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# **WAGES, PRODUCTIVITY AND INNOVATION: BARGAINING OF PERFORMANCE-RELATED- PAY (PRP) AND INNOVATION TARGETS**

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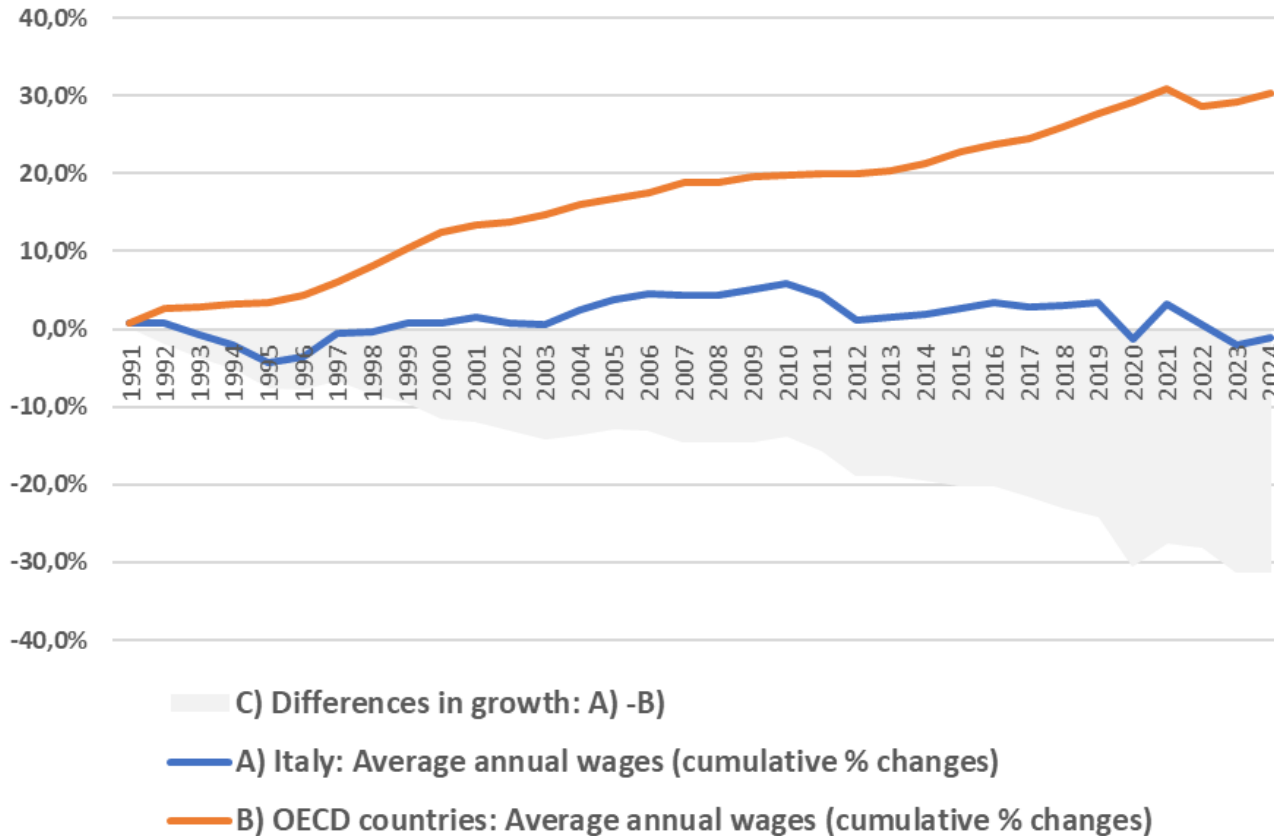
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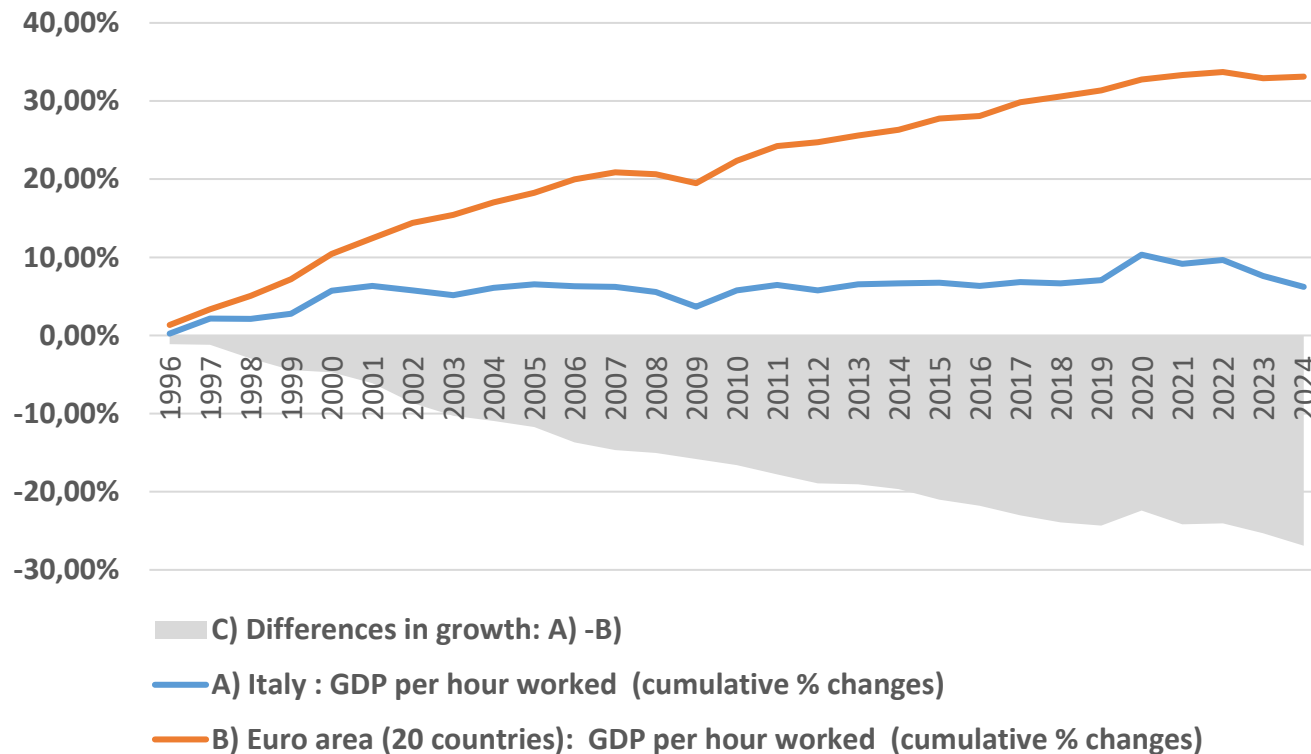
Wage **stagnation** is one of the problems that has characterised the Italian economy since the 1990s.

