

## **THE IMPACT OF MINIMUM WAGE IMPLEMENTATION TOWARDS BUSINESSES PERFORMANCES**

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### **ABSTRACT**

The term minimum wages signifies the lowest wages paid to employees for work or services performed within a certain period, whether measured by time or output, which cannot be reduced either by individual or group and is guaranteed by law. Malaysia had implemented this statutory minimum wage policy in 2013 as a way of improving the labour market system which is continuously under the subject of debate in Malaysia. This study will be focusing on the aspect of MW across industries, occupations and regions. It discusses the impact of MW implementation towards businesses. The questionnaire was developed and distributed to employers' according to sample size. The survey covers employers all over Malaysia. Jabatan Tenaga Kerja branches are responsible in distributing the questionnaire to employers all over Malaysia. This analysis is based from 9,048 responses. The findings indicate that most of the businesses were affected due to the implementation of minimum wage. Profit is the ultimate objective of all businesses. Increase of operation cost such as minimum wage salary affected the profit of the businesses. The implementation of MW also leads to the increase of product price by businesses in order to cover the cost. The increase of price affected the demand and sales volume.

**Keywords:** Minimum wage, labour market, businesses, employers, Malaysia.

### **1. INTRODUCTION**

The term minimum wages signifies the lowest wages paid to employees for work or services performed within a certain period, whether measured by time or output, which cannot be reduced either by individual or group and is guaranteed by law. Malaysia had implemented this statutory minimum wage policy in 2013 as a way of improving the labour market system which is continuously under the subject of debate in Malaysia.

Prior to the MW enactments and implementation, in 2010, the World Bank with Malaysia's Ministry of Finance evaluate whether a minimum wage would be suitable for the country and findings from this exercise give a sense of indications to the government to consider in introducing of a minimum wage to address failures in labour markets that could reduce competition and depress wages. However, the assessment warned that careful attention would need to be given to how the policy was designed and implemented.

Based on the World Bank's findings, a minimum wage study was finalised in 2012 with rationale, impacts and institutional arrangements in instituting the minimum wage policy. Subsequently, the policy was enforced by the enactment of the MW Act 730. According to the Act, the Technical working group and MW council called NWCC was setup and later the minimum wage policy was implemented on January 2013. In 2014, the Council directed the Technical committee to study the review of the minimum wage as provided under the Minimum Wage Act 2012.

Towards the first implementation of the MW policy, the preparation faced several challenges namely pressures from different groups and stakeholders taking sides between local and foreign workers which were raised as sensitive issues during the last General Election in May 2014. This becomes even more provocative as quite a number of low-profit firms and SME employers requested to be exempted from implementing MW in their premises. Despite this, the MW was partially applied to local workers in January 2013; the foreign workers were not paid MW until in January 2014.

As a consequence to this implementation, the review of MW will be examined in terms of business performances. In this regard, the review of MW is often a source of conflict among employers. The employers claim that the minimum wage increases their cost of businesses tremendously. This study will shed some light on the effect of business performances after the implementation of minimum wage.

## **2. JUSTIFICATION OF MINIMUM WAGE IN MALAYSIA**

The role of a minimum wage in Malaysia is critical in terms of correcting labour market imperfections and brings employee and employers to a level playing field. According to the World Bank, a minimum wage should suffice the basic standards of living of a worker and also increase the purchasing power. This will bring about a healthy environment of a labour market.

In the review of the minimum wage formula, there are many criteria that may be considered. While many countries that implement minimum wage have allocated different weights to each chosen variable, others allow their Wages Councils to determine and adjust the rate independently. Among the common criteria that many countries implementing minimum wage considered are:

- i. Labour productivity
- ii. Competitiveness
- iii. Unemployment
- iv. GDP growth
- v. Consumer Price Index (CPI)
- vi. Cost of living
- vii. Wage level.

However, not all these criteria can be taken into consideration as they may overlap each other. GDP growth, for instance, is partly attributed by productivity growth. Hence, they cannot be incorporated together. Competitiveness, on the other hand, is very subjective in nature. For Malaysia, the best proxy for the cost of living and ability to pay is the poverty line income (PLI) and median wage respectively.

The Malaysian minimum wage formula is structured into two components; (i) the base criteria, and (ii) the adjustment criteria. The base criteria are made up of two elements, that is, the PLI per worker and the median wage. The PLI is used to take into account the basic cost of living per worker in a household. The median wage of the bottom half of wage earners in the private sector to reflect firms' ability to pay. These two elements are then averaged to represent the floor wage. This floor wage is further adjusted to labour productivity growth, percentage change in CPI and real unemployment rate.

The minimum wage formula is specified below by basically a base and an adjustment criterion that includes the following variables:

<i>MW</i>	=	Minimum wage (RM)
<i>PLI</i>	=	Poverty line income (RM)
<i>P</i>	=	Productivity growth (%)
<i>CPI</i>	=	Consumer Price Index (% change)
<i>UE</i>	=	Real unemployment rate (%): actual unemployment rate minus natural unemployment rate (4%)
<i>i</i>	=	Region

Based on this formula, specific data prevalent to each region are applied to generate their respective minimum wage rates. The calculated monthly minimum wage rate for Peninsular Malaysia, Sabah and Sarawak are shown in Table 1.

Table 1: Calculated Monthly Minimum Wage Rate by Region, 2013

Region	Monthly MW Rate
Peninsular Malaysia	RM956.73
Sabah*	RM771.79
Sarawak	RM781.58

Note \* Including Federal Territory of Labuan.

The above minimum wage rate is proposed by the National Wage Consultative Technical Committee (NWCTC) and is still subject to deliberations by the NWCC and approval by the Cabinet.

### 3. METHODOLOGY

This study will be focusing on the aspect of Minimum Wage (MW) across industries, occupations and regions. It discusses the impact of MW implementation towards businesses. The analysis is based from the 9,048 business respondents nationwide covering Peninsular Malaysia, Sabah and Sarawak, across 5 sectors and job categories according to Malaysian Standard Industrial Classification (MSIC 2008) and the Malaysian Standard Classification of Occupation (MASCO 2008). This survey collects information on a wide range of topics covering the profile of employers as well as their wages and salaries. Focus group discussion was conducted to gather further detail information relating to the study as supporting information for the survey conducted.

