deal of bargaining power.

In addition to the differences in the incidence and quantum of wage increases between AWAs and collective agreements, the data identified two main types of wage increases used in agreements: 'guaranteed' and 'risk based'. Guaranteed (quantifiable) wage increases are given at predetermined periods during the life of the agreement. Typically, they are paid in a dollar or per centage form and are in recognition of past (rather than future) productivity gains. In addition to set amounts, wage increases based on National Wage Cases and inflationary movements are also considered guaranteed wage increases. Although the quantum is unknown at the time of signing, and even though such wage increases are determined outside the workplace, they become quantified when data on movements in inflation or adjustments to the safety net become available. The second type of wage increase is 'risk based' or contingent on performance improvement. 'At risk' wage increases are dependent (partly or wholly) on demonstrated improvements in productivity and/or performance. This can be measured at the group level (through KPI targets or other performance based arrangements) or at the individual level (via individual staff appraisals). Table 4 shows that of the agreements that provide for a quantified wage increase, AWAs are twice as likely than union collective and non-union collective agreements to link wage increases to performance.

Table 4: Linking pay increases to performance

% of Agreements		
Union Agreements (n=2462)	Non-Union Agreements (n=441)	AWAs (n=232)
18.6	13.4	37.9

Source: ACIRRT University of Sydney 2001, ADAM Database.

In earlier bargaining rounds, collective agreements provided for guaranteed wage increases. However, recent statistical trends have shown that, in a similar fashion to AWAs, collective agreements have increasingly focused on using risk based wage increases by linking a quantified range of wage increases to future productivity gains. Despite this apparent similarity between collective and individual agreements, there is a fundamental difference in the way in which they link performance to pay increases. Risk based increases in AWAs tend to be linked to *individual* performance while those in collective agreements have a more *team* or *group* focus. Importantly, individually based assessment criteria in many cases leave the quantum of the increase much more open-ended than group-based assessment.

Group performance is defined in this paper as a generic term denoting the measurement of the performance of a group of employees working to improve productivity outcomes. In this case, productivity improvements are workplace specific, can be measured in various ways and are based on the collective efforts of workers. Examples of group rewards are the achievement of key performance indicator targets and gain sharing.¹⁰ In contrast, individual performance is defined as a system that provides for increases to an individual "...based on their achievement of some predetermined output criteria that are

set by managers for the individual” (Sutcliffe and Callus 1994:142). An example of measuring individual performance is the use of staff performance appraisals.

While more than 18 per cent of union agreements include a wage increase that is linked to some measure of performance (Table 4), the overwhelming majority of these agreements measure performance at the group or team level. This picture is reversed for AWAs, which are more likely to link wage increases to individual performance than group performance. To illustrate, Table 5 shows that 14.9 per cent of union agreements link wage increases to some measure of group performance while only 1.2 per cent link wage increases to individual performance. In contrast, 14.7 per cent of AWAs link pay increases to individual performance.

Table 5: Group vs Individual Risk

Provision	% of Agreements		
	Union Agreements (n=3074)	Non-Union Agreements (n=697)	AWAs (n=887)
Wage increase linked to <i>group based</i> performance	14.9	9.5	8.5
Wage increase linked to <i>individual</i> performance	1.2	1.6	14.7

Source: ACIRRT University of Sydney 2001, ADAM Database.

These figures do not suggest, however, that there is some kind of standard use of ‘at risk’ rewards in AWAs. In fact, the use of ‘at risk’ rewards varies immensely between agreements as indicated by the examples below. Some AWAs refer to other documents or managerial discretion in the assessment of performance, such as the electricity gas and water AWA. Other AWAs cover aspects of performance measurement which indicate the quantum and provide time frames for payment, as seen in the recreational

and personal services example. Interestingly, while most AWAs guarantee that wages will not decrease due to performance, some do not.

Example 1: Electricity, Gas and Water

“6. Salary

The Company shall review the performance and development of the employee covered by this AWA annually. The Company may agree to increase the salaries of the employee having regard to performance and skills and changes to duties and responsibilities.

The employee will be eligible for a performance incentive up to a maximum of 6% of PAYE salary ...if:

- (i) the Company achieves its profit target for the previous financial year; and
- (ii) the employee achieves a performance rating of ‘meets required standards or above’.

The amount of any performance incentive ...shall be determined at the sole discretion of the Managing Director...

The Company may decide to reduce the salary ...of the employee having regard to assessed poor performance or inefficiency”.

Example 2: Recreational and Personal Services

“Increases would be made on the anniversary of the date of approval by the following two tiered structure below:

- (i) 1% annually; and,
- (ii) a further 1% annually upon completion of a satisfactory performance appraisal – that is, where the overall result averages better than 7.5 out of a possible 10 – in accordance with the Company’s Performance Appraisal Guidelines.
- (f) There will be no further increases for the life of this Agreement.”