From the early 1990s to 2024, real wages in Italy fell by **-1.1%**, while in OECD countries they rose by an average of **+30.3%**.

In 2024, the cumulative **gap between the growth** of the two variables reached its maximum, at **31.4 percentage points**, exceeding even the 30.5 percentage points recorded during the Covid pandemic.



## Trends in labour productivity in Euro area (20 countries) Cumulative % changes (1996\*-2024)



Labour productivity in Italy grew very modestly (+6.2%).

For the countries in the Euro area, it grew more strongly (+33.1%).

Here too, 2024 marks the maximum difference between the growth of the two variables, measured at -26.9 percentage points.

\* It was not possible to reconstruct historical series prior to 1996 for the euro area.



## SECOND-LEVEL BARGAINING MONITORING SYSTEM

The lack of growth in real wages and moderate growth in labour productivity are crucial issues for the Italian economy.

There are various causes for this, but many consider **second-level bargaining to be a fundamental lever for the joint growth of wages and productivity.**

In fact, in Italy we talk about **Two Tier structure of collective bargaining.**

In the **first level** we find the multi-employer collective bargaining (Contratto Collettivo Nazionale di Lavoro, CCNL), still the cornerstone of Italian structure of collective bargaining.

- The CCNL cover a large number of different firms and are conducted at industry level, regulating the minimum wage and conditions applicable to employment relationships to ensure a link between pay and prices (they should define increases proportional to programmed inflation).
- They, also, deal with a range of others issues such as working time, work organization, disciplinary dispositions, etc.

In the **second level**, Single-employer bargaining can take the form of enterprise bargaining or may be conducted at local level and result in agreements that cover a given territorial area in particular sector.

At this level **the "performance related pay" is bargained to increases in productivity, quality and other components of Competitiveness.**

In this level, further elements that strengthen the link between worker and company can be negotiated, such as: corporate welfare; worker participation; rent-sharing formulas; fringe benefits; work life balance; etc.

**This level is very important because it should determine the conditions for the growth of labour productivity. But how widespread is it?**



# SECOND-LEVEL BARGAINING MONITORING SYSTEM



**2016**

Since 2008 the Italian law has expected forms of variable wage tax reduction. Starting from 2016, after an experimental phase, the measure was reactivated making important changes compared to the past.

Access to the tax bonus is subject to the **filing of the second-level contract**, which sets out both the **objectives and the indicators used to measure performance improvements**.

## PRP 5 Targets

productivity

profitability

quality

efficiency

innovation

## Additional tools

corporate welfare

worker participation

profit sharing

## 20 performance indicators

**Tax bonus= substitute IRPEF rate:**  
**10%** from 2016 to 2022  
**5%** from 2023  
**1%** from 2026

Monitoring was also envisaged through a special instrument for collecting summary data: the Ministry of Labour and Social Policies Repository (MLPS), whose data were processed by INAPP



## SECOND LEVEL BARGAINING MONITORING SYSTEM



In addition to data from the MLPS repository, data on **tax returns** are now also available. These are very important because they allow the actual use of the tax bonus to be measured.

The use of PRP covers **9.21% of employees** and the total amount represents **0.54% of income** from employment.

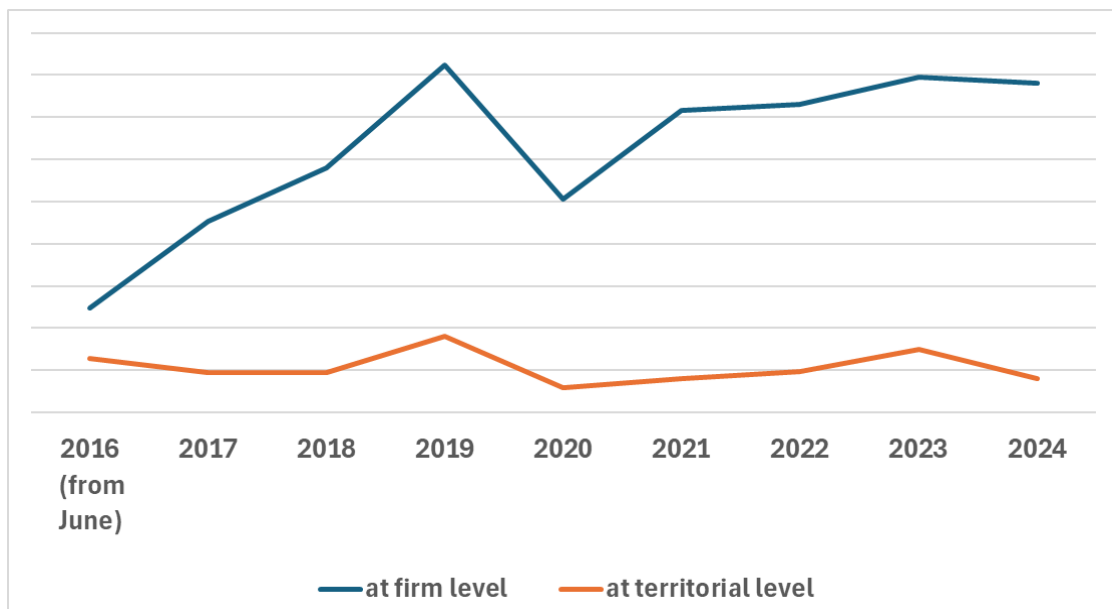
The use of PRP is much more widespread in the northern regions and scarce in the southern regions, with the exception of Molise and Basilicata.