#### 4. Minimum Wage impact among businesses by industrial activity in Peninsular Malaysia, Sabah and Sarawak.

Generally most of the businesses responded that they were not affected by the implementation of MW at RM900 in Peninsular Malaysia, at RM800 in Sabah and Sarawak. It shows a positive trend of acceptance towards the policy of MW across industries and

regions. Table 2, 3 and 4 show the MW impact among business by industrial activities in Peninsular Malaysia, Sabah and Sarawak.

**Table 2: MW impact among businesses by industrial activity in Peninsular Malaysia**

<b>Industry</b>	<b>No (%)</b>	<b>Yes (%)</b>
Agriculture, forestry and fishing	75.6	24.2
Mining and quarrying	85.0	15.0
Manufacturing	73.1	26.9
Electricity, gas, steam and air conditioning supply	71.8	28.2
Water supply	68.0	32.0
Construction	79.2	20.8
Wholesale and retail trade	78.0	21.9
Transportation and storage	81.0	18.6
Accommodation and food service activities	77.9	22.1
Information and communication	82.5	17.5
Financial and insurance/takaful activities	80.8	18.7
Real estate activities	77.4	22.6
Professional, scientific and technical activities	77.5	22.5
Administrative and Support Service Activities	71.8	28.2
Education	74.8	25.2
Human health and social work activities	73.8	26.2
Arts, entertainment and recreation	83.0	17.0
Other service activities	77.4	22.3
Activities of households as employer	88.2	11.8
Activities of extraterritorial organisations and bodies	66.7	33.3
<b>TOTAL</b>	<b>77.2</b>	<b>22.6</b>

Source: NER Survey 2013/14

**Table 2: MW impact among businesses by industrial activity in Sabah and WP Labuan**

<b>Industry</b>	<b>No (%)</b>	<b>Yes (%)</b>
Agriculture, forestry and fishing	61.6	38.4
Mining and quarrying	54.5	45.5
Manufacturing	70.4	29.6
Electricity, gas, steam and air conditioning supply	64.0	36.0
Water supply	50.0	50.0
Construction	66.4	33.6
Wholesale and retail trade	69.1	30.6
Transportation and storage	68.1	31.9
Accommodation and food service activities	65.8	33.7
Information and communication	54.3	45.7

Industry		
Financial and insurance/takaful activities	77.5	22.5
Real estate activities	66.7	33.3
Professional, scientific and technical activities	70.1	29.9
Administrative and Support Service Activities	68.2	31.8
Education	75.3	24.7
Human health and social work activities	66.0	34.0
Arts, entertainment and recreation	67.4	32.6
Other service activities	65.8	34.2
Activities of households as employer	66.7	33.3
Activities of extraterritorial organisations and bodies	100.0	0.0
<b>TOTAL</b>	<b>67.5</b>	<b>32.3</b>

Source: NER Survey 2013/14

**Table 3: MW impact among businesses by industrial activity in Sarawak**

Industry	No (%)	Yes (%)
Agriculture, forestry and fishing	80.8	19.2
Mining and quarrying	83.3	16.7
Manufacturing	85.6	14.4
Electricity, gas, steam and air conditioning supply	82.9	17.1
Water supply	90.9	9.1
Construction	82.4	17.6
Wholesale and retail trade	84.1	15.9
Transportation and storage	84.1	15.9
Accommodation and food service activities	78.8	21.2
Information and communication	79.7	20.3
Financial and insurance/takaful activities	87.8	12.2
Real estate activities	85.4	14.6
Professional, scientific and technical activities	83.5	16.5
Administrative and Support Service Activities	84.4	15.6
Education	80.7	19.3
Human health and social work activities	83.6	16.4
Arts, entertainment and recreation	78.3	21.7
Other service activities	83.1	16.9
Activities of households as employer	78.6	21.4
Activities of extraterritorial organisations and bodies	84.6	15.4
<b>TOTAL</b>	<b>83.0</b>	<b>17.0</b>

Source: NER Survey 2013/14

Nearly 80% of businesses across industries and regions claim that they are not affected by the implementation of MW. This might due to the affordability of employers paying MW RM900 for Peninsular Malaysia and RM800 for Sabah and Sarawak. According to NER 2011 report, most of the companies are already paying basic salary more than RM900 in Peninsular Malaysia and RM800 in Sabah and Sarawak before the implementation of MW. The Government also has made some adjustment in the policy to respond some of employers' request. One of them is to reinstate the annual levy; it is now putting this burden onto foreign workers, instead of their employers. Another adjustment is to postpone the implementation period up to end of 2013. These amendments cover all the SMEs and any large firm which are facing financial difficulties. Hence, MW for large firms remained unchanged. At the early stage of the implementation of MW the Government are quite lenient with the businesses and this can be observed when the Government gave six months adjustment period. This justifies the percentage of employers responded no impact after the implementation of MW.

## **5. IMPACT ON LABOUR COST**

The implementation of minimum wage will increase the labour cost, especially for those businesses that have been highly dependent on low-skilled workers. NER survey 2013/14 has collected information relating to percentage of labour cost increase from the various industries. The data shows that most of the businesses across all industries and regions experience increase around 30% in the labour cost.

In Peninsular Malaysia, the highest median increase of labour cost can be observed in activities of extraterritorial organisations and bodies (30%), administrative and support service activities (30%), construction (30%), education (30%), financial and insurance/takaful activities (30%) and manufacturing (30%). Meanwhile the lowest median increase of labour cost is noticed in water supply industry (12.5%).

In Sabah, the highest median labour cost increase for administrative and support service activities (60%) and the lowest scored by real estate activities (10.5%). The Sarawak scenario differs from Sabah. The highest percentage of median cost increase in Sarawak is noticed for information and communication (33%) followed by real estate activities (31.1%), art, entertainment and recreation (30%), electricity, gas, steam and air conditioning supply (30%), professional, scientific and technical activities (30%), transportation and storage (30%), water supply (30%) and wholesale and retail trade (30%).