Example 3: Finance Sector

“Wages

Your rate of pay will be reviewed annually within two months of your anniversary date. This review will be based on your performance. Your performance will be assessed against the achievement of, and commitment to, the specified service standards, company values, teamwork and policy and procedures. Subject to your performance and the performance of the Company, you will be paid either a fixed pay increase or a performance bonus. In any event, your rate of pay will be increased by any relevant Safety Net Decisions of the Australian Industrial Relations Commission made after the commencement of this agreement.”

Example 4: Hospitality

“6 Salary

6.4 Salary levels shall be reviewed annually and will not be automatically increased to reflect any National or State Wage Case Decision or movement in parent awards. Any increases will be based upon the employee’s performance level and the hourly rate will not fall below the minimum level outlined (in the agreement)”.

The emergence of the loaded rate in AWAs

Another key distinction between AWAs and collective agreements is that while AWAs might not specify a wage increase during the life of the agreement, quite often they will use a loaded or ‘all in’ rate. A loaded rate is defined as a total package that includes additional payment to account for all working arrangements. This is usually expressed in the form of an annualised salary or an hourly rate of pay (which is loaded). The loaded rate is higher to account for payments (such as penalty rates, overtime, allowances, and annual leave loading, and payout of leave entitlements) than would otherwise be paid in addition to the weekly base rate of pay. This loaded rate is also typically higher than otherwise would be to compensate for more open-ended hours of

work. This type of arrangement aims to maximise flexibility in the hours an employee can be asked to work, as well as simplify the payment process for those who regularly work hours outside the ordinary span.

The introduction of measures to increase flexibility in hours of work arose from debates surrounding the need for microeconomic reform in the early 1990s as a way of addressing one of the main rigidities of the award system. Penalty rates contained in awards were seen to inhibit productivity by restricting the ordinary time operating hours of businesses. These factors were said to place a severe constraint on capital productivity and were damaging the competitiveness of Australian businesses (Plowman and Rimmer 1992, ACIRRT 1995).

AWAs have provided employers with an avenue to move away from such a rigid system of structuring wages and hours of work towards more flexible working arrangements. Analysis of the AWA data shows that employers are using AWAs for this reason. AWAs are more likely than collective agreements to include a loaded rate, with 26.6 per cent of AWAs including such a provision compared with just 6.6 per cent of union collective agreements and 5.9 per cent of non-union collective agreements (Table 6).

Table 6: Use of the loaded rate in AWAs

% of Agreements		
Union Agreements (n=3074)	Non-Union Agreements (n=697)	AWAs (n=887)
6.6	5.9	26.6

Source: ACIRRT University of Sydney 2001, ADAM Database.

At face value, structuring wages in this way may give the impression that the agreement contains a wage increase because workers are now receiving a higher weekly rate of pay as a result of signing an AWA. However, it is important to look behind these changed arrangements and ask how many ordinary hours are employees required to work each week in order to receive this higher rate of pay? It is difficult to tell whether, for an increased weekly rate of pay under an AWA, employees are being asked to work additional hours that were not envisaged by management when the initial loaded rate was set. The propensity of AWAs to change hours of work provisions was noted in the *ADAM Report* which found that “significant changes to hours of work provisions seem to be the main area of focus for AWAs ... That is, ...AWAs are far more likely than union agreements to contain provisions which reduce the payment for non-standard working hours arrangements” (ACIRRT 1999b:9-10).

Bailey and Horstman (1999:6) referred to a survey conducted by the Commissioner of Workplace Agreements which confirmed that a large proportion of Western Australian individual workplace agreements reduce or eliminate significant conditions of work. The survey revealed that 50% of individual agreements reduced or eliminated conditions such as overtime pay and penalty rates and some employees lost *two or more* significant conditions. The three case examples provided below are certainly indicative of how the use of loaded rates in AWAs is quite often accompanied by very open-ended hours of work arrangements – provisions which together, may result in a significant reduction in conditions of employment.

Example 5: Finance Sector

“17. Hours of work

17.1 Your minimum number of hours to be worked in a week will be 40.

17.2 Your normal working span of hours will be 0830 - 1800 hours Mon-Fri.

17.3 You may be required to work extra hours between 0700 - 2200 hours on any day of the week according to customer needs.

18. Overtime

Time worked outside of the normal working span of hours will not attract any overtime penalties. Weekend working and public holiday work similarly do not attract penalty payments. Such payments are subsumed in the aggregated salary.”

Example 6: Business Services

“2) iii) Hours of work

The employee will be required to work a minimum of 37.5 hours per week over a 5 day period, however it is expected that the employee will work whatever hours and/or shifts are necessary to perform their duties.