Regions	Number of taxpayers	Income from employment and similar sources			Performance-related pay PRP (with tax bonus)			Welfare Benefit			PRP/Income from employment		Welfare Benefit/Income from employment	
		Frequency	Amount	Average	Frequency	Amount	Average	Frequency	Amount	Average	% taxpayers	% income	% taxpayers	% income
Piedmont	3.239.693	1.723.157	42.700.472	24,78	227.535	332.790	1,46	46.726	40.479	0,87	13,20%	0,78%	2,71%	0,09%
Aosta Valley	99.231	55.334	1.272.511	23,00	***	***	***	***	***	***				
Lombardy	7.542.193	4.340.812	120.964.661	27,87	505.272	659.194	1,30	128.644	116.760	0,91	11,64%	0,54%	2,96%	0,10%
Liguria	1.199.819	629.560	14.480.505	23,00	55.882	83.083	1,49	10.885	9.385	0,86	8,88%	0,57%	1,73%	0,06%
Trentino-Alto Adige (P.A. Trento)	443.328	267.038	6.036.287	22,60	28.242	36.575	1,30	5.019	6.452	1,29	10,58%	0,61%	1,88%	0,11%
Trentino Alto Adige (P.A. Bolzano)	447.058	289.017	7.171.128	24,81	24.877	37.262	1,50	3.340	4.425	1,32	8,61%	0,52%	1,16%	0,06%
Veneto	3.766.133	2.171.303	52.586.029	24,22	210.447	264.992	1,26	54.353	51.772	0,95	9,69%	0,50%	2,50%	0,10%
Friuli Venezia Giulia	955.028	532.894	12.805.227	24,03	57.465	73.466	1,28	12.437	11.371	0,91	10,78%	0,57%	2,33%	0,09%
Emilia Romagna	3.499.851	2.017.767	50.296.589	24,93	261.421	342.505	1,31	42.931	38.966	0,91	12,96%	0,68%	2,13%	0,08%
Tuscany	2.808.946	1.550.658	35.755.979	23,06	142.029	182.737	1,29	39.638	23.877	0,60	9,16%	0,51%	2,56%	0,07%
Umbria	668.603	373.156	7.586.653	20,33	27.409	29.656	1,08	7.585	4.926	0,65	7,35%	0,39%	2,03%	0,06%
Marche	1.146.439	630.008	13.657.744	21,68	47.334	61.021	1,29	10.353	9.137	0,88	7,51%	0,45%	1,64%	0,07%
Lazio	4.019.025	2.306.806	57.433.999	24,90	207.845	309.105	1,49	45.196	46.913	1,04	9,01%	0,54%	1,96%	0,08%
Abruzzo	936.411	505.024	10.561.841	20,91	49.708	63.828	1,28	7.565	5.574	0,74	9,84%	0,60%	1,50%	0,05%
Molise	211.095	103.092	2.034.633	19,74	9.507	15.371	1,62	974	788	0,81	9,22%	0,76%	0,94%	0,04%
Campania	3.323.765	1.882.383	36.311.989	19,29	108.876	167.625	1,54	21.305	16.134	0,76	5,78%	0,46%	1,13%	0,04%
Apulia	2.657.032	1.434.127	26.646.225	18,58	77.251	115.534	1,50	13.111	10.749	0,82	5,39%	0,43%	0,91%	0,04%
Basilicata	377.535	200.031	3.882.763	19,41	18.817	29.834	1,59	2.447	1.847	0,75	9,41%	0,77%	1,22%	0,05%
Calabria	1.182.307	625.583	10.711.599	17,12	26.181	36.618	1,40	4.116	3.132	0,76	4,19%	0,34%	0,66%	0,03%
Sicily	2.936.360	1.570.331	29.695.739	18,91	76.265	109.129	1,43	13.415	11.704	0,87	4,86%	0,37%	0,85%	0,04%
Sardinia	1.104.504	587.774	11.664.883	19,85	26.116	39.167	1,50	5.209	4.384	0,84	4,44%	0,34%	0,89%	0,04%
Not specified	5.722	674	7.700	11,42	***	***	***	***	***	***				
<b>TOTAL</b>	<b>42.570.078</b>	<b>23.796.529</b>	<b>554.265.157</b>	<b>23,29</b>	<b>2.192.644</b>	<b>2.995.166</b>	<b>1,37</b>	<b>476.143</b>	<b>419.835</b>	<b>0,88</b>	<b>9,21%</b>	<b>0,54%</b>	<b>2,00%</b>	<b>0,08%</b>

Source: Inapp processing on MEF - Statistical analyses - 2024 declarations - 2023 tax year

**Trend of instances for the decentralized bargaining at firm level and at territorial level (2016-2024)**

Type of contract	Instances		Beneficiaries	
	n.	%	n.	%
at firm level	113.451	85,4	19.390.082	93,0
at territorial level	19.354	14,6	1.457.398	7,0
Totale	132.805	100,0	20.847.480	100,0



From the start of the procedure (June 2016) to the latest available data (February 2025), more than **132,000 applications** were recorded, of which **85.4%** were for contracts at firm level and **14.6%** for contracts at territorial level, for a total of more than 20 million cumulative beneficiaries. This involves **35,677 companies**.

Compared to **contracts at firm level**, deposits have been on the **rise**. There was a significant decline during the pandemic between 2019 and 2020, followed by a gradual recovery, but the peak recorded in 2019 (pre-COVID-19) was not reached again, even with the further reduction of the substitute tax rate from 10% to 5%, which should have further boosted the measure from 2023 onwards.

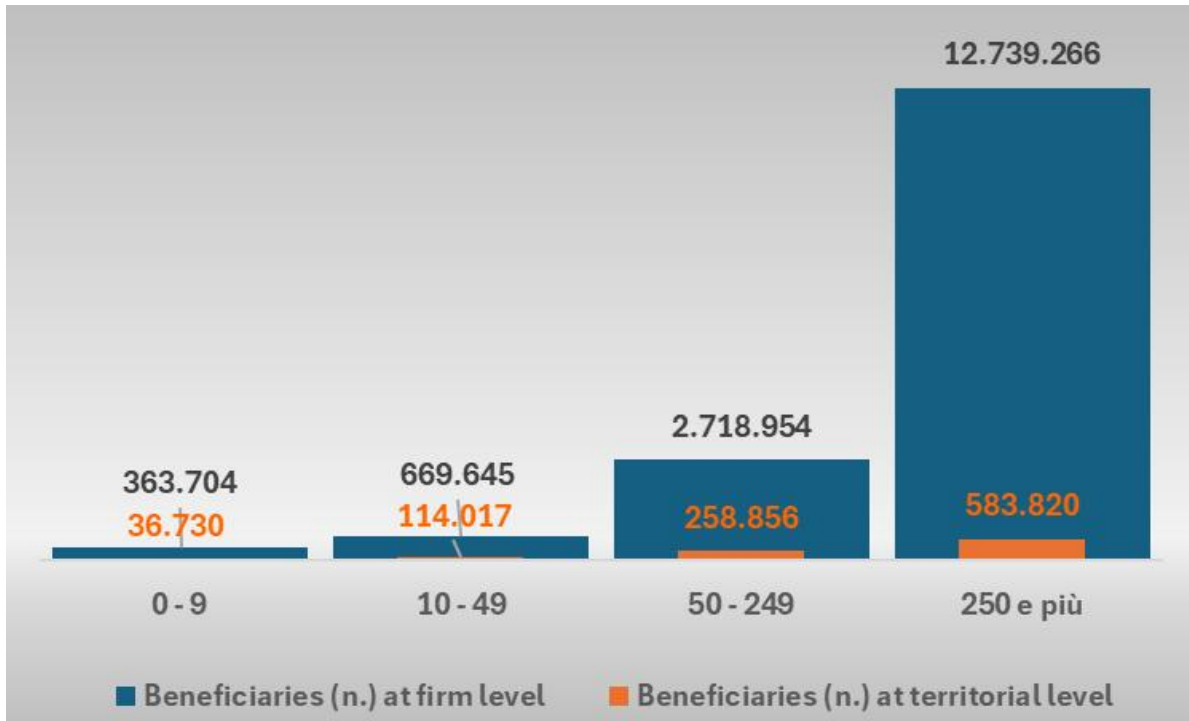
As regards bargaining at **territorial level**, however, requests remained more low and almost constant over time, with a peak in 2019 in this case too.