**Table 4: Increase of Labour Cost after MW by Industries in Peninsular Malaysia**

<b>Industry</b>	<b>Median (%)</b>
Agriculture, forestry and fishing	25.0
Mining and quarrying	25.0
Manufacturing	30.0
Electricity, gas, steam and air conditioning supply	25.0
Water supply	12.5
Construction	30.0
Wholesale and retail trade	25.0
Transportation and storage	20.0

Accommodation and food service activities	20.0
Information and communication	26.3
Financial and insurance/takaful activities	30.0
Real estate activities	20.0
Professional, scientific and technical activities	28.0
Administrative and Support Service Activities	30.0
Education	30.0
Human health and social work activities	28.0
Arts, entertainment and recreation	25.0
Other service activities	25.0
Activities of extraterritorial organisations and bodies	30.0
<b>Total</b>	<b>27.0</b>

Source: NER Survey, 2014

**Table 5: Increase of Labour Cost after MW by Industries in Sabah**

<b>Industry</b>	<b>Median (%)</b>
Agriculture, forestry and fishing	30.0
Mining and quarrying	27.5
Manufacturing	30.0
Electricity, gas, steam and air conditioning supply	30.0
Construction	30.0
Wholesale and retail trade	30.0
Transportation and storage	30.0
Accommodation and food service activities	30.0
Information and communication	33.0
Financial and insurance/takaful activities	27.5
Real estate activities	10.5
Professional, scientific and technical activities	30.0
Administrative and Support Service Activities	60.0
Education	22.5
Human health and social work activities	23.0

Arts, entertainment and recreation	30.0
Other service activities	30.0
Activities of households as employer	20.0
<b>Total</b>	<b>30.0</b>

Source: NER Survey, 2014

**Table 6: Increase of Labour Cost after MW by Industries in Sarawak**

<b>Industry</b>	<b>Median (%)</b>
Agriculture, forestry and fishing	28.3
Mining and quarrying	5.0
Manufacturing	20.0
Electricity, gas, steam and air conditioning supply	30.0
Water supply	30.0
Construction	20.0
Wholesale and retail trade	30.0
Transportation and storage	30.0
Accommodation and food service activities	25.0
Information and communication	33.0
Financial and insurance/takaful activities	20.0
Real estate activities	31.1
Industry	
Professional, scientific and technical activities	30.0
Administrative and Support Service Activities	12.5
Education	25.0
Human health and social work activities	15.0
Arts, entertainment and recreation	30.0
Other service activities	20.0
Activities of households as employer	28.8
Activities of extraterritorial organisations and bodies	1.0
<b>Total</b>	<b>25.0</b>

Source: NER Survey, 2014

The result of this analysis suggests that, in general, the effect is high to employers. The increase in labour cost could result in adjustment through several possible means including by absorbing the increase cost through a reduction in margins, increasing productivity, reducing the overall cost through improve efficiency and reducing the amount of labour use. Businesses may also pass on some of the increase in cost to consumers even though they might face strong market competition.



## **6. EMPLOYER MEASURES TO IMPLEMENT MW POLICY**

One way of employers cope with the increase of labour cost is by doing adjustment of employment. Based on the NER Survey 2013/14, most of the businesses in Peninsular Malaysia, Sabah and Sarawak tend to reduce local workers after the implementation of MW. Almost 50% of the businesses reduced their local workers compared to only 30% increase their local workers.

In term of foreign workers, the glaring increase after the implementation of the MW can be seen in Peninsular Malaysia, meanwhile the highest reduction of foreign workers can be observed in Sabah and this might due to the higher cost of hiring foreign labour in Sabah.

**Table 7: Adjustment in Employment of Local and Foreign Workers to Implement MW Policy by Regions**

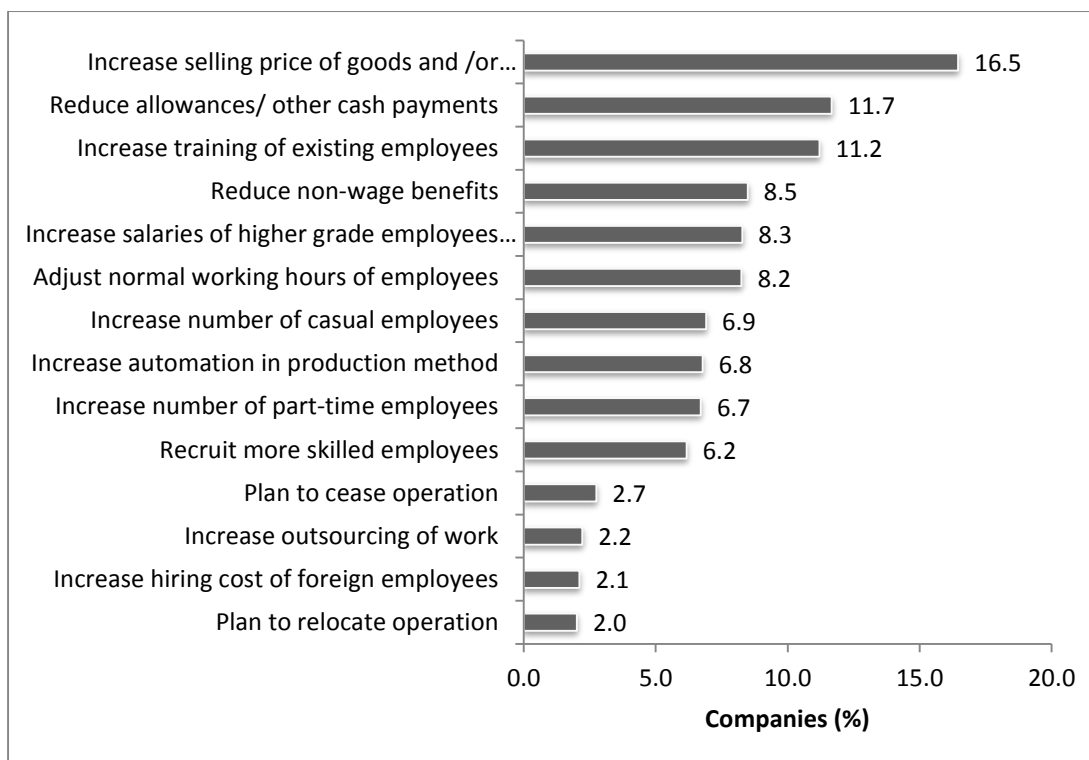
Region	Local Workers		Foreign Workers	
	Increase (%)	Reduce (%)	Increase (%)	Reduce (%)
Peninsular	27.9	48.1	12.7	8.8
Sabah & Labuan	20.5	55.4	4.0	19.7
Sarawak	31.8	57.3	2.4	6.2