(i) Wage

The employee’s total employment package shall be \$42,000 per annum. This package includes all components of the employees package eg Superannuation, car, taxable salary, annual leave loading etc.

No additional payments for overtime, shift or other remuneration will be made.”

Example 7: Public Service

“6. Remuneration

Base Salary - The base salary of the employee shall be \$30,015 per annum. There will be no increase to this rate during the term of this AWA.

Allowances - In lieu of any and all claims for payment associated with allowances... an allowance of \$18,000 per annum shall be paid to the employee... paid in equal fortnightly instalments [as is the base salary].

The employee’s salary for superannuation purposes shall be the [base salary] plus the annual allowance.

Hours of Duty

5.10 The employee shall be on duty and available at such times as is reasonably necessary to undertake their duties and as dictated by the CEO.

5.11 The employee shall not be entitled to claim for payment of allowances in the nature of penalty payments for shift work, on call allowance, overtime, meal, clothing and excess travelling time or fares.”

These examples illustrate the very open-ended nature of AWAs which, in many cases, provide management with the absolute discretion to direct employees to work the hours considered necessary to complete their duties. With this open-ended type of arrangement, it is possible that the impact of the initial increase in the hourly rate received by employees is diluted by extended hours of work.

This nexus between wages and hours of work is important due to the direct impact it has on an employer’s labour costs and take home pay for employees. This story is not particularly new, with Heiler, Arsovska and Hall commenting that the impact of flexible working hours provisions in agreements on wage outcomes “...has been underestimated. There has been little appreciation of the impact that the cumulative

effect of working time provisions such as reductions in penalty rates, increased ordinary span of hours ... and annualising wages and hours might have on the overall package of remuneration” (1999:118). In their analysis of flexible hours of work, they found that such “...provisions tend to erode the nexus between pay and time worked, thus potentially reducing the significance and value of annualised wages [or loaded rates]” (Heiler et. al. 1999:119).

Weekly earnings

Recent ABS statistics show that workers covered by registered individual agreements are earning \$79.60 *more* each week than those on registered collective agreements (Table 7).

Table 7: Average Weekly Earnings by Employment Type, May 2000

	Award Only	Registered Collective Agreements	Unregistered Collective Agreements	Registered Individual Agreements	Unregistered Individual Agreements
Average Weekly Wage	\$427.40	\$722.40	\$607.40	\$802.00	\$728.10

Source: ABS *Employee Earnings and Hours*, Cat. No. 6306.0, May 2000.

However, when the occupational distribution of AWAs is considered, it is clear that the top end is distorting the average with statistics released by the Office of Employment Advocate (OEA) showing that 37 per cent of AWAs cover occupations that are typified by high weekly earnings: managers, administrators and professional employees (OEA 1999).

Summary of wages provisions and outcomes in AWAs

This paper has shown that AWAs are less likely to contain guaranteed or quantified wage increases. In cases where they do, the quantum increase is lower than that provided in collective union agreements but appears to be following wage movements for non-union certified agreements. In contrast to collective agreements, longer term AWAs are even less likely than shorter term AWAs to contain a guaranteed wage increase or any reference to wage increases during the life of the agreement, whether quantified or provided by other means.

AWAs appear to be redefining the way in which workers are being remunerated, placing greater emphasis on individual performance-based wage increases. While the concept of remunerating employees using ‘risk based’ rewards is something used in both collective and individual agreements, AWAs are more likely to include such a provision. The distinction between the two types of agreements is that wage increases provided in AWAs are often linked to individual rather than group performance. The use of staff appraisals is the main criteria used in AWAs to link individual performance and wages.

The other key difference between AWAs and collective agreements is the formers focus on the use of a loaded or ‘all-in’ rate of pay. Whether this restructuring of wages in AWAs constitutes a wage increase is unclear, particularly considering the very open-ended nature of working hours generally attached to the payment of such a rate. Finally, while the latest ABS figures suggest that AWAs are delivering higher average weekly earnings than collective agreements, this is largely explained by coverage of workers in managerial and professional occupations.

Implications and future directions

The analysis of ADAM data raises a range of issues, both for employers and employees. For employees, one of the key concerns is the focus of AWAs on non-quantified, non-guaranteed wage increases, payable on some measure of individual performance. Quite often the criteria for assessing such performance is not clearly outlined in the agreement, and, as the examples given in the paper indicate, often determining the criteria for such an assessment is left to managerial discretion. There are a number of problems with this approach, not least for employees who may not know the level of performance required to receive a wage increase during the life of their AWA.

Another cause for concern relates to employees who sign longer duration AWAs as these agreements do not generally provide a wage increase during their term. Further, it is conceivable for workers on AWAs to fall behind the wage rate specified in the relevant award in the long run, particularly when adjustments to award rates continue to be made. This impact may be exacerbated because some longer duration AWAs are operating beyond their expiry date. Undercutting of the award has implications not only for the individual employee, but also wider implications about notions of an acceptable community standard and the value of the safety net provided by the award system.