# EMPIRICAL EVIDENCE ON PRP AND INNOVATION TARGET



## Beneficiaries of the decentralized bargaining at firm level and at territorial level, by company size (2016-2024)



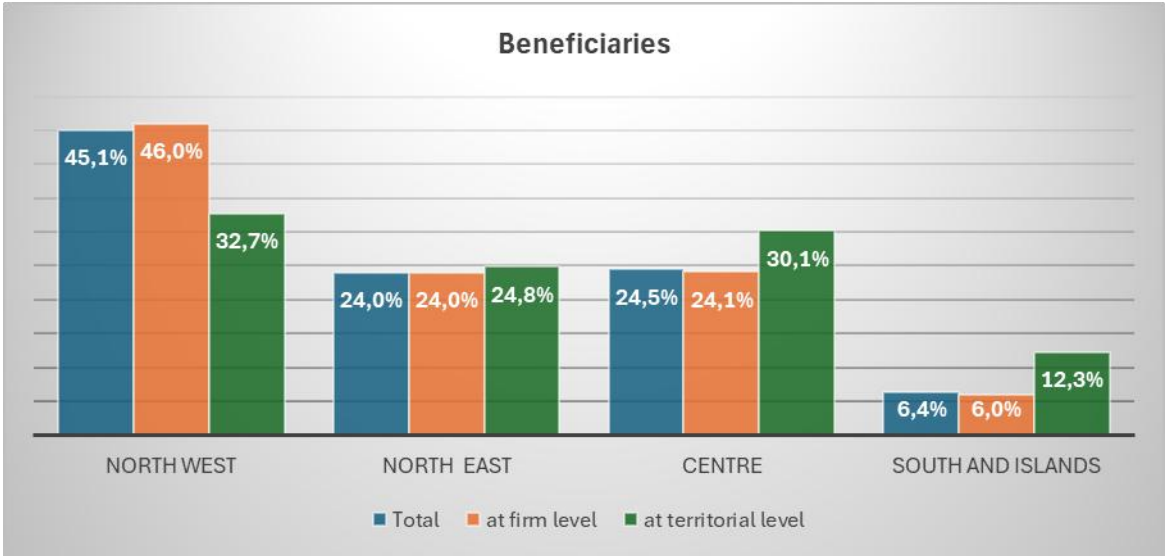
The **size of a company** has a significant influence on second-level bargaining, which increases as the size of the company grows. Contracts signed by **large companies account for 76.2%** of all second-level bargaining, those signed by **medium-sized companies account for 17%**, those signed by **small companies account for 4.5%** and, finally, those signed by **micro-companies account for only 2.3%**, despite the fact that this type of company makes up the majority of the Italian economy. The bargaining at **territorial level**, which should have served this group of enterprises, contributes only **9.2%**. The highest level recorded in **small enterprises (14.5%)**. It is clear that the **driving force** of the decentralized bargaining is bargaining at firm level.



# EMPIRICAL EVIDENCE ON PRP AND INNOVATION TARGET



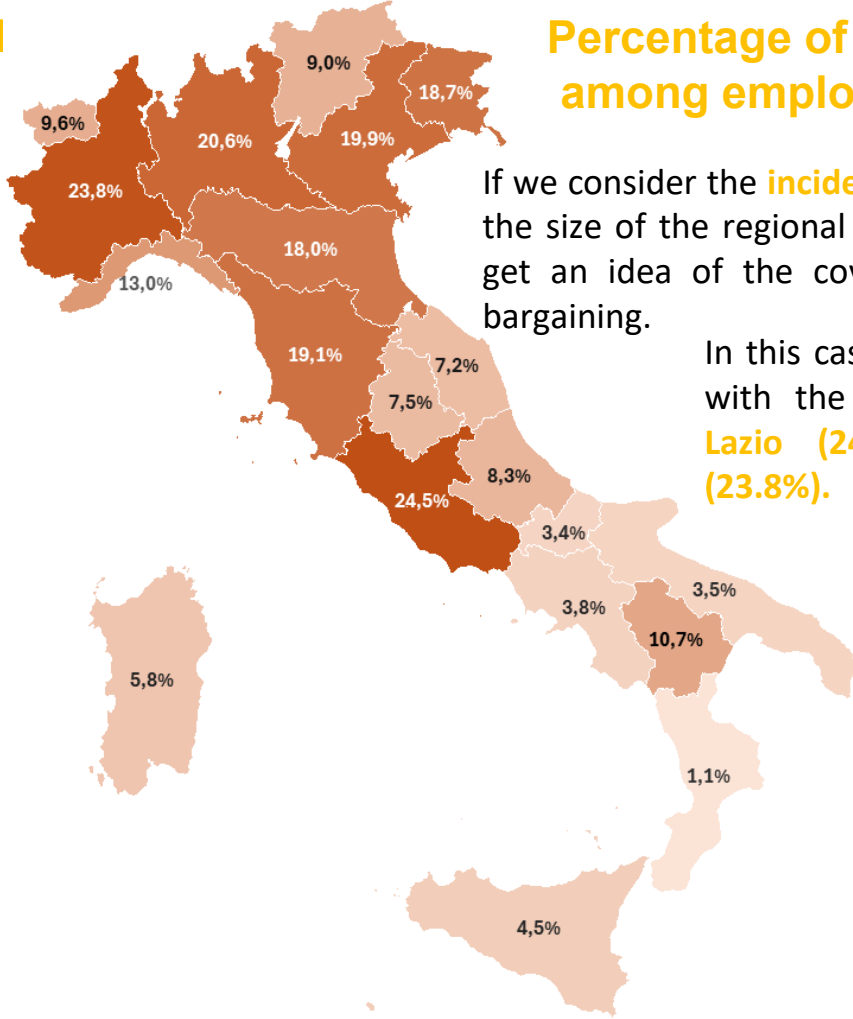
## Beneficiaries of the decentralized bargaining at firm level and at territorial level by geographical area (2016-2024)



From a geographical point of view, it is clear that collective bargaining is **strongly rooted in the North**, mainly in the North-West (45.1%) compared to the North-East (24%), which is in line with the figures for the Centre (24.5%). The presence of this type of bargaining is **very low in the South and Islands (6.4%)**.