Source: NER Survey, 2014

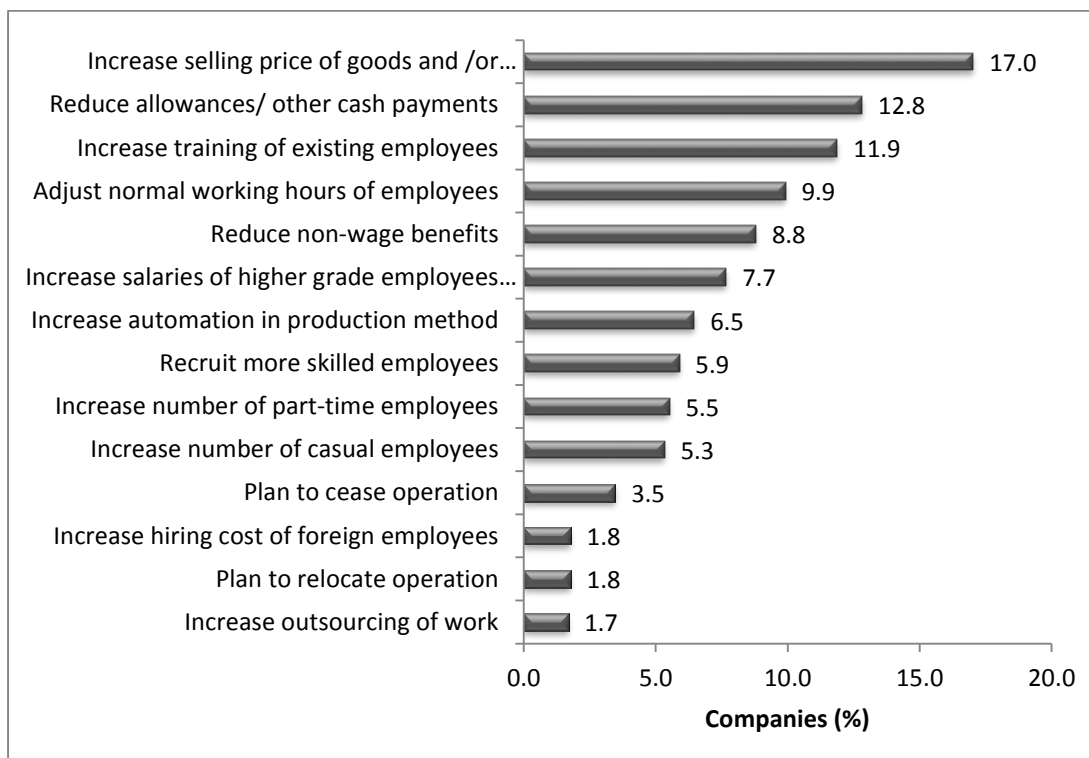
As there will be an increasing cost for labour, companies will have to adjust their business operation to counter the increasing cost. Figure 1, 2 and 3 show the employer measures to implement MW policy in Peninsular Malaysia, Sabah and Sarawak.

Businesses have different approaches of their utilisation of labour for various reasons. As the salary and wages make up the major portion of the businesses operating expenditure, they are increasingly findings ways to reduce operational and administrative cost. Based on the Figure 1, 2 and 3, the businesses mainly try to reduce cost by increasing selling price of goods, reduce allowances, increase training of existing employees and reduced non-wage benefits. Almost the three regions have the common pattern on how the employers cover their labour cost increase.

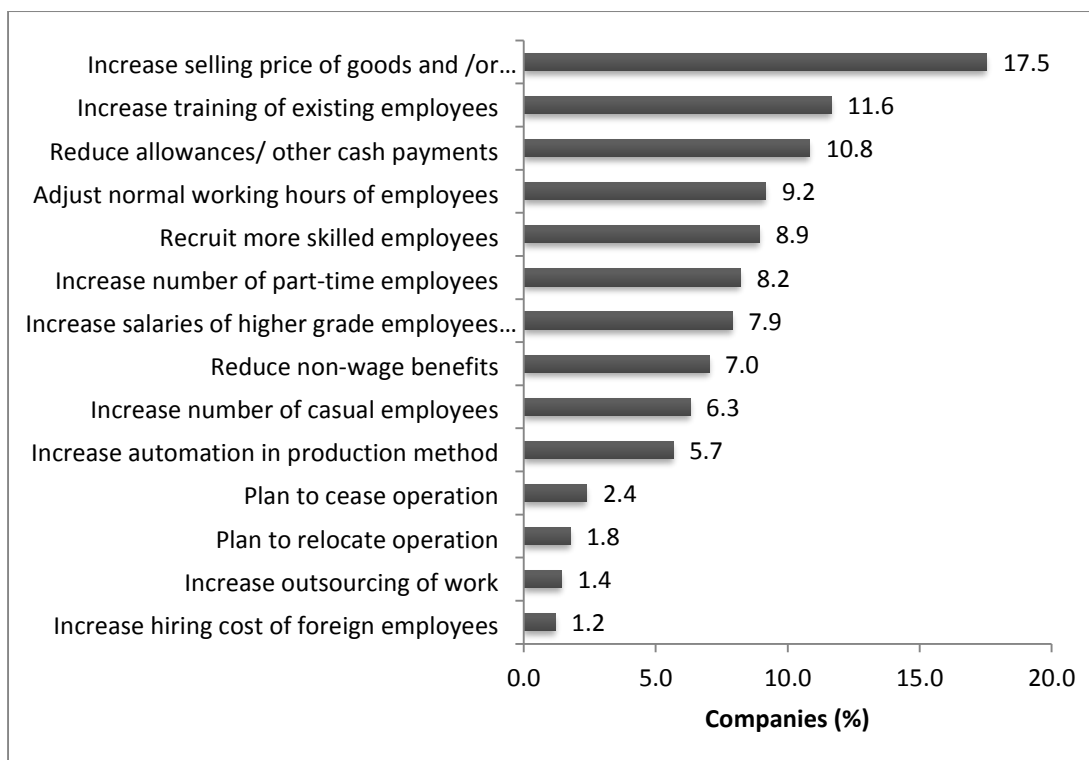
Across the regions, increasing the selling price of goods is in the highest rank as to cover the increasing cost of labour, Peninsular Malaysia (16.5%), Sabah (17.0%) and Sarawak (17.5%). The less popular choice of employers in adjusting the cost increase are increase hiring cost of foreign employees, plan to relocate operation and increase outsourcing of work.