A final concern for workers is the impact of the loaded rate on earnings and hours of work. This was noted in 1999 where significant changes to hours of work provisions was found to be one of the main areas of focus in agreements (ACIRRT 1999a:9-10). The use of the loaded rate in AWAs combined with open-ended hours of work provisions, generally disadvantages employees who find themselves working longer hours than were anticipated when the loaded rate was set. The erosion and indeed

disappearance of various benefits associated with hours worked (such as overtime penalties, the length of the working week, and daily span of hours) may not only be having serious effects on an employee's weekly take-home pay, but also on the quality of working life. The real impact of a loaded rate of pay cannot therefore be underestimated.

The overall trend towards the use of loaded rates of pay through the absorption of allowances, overtime and weekend penalty rates (amongst others) masks developments in wage trends. This structuring of wages makes it difficult to analyse how employees are faring under individual workplace agreements. Direct comparisons cannot be made between AWA workers and those covered by collective agreements or employed under an award. Despite this, the available data suggests that some workers are faring badly under individual arrangements (Bailey and Horstman 1999, DETIR 1998, ACIRRT 1999d). It seems that AWAs are becoming the new vehicle for the continued fragmentation of wage determination in the Australian industrial relations system (ACIRRT 1999a).

The difficulty in analysing outcomes under AWAs also has implications for employers. While other types of agreements allow wage rates to be benchmarked against what others in an industry are paying, the lack of information about factors determining AWA outcomes means that benchmarking is not an option for employers who choose AWAs. In addition to the difficulty associated with benchmarking, should the number of AWAs expand, this lack of wages information would have broader implications for forecasting of wage outcomes, for example by the Reserve Bank.

Additionally, the challenge for employers in the near future will be to identify the factors that may be used to determine wage rates in second and third round AWAs. This lack of wages information, combined with the well known problems associated with performance-based pay systems (Mansell and Kelly 2000; Deery and Walsh 1999; O'Neill 1995; Marsden and Richardson 1994; Hopkins, Mawhinney and Thomas 1992), may lead employers to revert to fixed wage increases in future AWA bargaining rounds.

Despite the potential for disadvantage and the obvious differences in the structure of wages between collective agreements and AWAs, in the near future at least, AWAs are unlikely to have a *direct* impact on wage movements or the structure of wages. Even if a surge in wage increases in AWAs occurs, or if they continue to restructure the remuneration component of the employment contract, they are unlikely to have a broader impact due to the low take up rate of AWAs and the lack of a link between AWAs and other types of agreement.

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² Research has been conducted on wages and conditions in registered individual contracts in the Queensland and Western Australian jurisdictions (see for example ACIRRT 1996, 1999d, 2000; DETIR 1998, and Commissioner of Workplace Agreements, 1999), however no similar study has been conducted of AWAs in the federal jurisdiction.

³ This figure is further reduced considering that the AWA data provided by the OEA is cumulative. In effect, a large proportion of these AWAs have expired and therefore there an even smaller proportion of workers are currently covered by AWAs than the figures indicate.

⁴ Note that this figure includes data on registered individual arrangements which include State and Federally registered individual contracts (such as AWAs, QWA, WAWAs etc) and unregistered individual arrangements. Unregistered individual arrangements refers to '...employees whose pay is set by an individual common law contract, employees receiving over award payments by individual agreement, and working proprietors who set their own rate of pay. This group also includes employees who had their pay set by individual agreements in conjunction with other pay setting mechanisms (awards and/or collective agreements)' (ABS 2001:69).

⁵ While for certified agreements the employer can be contacted and wage increases confirmed if there is any doubt during the coding process, the secrecy provisions surrounding AWAs are such that AWA employers cannot be contacted. As a result wages information from AWAs cannot be collected unless the information is clearly specified in the agreement itself.

⁶ Except for the GST 'bump' in inflation in the December Quarter 2000 which saw inflation creep up to 6.5% for the 12 months to the end of the year, the inflation rate has remained below average annual wage increases in collective agreements.

⁷ It is unknown however, whether the adjustments to the safety net would have, in part, been absorbed into the overaward component received by workers.

⁸ It may be possible that workers are compensated for in other ways, such as movement to a loaded rate. It could also be due to the inability of researchers to obtain all relevant information from employers due to the secrecy provisions.

⁹ *Australian Workers' Union v BHP Iron-Ore Pty Ltd* (includes summary dated 10 January 2001) [2001] FCA 3 (10 January 2001).

¹⁰ Gain sharing is a system where "...bonuses or pay increases are granted to employees with improvements in overall organisational performance" (Sutcliffe and Callus 1994:71).