It should be noted that in the **Mezzogiorno (12.3%)** and the **Centre (30.1%)** there is a relatively stronger presence of bargaining at territorial level than bargaining at firm level.

## Percentage of beneficiaries among employed persons



If we consider the **incidence of beneficiaries** on the size of the regional labour market, we can get an idea of the coverage of second-level bargaining.

In this case, the top two regions with the highest coverage are **Lazio (24.5%)** and **Piedmont (23.8%)**.

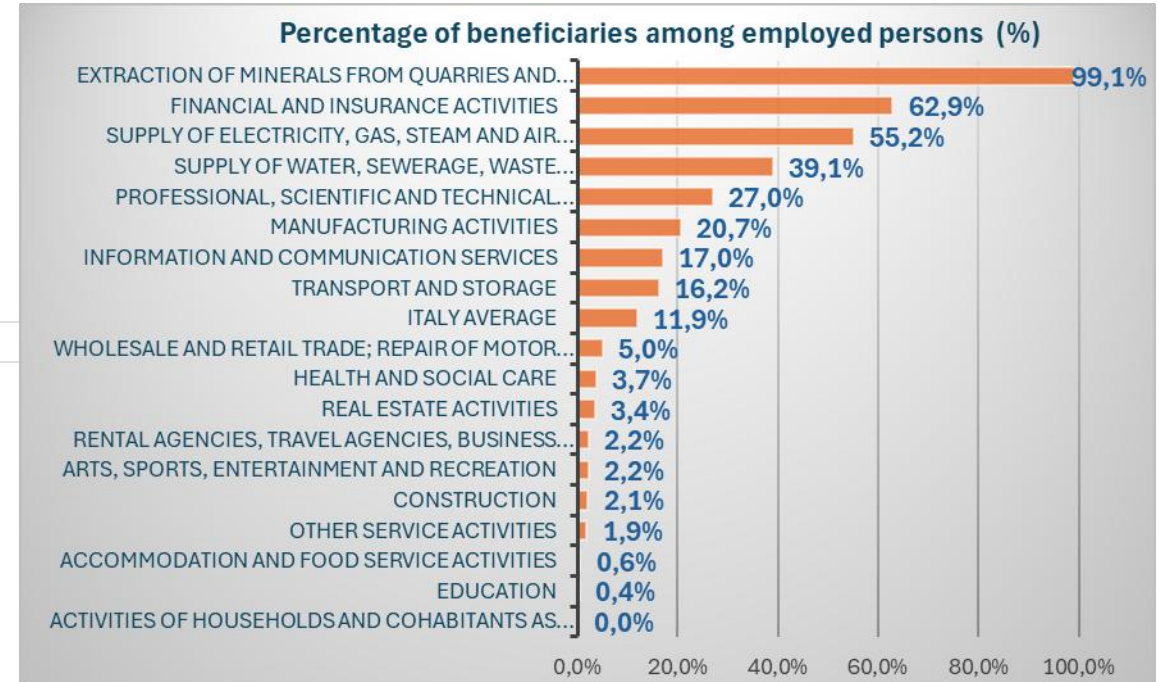
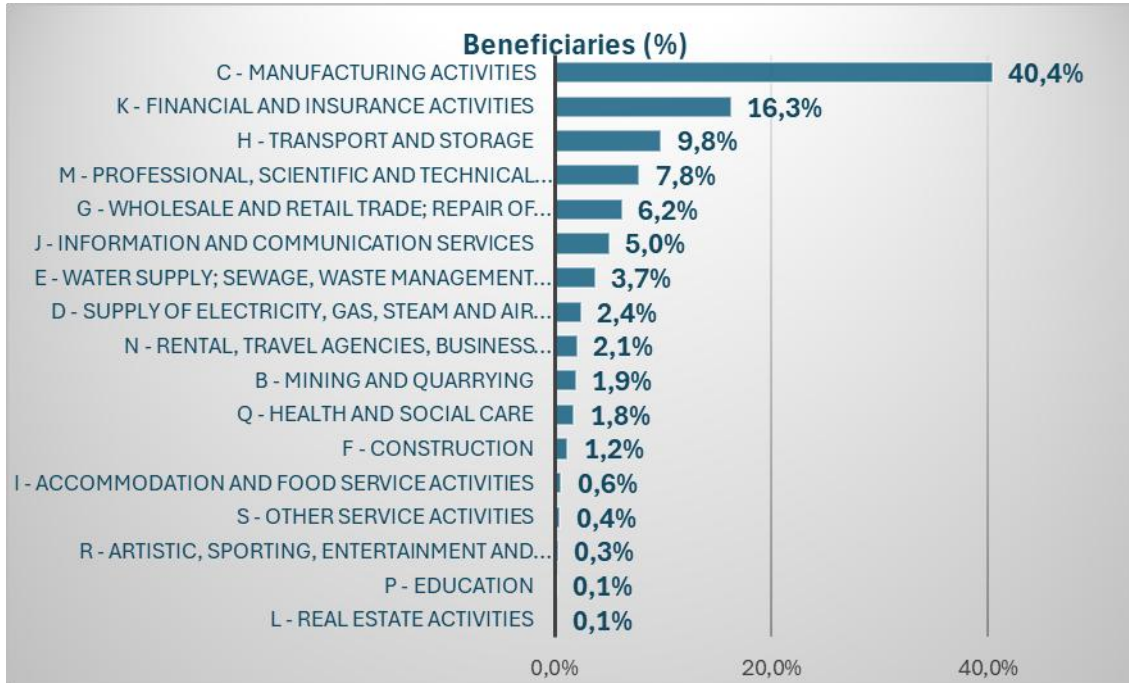
Coverage is also significant in **Lombardy, Veneto, Tuscany, Friuli-Venezia Giulia and Emilia-Romagna**.