**Figure 1: Employer Measures to Implement MW Policy in Peninsular Malaysia**  
 Source: NER Survey, 2014



**Figure 2: Employer Measures to Implement MW Policy in Sabah**  
 Source: NER Survey, 2014



**Figure 3: Employer Measures to Implement MW Policy in Sarawak**

Source: NER Survey, 2014

Increasing selling price of goods signifies that the majority of the firms possess some extent of market power to decide their own price, reflecting that the market is imperfect. This method along with the reduce allowance and other cash payment is seen as one of the easiest and cheapest to be implemented compared to the other measures. It was also generally known as one of the fastest method to bring positive result to the cash flow of the companies.

As the companies will have to increase their labour cost, it is essential that the quality and productivity of the workers improved along with their wages. Therefore, the companies are investing in the training for their existing employees to improve the productivity of their workers. This should result in a more efficient production or services that lead to higher sales to the company.

Hence, it can be concluded that the majority of the firms can execute measures to pass through their increasing cost. Therefore, these measures are considered to be at a low risk to operating expenditure and are able to be absorbed by the companies.

## **7. IMPACTS OF MW POLICY TOWARDS BUSINESS PERFORMANCE**

Business performance portrayed the sustainability of any company. A company that needs to succeed in a challenging environment requires higher productivity, competitiveness, sales volume and profit. In this light, the implementation of MW could give an adverse impact towards business performance. NER Survey 2013/14 covers certain areas to measure a business performance across industries. The measures are as followings;

- i. Staff turnover

- ii. Staff motivation
- iii. Quicker filling vacancies
- iv. Productivity
- v. Competitiveness
- vi. Profit
- viii. Sales volume

## 7.1 Staff Turnover

It is anticipated that the imposition of MW would give effect on the increasing cost of labour and there will be tendency of higher staff turnover. However, according to NER Survey 2013/14 result, most of the businesses responded that they did not apply staff turnover method to cover the increasing cost and the industry that scored the highest percentage answering no effect is activities of household as employer (66.7%), followed by activities of extra territorial organisation and bodies (60%).

Interestingly, average of 10% businesses responded that they have high impact of staff turnover and the highest ranked of industry that chose high impact compared to other industries is water supply (20%). Around 28% across the industries responded moderate on the impact of staff turnover. Table 8 shows MW impact towards staff turnover across industries.

**Table 8: MW Impact towards Staff Turnover by Industry**

Industry	None (%)	A little (%)	Moderate (%)	High (%)	Very High (%)
Agriculture, forestry and fishing	34.3	30.8	23.9	8.5	2.5
Mining and quarrying	-	70.0	10.0	10.0	10.0
Manufacturing	33.3	22.8	30.0	11.8	2.1
Electricity, gas, steam and air conditioning supply	39.1	21.7	23.9	15.2	-
Water supply	-	40.0	40.0	20.0	-
Construction	39.5	22.5	23.3	10.9	3.9
Wholesale and retail trade	35.7	23.5	26.8	11.7	2.3
Transportation and storage	34.8	28.8	27.7	4.3	4.3
Accommodation and food service activities	36.7	22.1	28.1	11.5	1.7
Information and communication	43.2	13.5	27.0	13.5	2.7
Financial and insurance/takaful activities	28.3	23.3	30.0	6.7	11.7

Real estate activities	31.0	13.8	37.9	17.2	-
Professional, scientific and technical activities	34.3	23.6	28.6	10.7	2.9
Administrative and Support Service Activities	33.3	24.2	18.2	12.1	12.1
Education	39.3	21.5	26.2	9.3	3.7
Human health and social work activities	41.4	24.3	26.4	7.1	0.7
Arts, entertainment and recreation	22.6	12.9	48.4	12.9	3.2
Other service activities	35.5	21.7	30.2	9.6	3.0
Activities of households as employer	66.7	33.3	-	-	-
Activities of extraterritorial organisations and bodies	60.0	40.0	-	-	-
<b>TOTAL</b>	<b>35.8</b>	<b>23.6</b>	<b>27.8</b>	<b>10.1</b>	<b>2.8</b>

Source: NER Survey, 2014

## 7.2 Staff Motivation

Majority of businesses across industries tend to choose moderate (33.6%) when they were asked the impact towards the staff motivation after the implementation of MW. Meanwhile 31.6% of businesses from the various industries reported they were no impacts on staff motivation. Human health and social work (38.3%) activities industry recorded the highest with no effect on the staff motivation followed by electricity, gas, steam and air conditioning supply (36.7%) and professional, scientific and technical activities (35%).

This generally shows that the increase of MW does not affect the staff motivation across the industries. It is only around 11% businesses from various industries responded high impact towards the increase of staff motivation. 40% of business from water supply industry recorded the highest percentage for high staff motivation and the lowest was from financial and insurance/takaful activities industry. Table 9 shows the MW impacts towards staff motivation increased by industry.

**Table 9: MW Impact towards Staff Motivation Increased by Industry**

Industry	None (%)	A little (%)	Moderate (%)	High (%)	Very High (%)
Agriculture, forestry and fishing	28.6	26.1	29.1	14.6	1.5
Mining and quarrying	30.0	20.0	30.0	20.0	-
Manufacturing	29.7	26.4	31.4	11.3	1.3

Electricity, gas, steam and air conditioning supply	36.7	28.6	20.4	14.3	-
Water supply	-	20.0	40.0	40.0	-
Construction	24.6	26.2	36.2	11.5	1.5
Wholesale and retail trade	31.4	20.2	36.5	10.5	1.4
Transportation and storage	29.1	29.6	33.3	6.9	1.1
Accommodation and food service activities	32.4	20.8	35.7	10.4	0.7
Information and communication	18.9	24.3	48.6	8.1	-
Financial and insurance/takaful activities	33.9	27.4	33.9	4.8	-
Real estate activities	31.0	34.5	27.6	6.9	-
Professional, scientific and technical activities	35.0	26.4	25.7	10.7	2.1
Administrative and Support Service Activities	20.6	41.2	26.5	11.8	-
Education	22.0	30.3	29.4	17.4	0.9
Human health and social work activities	38.3	16.3	36.2	8.5	0.7
Arts, entertainment and recreation	25.8	19.4	38.7	16.1	-
Other service activities	35.6	20.6	32.8	10.2	0.7
Activities of households as employer	33.3	33.3	33.3	-	-
Activities of extraterritorial organisations and bodies	20.0	20.0	40.0	-	20.0
<b>Total</b>	<b>31.6</b>	<b>23.2</b>	<b>33.6</b>	<b>10.6</b>	<b>1.0</b>

Source: NER Survey, 2014

### 7.3 Quicker Filling Vacancies

Nearly 40% of businesses across industries responded in NER Survey 2013/14 that there was no impact towards quicker filling vacancies after the implementation of MW. Only 8.8% of businesses responded high impact on quicker filling vacancies and almost 30% chose moderate impact. The two major industries that responded no impact on quicker filling vacancies are administrative and support service activities and activities of household as employer (50%). 20% of businesses from mining and quarrying industry responded high

impact towards quicker filling vacancies and this industry holds the highest rank compared to others. Table 10 explains the MW impacts towards quicker filling of vacancies by industries.