In southern Italy, the highest value is recorded in **Basilicata (10.7%)**.

Source: Inapp processing on the MLPS repository "Deposito contratti aziendali e territoriali e tassazione agevolata dei premi di risultato" (wave 2025.12)



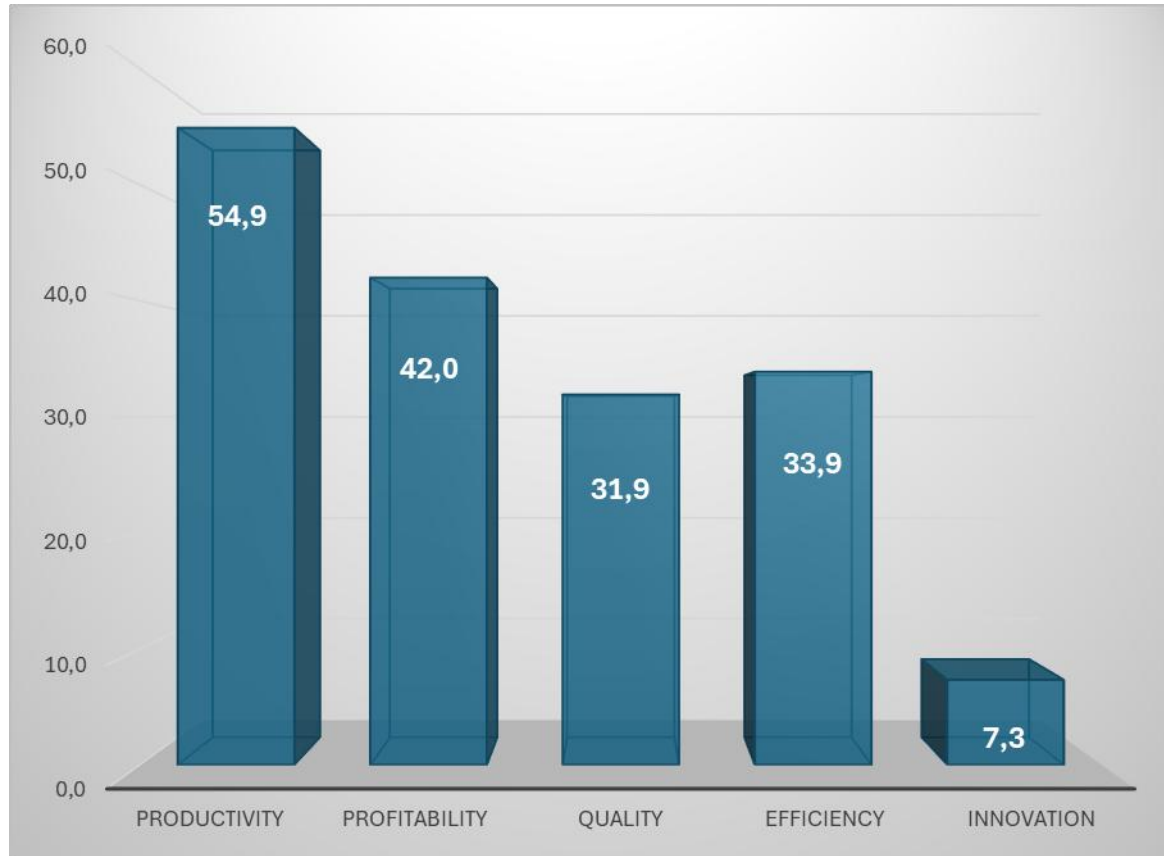
## Beneficiaries of the decentralized bargaining at firm level and at territorial level, by sector of activity (2016-2024)



As regards sectoral distribution, here too there is a marked **asymmetry in the concentration** of second-level bargaining. Essentially, **80% of bargaining is concentrated in just five sectors**: manufacturing (40.4%); financial and insurance activities (16.3%); transport and storage (9.8%); professional, scientific and technical activities (7.8%); and commerce (6.2%).

If we consider the incidence of beneficiaries on employees by sector, **polarisation increases**. In three sectors, second-level bargaining covers **more than 50% of employees**: Extraction of minerals from quarries and mines (99.1%); Financial and insurance activities (62.9%); Supply of electricity, gas, steam and air conditioning (55.2%).

## Options on targets in applications for access to the PRP tax bonus, from June 2016 to February 2025



As anticipated, a **precondition** for accessing the tax incentive is the **incrementality of performance** measured against targets and indicators.

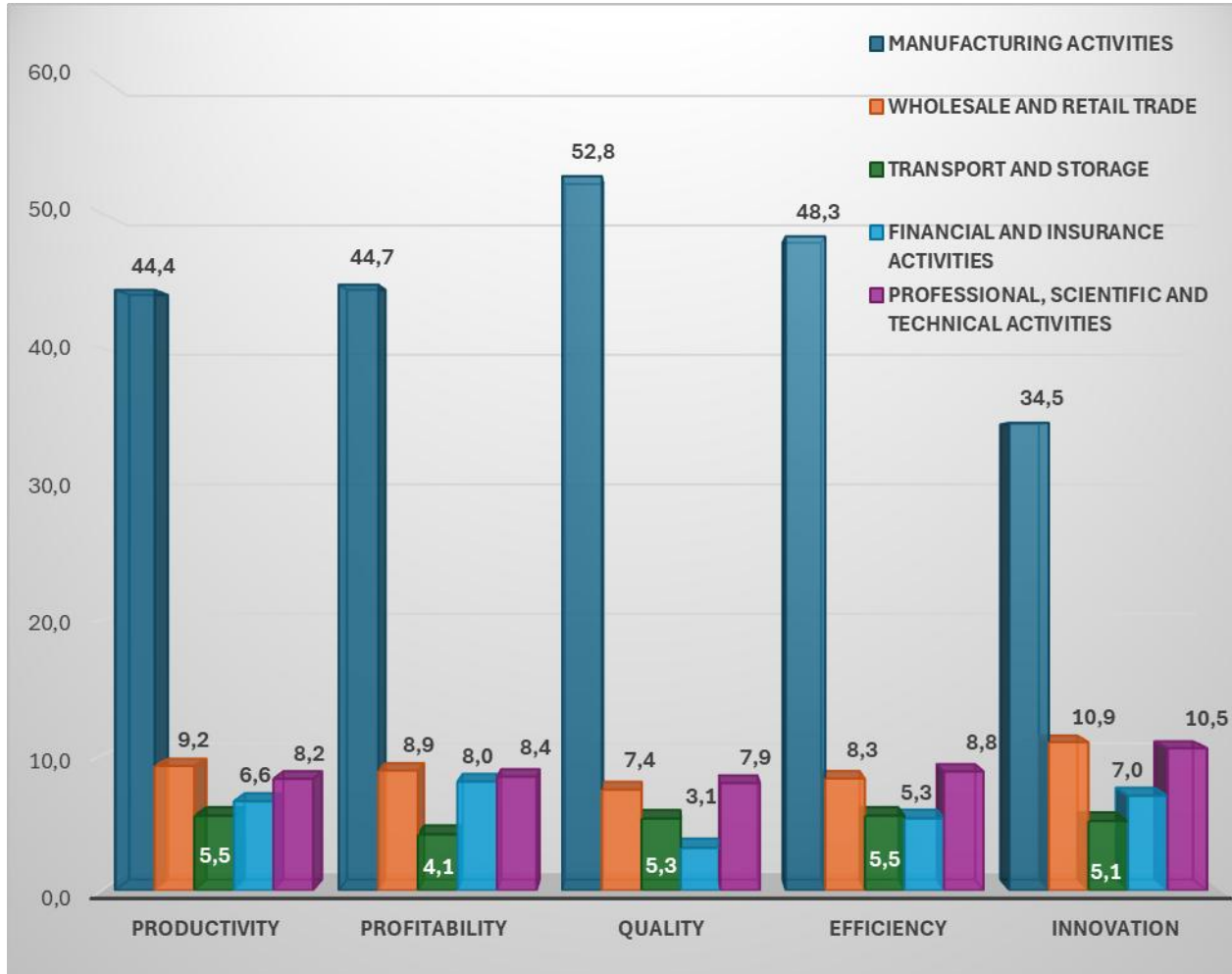
The options chosen by companies for their performance targets focused mainly on **“productivity”** (54.9%) and **“profitability”** (42%), with less emphasis on **“efficiency”** (33.9%) and **“quality”** (31.9%).

The option of **“innovation”** was the lowest, at only 7.3%.



## EMPIRICAL EVIDENCE ON PRP AND INNOVATION TARGET

### Options on targets in applications for access to the PRP tax bonus by sector activity, from June 2016 to February 2025



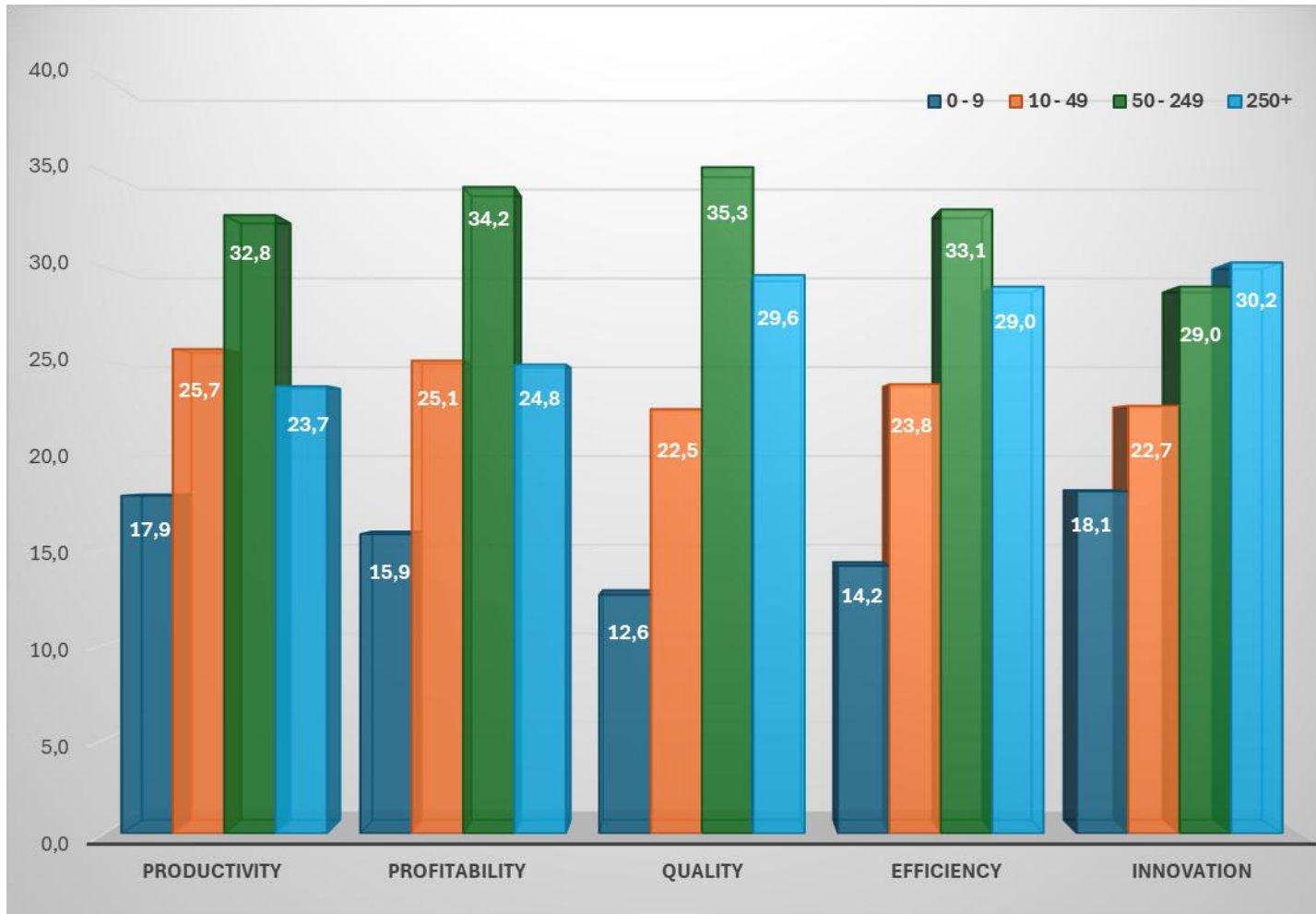
To better understand why companies are **reluctant to choose innovation** as a goal, let us analyse other distributions, again using the three dimensions: sectoral, dimensional and territorial.

Considering the top five sectors, which account for 80% of applications, we can see that the greatest gap for the innovation target is in **manufacturing**. In fact, although the innovation target has a high value (34.5%), it is the lowest compared to the choice of other targets, with a negative gap from the average value of -10.4 percentage points.