**Table 4.10: MW Impact towards Quicker Filling Vacancies by Industry**

Industry	None (%)	A little (%)	Moderate (%)	High (%)	Very High (%)
Agriculture, forestry and fishing	33.7	29.6	28.6	7.1	1.0
Mining and quarrying	30.0	20.0	30.0	20.0	-
Manufacturing	41.2	20.2	29.0	8.0	1.7
Electricity, gas, steam and air conditioning supply	46.8	21.3	25.5	4.3	2.1
Water supply	40.0	20.0	40.0	-	-
Construction	37.6	24.8	26.4	10.4	0.8
Wholesale and retail trade	41.1	19.4	29.0	9.3	1.2
Transportation and storage	38.6	22.8	31.0	6.0	1.6
Accommodation and food service activities	41.7	20.6	27.9	9.0	0.7
Information and communication	40.5	13.5	37.8	8.1	-
Financial and insurance/takaful activities	48.3	28.3	18.3	3.3	1.7
Real estate activities	34.5	13.8	44.8	6.9	-
Professional, scientific and technical activities	42.8	18.1	29.0	9.4	0.7
Administrative and Support Service Activities	50.0	15.6	21.9	6.3	6.3
Education	28.2	25.5	32.7	10.9	2.7
Human health and social work activities	44.9	11.6	26.8	15.2	1.4
Arts, entertainment and recreation	25.8	16.1	45.2	12.9	-
Other service activities	39.5	20.9	30.0	8.5	1.1
Activities of households as employer	50.0	-	50.0	-	-
Activities of extraterritorial	20.0	20.0	40.0	-	20.0

organisations and bodies					
Total	<b>39.8</b>	<b>21.0</b>	<b>29.2</b>	<b>8.8</b>	<b>1.3</b>

Source: NER Survey, 2014

#### 7.4 Productivity

It is anticipated the implementation of MW will allow the increase of productivity. However, based from the NER Survey 2013/14, the result does not indicate positive trend. Majority of businesses across the industries tend to say no impact (37.3%) towards the productivity increased, meanwhile 33.2% claim to be moderate. Very few businesses (6.5%) from various industries felt that MW contributes to the productivity increased. The highest percentage of businesses claim that there is no impact towards the productivity increase is the activities of household as employer (66.7%) and the highest percentage of businesses felt high productivity increase is from water supply industry (20%).

**Table 11: MW Impact towards Productivity Increased by Industry (in percentage)**

Industry	None (%)	A little (%)	Moderate	High	Very High
Agriculture, forestry and fishing	34.8	24.4	31.3	9.0	0.5
Mining and quarrying	40.0	10.0	40.0	10.0	-
Manufacturing	38.0	23.2	31.6	5.9	1.3
Electricity, gas, steam and air conditioning supply	43.5	26.1	26.1	2.2	2.2
Water supply	-	40.0	40.0	20.0	-
Construction	32.0	18.8	38.3	9.4	1.6
Wholesale and retail trade	38.1	21.6	33.3	6.7	0.4
Transportation and storage	41.1	22.7	31.4	3.8	1.1
Accommodation and food service activities	35.9	23.0	34.5	6.1	0.5
Information and communication	27.0	24.3	43.2	2.7	2.7
Financial and insurance/takaful activities	41.9	27.4	29.0	1.6	-
Real estate activities	39.3	21.4	25.0	10.7	3.6
Professional, scientific and technical activities	41.3	14.5	37.0	6.5	0.7
Administrative and Support Service	37.9	24.1	27.6	6.9	3.4



Activities					
Education	27.5	28.4	34.9	8.3	0.9
Human health and social work activities	41.9	19.1	31.6	6.6	0.7
Arts, entertainment and recreation	29.0	22.6	38.7	9.7	-
Other service activities	37.5	22.2	32.3	6.9	1.1
Activities of households as employer	66.7	-	33.3	-	-
Activities of extraterritorial organisations and bodies	40.0	20.0	20.0	-	20.0
<b>Total</b>	<b>37.3</b>	<b>22.2</b>	<b>33.2</b>	<b>6.5</b>	<b>0.9</b>

Source: NER Survey, 2014

## 7.5 Competitiveness

Competitiveness is one of the aspects that relate to the MW impacts. The businesses would have higher expectations on the staff after the MW implementation especially in being competent. However, according to NER Survey 2013/14 nearly 32.1% of businesses across industries claimed that there is no effect on the competitiveness increased and 32.7% claim to be moderate. Activities of households as employer industry was in the highest rank for responding no effect (66.7%) on the competitiveness increase after the implementation of MW. Interestingly, tremendous score can be observed for high competitive increase in the industry of water supply (50%). The rest of the industries score below 20% for high competitiveness increase. Table 12 shows MW impacts towards competitiveness increased across various industries.

**Table 12: MW Impact towards Competitiveness Increased by Industry**

Industry	None (%)	A little (%)	Moderate (%)	High (%)	Very High (%)
Agriculture, forestry and fishing	29.0	26.9	29.0	15.0	-
Mining and quarrying	40.0	30.0	30.0	-	-
Manufacturing	32.1	20.3	30.0	13.9	3.8
Electricity, gas, steam and air conditioning supply	36.0	20.0	28.0	16.0	-
Water supply	-	16.7	33.3	50.0	-
Construction	32.6	12.4	37.2	14.0	3.9
Wholesale and retail trade	30.7	19.2	34.7	13.6	1.9