For **the other sectors, the options are mostly homogeneous**. Indeed, commerce and professional, scientific and technical activities rank innovation among their preferred targets (10.9% and 10.5% respectively) compared to other targets, which have a lower concentration.

## EMPIRICAL EVIDENCE ON PRP AND INNOVATION TARGET

### Options on targets in applications for access to the PRP tax bonus by company size, from June 2016 to February 2025



From a **dimensional point of view**, the distribution is fairly homogeneous.

Only in **medium-sized** enterprises (50-249 employees) is there a negative deviation from the average of -3.9 percentage points for the innovation target.

For **micro-enterprises** (0-9 employees) and **large enterprises** (+250 employees), there is a greater deviation from the target (respectively +2.4 and +2.8 percentage points above the average values).

## EMPIRICAL EVIDENCE ON PRP AND INNOVATION TARGET



### Options on targets in applications for access to the PRP tax bonus by geographical area, from June 2016 to February 2025



If we consider the **territorial dimension**, within the geographical macro-areas the options on the targets are also **almost homogeneous** in this case.

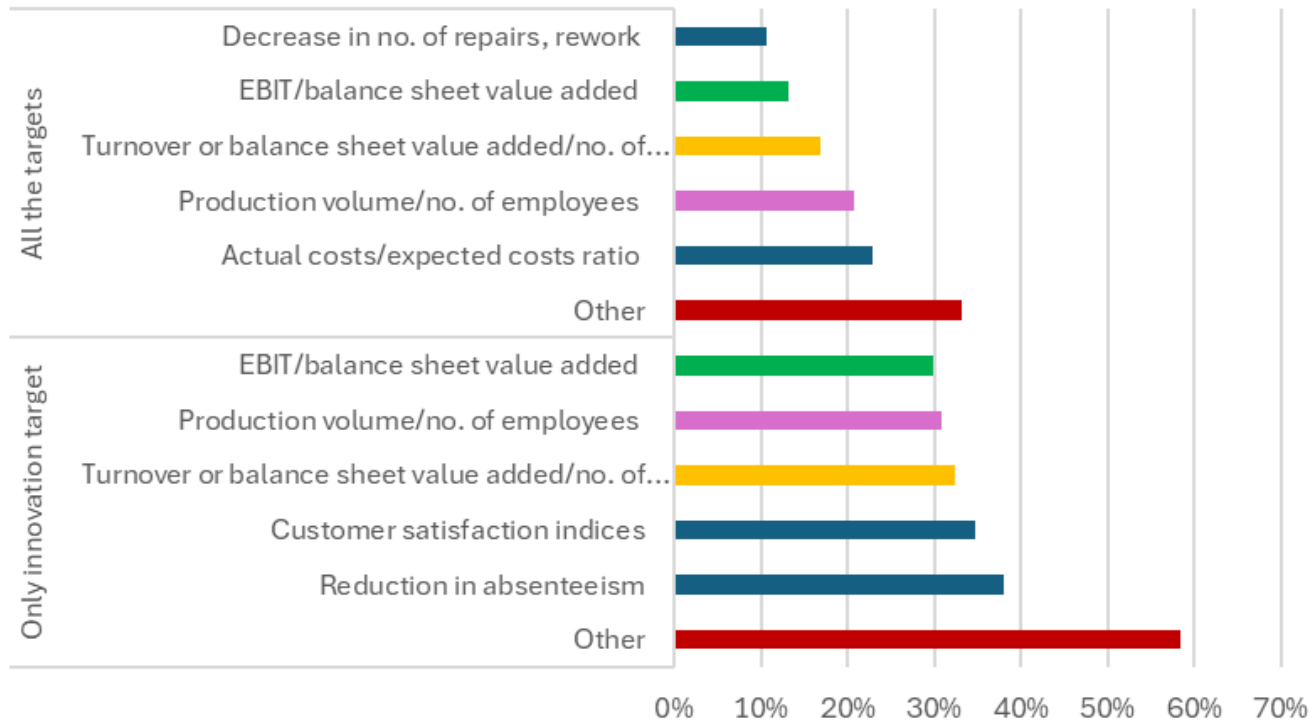
Only in the **North-East** is the option on the innovation target undersized compared to the average of the targets by -4.5 percentage points.

In the **Centre**, on the other hand, it is oversized by +2.4 percentage points.



## Options on performance indicators in applications for access to the PRP tax bonus by targets, from June 2016 to February 2025

### Top 6 performance indicators



If we also analyse the **performance indicators** in greater depth, not all the indicators selected for companies that have opted for the innovation target coincide with those generally selected by companies as a whole.

The most selected indicator in both cases is **“other”**, indicating a need for companies to tailor performance measurement to their own requirements.

However, among the companies that have chosen the innovation target, another indicator stands out: **“reducing absenteeism”**. These are companies that want to be more innovative but clearly have to deal with issues that seemed to have been overcome.

In general, the options focus on **balance sheet ratios** because they are **objective and easily measurable**.



In recent years, there has been a strong **emphasis on second-level bargaining**, which is necessary to activate **Performance-related pay (PRP)**, as a lever for increasing wages and, at the same time, labour productivity.

Despite increasingly **favourable government measures** over the last decade, its use is still limited to **less than 10% of workers**.

In this context, and in an economic environment characterised globally by megatrends driving the fourth industrial revolution, companies' options on innovation targets are not yet a priority.

Among the 5 targets of bargaining, as set out in the legislation governing incentives, **that relating to “innovation” has historically been less popular** than other objectives such as “quality”, “efficiency”, “productivity” and “profitability”.

The choice of objectives is influenced by structural aspects of our productive fabric and of the companies that have activated second-level bargaining. In particular, **the high degree of specialisation in manufacturing** seems to have penalised the option of focusing on innovation.

Furthermore, the **limited use of innovation target** in contractual arrangements may also be determined by other factors that restrict its application.

- Firstly, the innovation target is an **intermediate objective**; in fact, innovation is often used as a lever to improve quality or efficiency or to increase productivity or profitability, so companies, while actually innovating, look to the end result that these innovations should guarantee.
- Secondly, the tax bonus on Performance-related pay is strictly linked to an increase in performance **that must be quantified and demonstrated**. Companies therefore prefer to use financial ratios linked to business profitability, which are easily measurable, rather than indicators that are difficult to measure.

These limitations lead us to believe that **there is much more innovation than is apparent from the bargaining**, but it is difficult to capture it in contractual arrangements.



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