Transportation and storage	35.5	20.2	31.7	9.8	2.7
Accommodation and food service activities	33.0	18.0	35.7	11.2	2.2
Information and communication	27.8	22.2	30.6	16.7	2.8
Financial and insurance/takaful activities	35.0	25.0	23.3	11.7	5.0
Real estate activities	39.3	10.7	28.6	17.9	3.6
Professional, scientific and technical activities	36.4	17.9	32.9	11.4	1.4
Administrative and Support Service Activities	38.7	19.4	29.0	6.5	6.5
Education	24.5	27.4	36.8	11.3	-
Human health and social work activities	38.0	19.7	29.2	10.2	2.9
Arts, entertainment and recreation	19.4	32.3	38.7	9.7	-
Other service activities	31.0	20.4	31.7	13.8	3.1

Activities of households as employer	66.7	-	33.3	-	-
Activities of extraterritorial organisations and bodies	40.0	20.0	40.0	-	-
<b>Total</b>	<b>32.1</b>	<b>20.1</b>	<b>32.7</b>	<b>12.7</b>	<b>2.4</b>

Source: NER Survey, 2014

## 7.6 Profit

Profit is the ultimate objective of all businesses. Increase of operation cost such as minimum wage salary will affect the profit of the businesses. NER Survey 2013/14 reported that generally 13.3% of businesses across industries were not affected by profit decreased. Meanwhile, 22.2% of businesses claim that they were highly impacted on profit decreased. On the other hand, 34.8% of businesses chose that they are moderately affected. The businesses in the industry of activities of household as employer (66.7%) and activities of extraterritorial organisation and bodies (60%) were among the top rank that responded no effect on profit decreased. The details of MW impacts toward profit decreased across industries are as shown in Table 13.

**Table 13: MW Impact towards Profit Decreased by Industry**

<b>Industry</b>	<b>None</b>	<b>A little</b>	<b>Moderate</b>	<b>High</b>	<b>Very High</b>
Agriculture, forestry and fishing	18.3	19.8	28.7	25.7	7.4
Mining and quarrying	9.1	27.3	27.3	18.2	18.2
Manufacturing	9.1	22.9	32.8	24.5	10.7
Electricity, gas, steam and air conditioning supply	10.0	25.0	40.0	16.7	8.3
Water supply	14.3	42.9	28.6	-	14.3
Construction	11.0	22.1	41.9	14.7	10.3
Wholesale and retail trade	12.2	23.0	33.3	22.7	8.8
Transportation and storage	12.9	20.9	34.3	23.4	8.5
Accommodation and food service activities	14.1	21.2	34.6	21.4	8.7
Information and communication	9.8	17.1	48.8	19.5	4.9
Financial and insurance/takaful activities	20.6	20.6	25.4	22.2	11.1

Real estate activities	17.2	17.2	34.5	17.2	13.8
Professional, scientific and technical activities	13.5	19.6	35.1	25.7	6.1
Administrative and Support Service Activities	5.6	13.9	41.7	25.0	13.9
Education	13.5	24.3	31.5	25.2	5.4
Human health and social work activities	17.4	22.2	36.1	16.0	8.3
Arts, entertainment and recreation	12.1	36.4	27.3	18.2	6.1
Other service activities	13.3	19.7	35.9	23.2	7.8
Activities of households as employer	66.7	-	33.3	-	-
Activities of extraterritorial organisations and bodies	60.0	-	40.0	-	-
<b>Total</b>	<b>13.3</b>	<b>21.4</b>	<b>34.8</b>	<b>22.2</b>	<b>8.4</b>

Source: NER Survey, 2014

## 7.7 Sales Volume

The implementation of MW might leads to the increase of product price by businesses in order to cover the cost. The increase of price might affect the demand and sales volume. Finding from the NER Survey reveals that around 32% of businesses were not affected by the sales volume and only 11.1% claims that the sales volume highly decreased. Activities of household as employer industry recorded 100% not affected by sales volume. Highly affected industry on sales volume decreased after the implementation of MW is real estate activities (21.4%). Table 4.13 shows MW impacts towards sales volume decreased across industries.

**Table 13: MW Impact towards Sales Volume Decreased by Industry**

<b>Industry</b>	<b>None (%)</b>	<b>A little (%)</b>	<b>Moderate (%)</b>	<b>High</b>	<b>Very High</b>
Agriculture, forestry and fishing	37.8	17.6	31.6	10.4	2.6
Mining and quarrying	60.0	-	30.0	10.0	-
Manufacturing	25.7	21.5	36.7	12.7	3.4
Electricity, gas, steam and air conditioning supply	35.3	25.5	21.6	13.7	3.9
Water supply	16.7	-	66.7	-	16.7
Construction	25.8	18.5	37.9	13.7	4.0

Wholesale and retail trade	32.0	18.1	33.2	12.9	3.8
Transportation and storage	33.5	16.2	34.6	10.5	5.2
Accommodation and food service activities	31.1	18.4	37.6	9.7	3.2
Information and communication	34.2	10.5	39.5	13.2	2.6
Financial and insurance/takaful activities	27.9	19.7	39.3	8.2	4.9
Real estate activities	32.1	3.6	42.9	21.4	-
Professional, scientific and technical activities	33.1	23.7	36.7	5.0	1.4
Administrative and Support Service Activities	21.9	15.6	37.5	18.8	6.3
Education	34.3	23.8	26.7	13.3	1.9
Human health and social work activities	39.4	19.0	32.1	5.8	3.6
Arts, entertainment and recreation	27.3	33.3	30.3	6.1	3.0
Other service activities	30.3	19.7	34.9	11.7	3.4
Activities of households as employer	100.0	-	-	-	-
Activities of extraterritorial organisations and bodies	60.0	-	40.0	-	-
<b>Total</b>	<b>31.6</b>	<b>19.2</b>	<b>34.7</b>	<b>11.1</b>	<b>3.4</b>

Source: NER Survey, 2014

## **8. ANALYSIS OF FOCUS GROUP DISCUSSION AMONG EMPLOYERS**

Focus group discussions was conducted in three locations; Peninsular Malaysia, Sabah and Sarawak. The purpose of this focus group is to get feedback from employers and employees relating to the impact after the implementation of Minimum Wage policy.

The focus group discussions participated by the representatives from various industries. Around six to twelve participants attended in every session. Focus group discussion in Sabah was held in Kota Kinabalu, meanwhile for Sarawak it was conducted in Kuching and for Peninsular Malaysia it was conducted in Cyberjaya.

The discussions were focused on the issues and effect of MW implementation towards the employers. During the session, they were also requested to provide suggestions to enhance the implementation of the Minimum Wage in the future.

## **8.1 Focus Group Discussion Findings in Peninsular Malaysia**

The focus group discussion was attended by the representatives from various industries; namely security and safeguard, hotel and agriculture. Generally most of the employers responded they are burdened by the implementation of MW. They feel the MW rate must be set according to industries. Some of the industries are struggling to pay RM900 to the workers especially security and safeguard and agriculture. The employers are still unclear on the definition of basic salary, particularly the different definition between EPF, SOCSO and Labor Law. They requested to review the measures and indicators used to determine the MW. They also raised the issue on insufficiency of local workers in the agriculture sector, e.g plantation.

The employers proposed to restructure the Technical Committee of Minimum Wage. This is due to the majority members of Technical Committee are academician and they feel that there is a need for employers' representative in the committee. The employers requested for the policy makers to look into previous act or order before implementing any new policy. Furthermore, they also suggest the guideline of MW should be bind into regulation.

The employers claim 45 memorandum were send to the government to review the MW, however they did not receive any feedback from the policy makers. They propose the review of MW for every two years need to be changed since two years is a short period to adjust the operational cost of businesses. In terms of productivity, the employers stressed that the MW will eradicate productivity link wages system.

## **8.2 Focus Group Discussion Findings in Sabah**

Generally employers in Sabah claim they are affected negatively after the implementation of minimum wages. They point out it is difficult for Sabah employers to pay MW since Sabah is a less developed state and slow in economic growth. Sabah consists of 31,295 of micro SMEs and 8,128 small SMEs. The implementation of minimum wage will detrimental the micro SMEs. Rising overhead cost more than 50% for SMEs in Sabah is a major concern for the employers. Considering these issues the employers proposed for deferment of MW rate increment after 2015.

The employers' main concerned is the increase of inflation due to the increase of MW. They draw a conclusion that MW is not a tool to improve social prosperity and economic development of Sabah. Some of the employers in Sabah practices retrenchment in order to cover the overhead cost of doing businesses. There are also employers outsource the services to their own employees to reduce cost. However for childcare center services the approaches are different to cover the cost. Based on the feedback from the representative of childcare center, a trainer that supposed to take care of three kids have to take care more than 5 kids since they are not affordable to hire more trainers. This is due to the disability of parents to pay higher for the service. The increase of fees to cover the cost will burden the parents and lead to development of illegal childcare services. The representative of childcare center requested the policy maker to take into consideration as the childcare is an essential service for working women.

Relating to the representative in the National Wage Consultative Council, the employers feel disappointed with the selection of their representative. They claim that the representative of

Sabah employers does not really support the employers in Sabah. They also raised their concern on the issue of the non-existence of Malaysian Employer Federation branch in Sabah. These cause difficulties for the Sabahan employers to discuss issues faced by them. They propose for the involvement of local state government in solving the employers' issues on MW.

Another alarming issue related to MW is the foreign workers. According to the employers, the cost to hire foreign workers is higher since the employer need to pay levy. However some industries do not have choice due to low participation of local workers. They reluctant to work in plantation such as timber, rubber, palm oil since it is considered dirty, dangerous and demeaning type of work.

There is a claim from employers regarding the information dissemination. The updated information on MW was not disseminated to all the employers in Sabah. Employers in Sabah face difficulties in getting accurate information on MW. They propose government to provide a transparent and effective channel for information dissemination.

The employers requested for government to improve the economy of Sabah especially by encouraging tourism industries. The productivity for Sabah remains the same after the implementation of MW. The employers feel they are burdened with overhead cost without any changes in the productivity.

### **8.3 Focus Group Discussion Findings in Sarawak**

Focus group discussion in Sarawak among employers reveal the increment of cost was around 30% after the implementation of MW affected negatively across industries. This is due to the stagnant pattern of productivity. Basically every employer relates the MW with productivity. Most of the SMEs are struggling to comply the MW order. The employers need to consider alternative method to cover the increasing overhead cost. Employers claim most of the workers are getting more than MW if it is calculated with overtime and allowances.

The main concern of the employers is the economic condition of Malaysia. The employers will face difficulties to pay MW during poor economic situation since the production volume will decrease. Some of the employers complained they could not use automation system since the job requires labour intensive e.g timber industry. The employers could not transfer to automation system in order to reduce cost.

To hire foreign workers is also a burden for the employers. They have to pay higher levy in order to employ them. Some of the industries have less participation of local workers due to the hard nature of the work e.g plantation. The employers reported the workers prefer to work in the comfortable environment such as shopping complex, offices etc with the MW. This forces employers to hire foreign workers although the cost for foreign workers is higher.

The employers disagree with the review of MW for every two years. They felt it is fast to set a new rate since the employers are in the process of adapting the implementation of MW. They also propose to the government to maintain the status quo rate at RM800. Employers from the plantation sector suggest that the government should include piece rated remuneration in the MW order.

As a summary from the focus group discussion the employers hope the government are fair in considering the needs between employers and employees. They propose the calculation to determine the rate of MW to be dynamic rather than static to make it flexible based on economic situation. The MW should be balance between employers and employees without bias to any party. The employers also stressed the definition of wage as basic salary does not reflect the poverty line. They do hope the government consider in all angles before making decision relating to MW policy.

## 9. CONCLUSIONS

A Minimum Wage policy can cause low-productivity firms that cannot afford the higher cost labour to go out of business, and this may result in an increase in the average productivity in the economy. However, if the objective is to provide incentives for innovation, adoption of new technologies and economic diversification that truly contributes to higher productivity growth across business and sectors, then governments should consider adopting other policies. These might include investing in skills and infrastructure and improving the business environment in ways that encourage competition, investment and entrepreneurship.

The main justification for introducing a successful Minimum Wage in Malaysia would be to address inefficiencies in labour markets that preclude competition and can lead to the suppression of wages, especially for low-skilled (low income) workers. In this case, if implemented correctly and set at the right level, a Minimum Wage can increase both wages and productivity without reducing employment levels or encouraging informality. Higher wage also can encourage participation in the labour market and even increase employment levels. If badly designed and implemented, however, a Minimum Wage can harm business and reduce formal employment. This can happen, for instance, if the level of Minimum Wage is too high relative to average earnings in the economy.

Though minimum wage is not an aggregate effective instrument to aid and solve all woes and problems, but it did not result in vast unemployment, as most businesses used it as a bench mark for their annual pay raise. Therefore, minimum wage paved a path for fair treatment of labour as well as stabilising purchasing power.

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