

Implementation of Minimum Wage Policy in Malaysia: Manufacturing Employers' Perceptions of Training Provision and Fringe Benefits

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Abstract

Pay and fringe benefits are the highest form of reward for workers. The main aim of the minimum wage policy in Malaysia is to ensure the workers receive 'fair' wages and are not exploited. However, the negative impact of minimum wage on firm's margin profitability has lead employers to make adjustments to the workers' fringe benefits. Consequently, challenges faced by employers and their response to workers' fringe benefits become an important research topic. Data were gathered from interviews with six employers in electrical and electronics firms. The main findings require employers to adopt logistical and wage scale adjustments. The results also show that minimum wages do not adversely impact the rate of workers' allowances. However, there are changes to the percentage of insurance coverage. These findings provide an additional view on the issue of minimum wages and should facilitate in the drafting of better wage strategies in future.

Keywords: minimum wage, training, fringe benefit, Malaysia.

1. Introduction

Neoclassical labor market theories propound the broad effects of minimum wages on employment. Many studies have argued on the effects of minimum wages on state and regional employment across the globe. However, they have failed to reach a consensus on the effects of minimum wage on employment (Simon & Kaestner, 2004). Government mandated wage policies also believed to reduce the number of 'lowest paid' workers. If all employers have to pay a standard basic wage to their workers, then businesses will tend to make adjustments to pay the additional costs incurred by either reducing recruitment, work hours or training provision. One of the ways employers uses to absorb marginal costs due to implementation of the minimum wage policy is by decreasing workers' fringe benefits. Some may think that businesses absorb the effects of minimum wage by accepting the ensuing lower profit. But, that is rarely the case. In fact, businesses make efforts to maintain the net profit.

In Malaysia, the minimum wage order was gazette on 16 July 2012 and implemented on 1st January 2013. The Minimum Wage Order requires employers with six employees and above to pay a minimum wage of RM900 a month in Peninsular Malaysia or RM800 a month in Sabah, Sarawak and the Federal Territory of Labuan (National Wages Consultative Council, 2012). This policy has been designed to provide workers with a 'fair' wage and protect them from being exploited. This initiative by Malaysian government shows that it is concerned with improving the skills, productivity and economic conditions of the labor force in Malaysia. The minimum wage policy has led to increased costs for employers and they have been facing a number of issues, especially with regards to absorbing the resulting additional costs. This has led them to make adjustments to the non-wage benefits (fringe benefits). Many workers have not realized that the benefits that they lose are actually more than the increased wages (McKenzie, 2014). Therefore, the effects of minimum wage on workers' fringe benefits are also addressed in this study. In line with the above discussion, this study highlights some key challenges faced by employers due to the implementations of the minimum wage policy.

This paper also compares the changes to the workers' fringe benefits before and after the implementation of this policy. The discussion is based on the opinions and experiences of several top managers of selected firms.

2. Problem Statement

The main objective of the minimum wage policy is to ensure the basic needs of low wage workers are adequately met and to provide sufficient social protection to them which subsequently can lead to a better quality of life (Nurhani & Rusmawati, 2013). However, the minimum wage policy has had adverse impacts on the margin of profitability of firms. After the minimum wage policy came into effect, employers have to bare the additional costs due to the increase in the basic wages of the workers. Employers might take the easy way out by cutting the non-wage benefits to cater to this additional financial burden and sustain their profit margin. Thus, the question whether the minimum wage is a boon or ban to the workers needs to be addressed.

The National Wages Consultative Council (NWCC) has urged the employers of small and medium enterprises (SME's) not to make any deductions for levy, accommodation and other allowances from the salaries of their foreign workers (NWCC, 2013). However, there is no statement or restrictions regarding the provision of fringe benefits for local workers. This means that, employers are free to adjust the workers' fringe benefits and the impact of this adjustment is still unclear. This has motivated the researchers to examine the effects of the minimum wage policy on low skilled Malaysian workers' fringe benefits. While the higher wages are expected to encourage greater labor utilization, fringe benefits for the workers need to be maintained to sustain their performance.

3. Research Objectives

This study aims to explore the challenges faced by employers due to the implementation of the minimum wage policy. This study also investigates the effects of minimum wage on workers' fringe benefits particularly training, allowances and insurance coverage which in the past have substituted higher wages. The research objectives of this study are therefore to:

1. Identify the effects of minimum wages on the provision of training
2. Identify the effects of minimum wages on allowances; and
3. Understand the effects of minimum wages on insurance coverage

4. Scope of study

There are many countries which have implemented the minimum wage policy, such as New Zealand, Australia, the United Kingdom (UK), China, Indonesia and Thailand. However, related studies in Malaysia are sparse. This study attempts to fill this gap by providing additional insights on the impact of the minimum wage policy on employers and workers' fringe benefits in Malaysia. This study focuses only on low-skilled manufacturing workers to provide a clearer picture of the implementations of the minimum wage policy in Malaysia. This study concentrates on three main industrial zones in the northern region of Malaysia, i.e., Kulim Hi-Tech Park (Kedah), Seberang Perai and Bayan Lepas Free Trade Zone in Penang.

5. Literature Review

5.1 Wage vs Minimum Wage

Various studies have been conducted in several countries to identify the effects of minimum wages. In fact, many researchers have attempted to understand the effects of minimum wages on fringe benefits, work demand, employment and so on. However, this study specifically examines the employers' challenges in implementing the minimum wage policy and aims to identify the effects of minimum wages on fringe benefits, particularly workers' training, allowances and insurance coverage. Karl Marx's theory on capitalist exploitation is highly related to the wage rates offered by employers. This theory clearly explains that the labor force is exploited as the low pay they receive is not commensurate with their work performance, long work hours in an unpleasant environment, etc. The free market system also influences the employers to pay daily lower wage rates than their daily output. Karl Marx condemned businesses which neglected the workers' needs. Marx's theory has similarities with the effects of implementation of minimum wages on fringe benefits of workers in Malaysia. Although employers comply with the statutory minimum wages and pay the workers the basic wages, they have the power to substitute other benefits enjoyed by the workers with the higher wage.

Thus, exploitation of the workers by the employers takes place indirectly in the form of reduced fringe benefits, such as health insurance coverage, training provision, allowances and length of working hours.

5.2 Minimum wage effects on fringe benefits

Although there are many empirical findings on the effects of minimum wages on fringe benefits, there is less standard theoretical work on the workers' fringe benefits. However, the market and neoclassical theories clearly suggest the importance of fringe benefits in attracting and retaining workers. Neoclassical thinkers also stress on the importance of the non-wage benefits as monetary benefits. The market system also demands the provision of fringe benefits to the workers. In addition, the minimum wage law requires employers to pay higher wage rates to the workers. Thus, employers may reduce the non-wage benefits to substitute for the higher cost of real wages. Consequently, the reduction in fringe benefits can be deemed to be a discrimination of the rights of the workers.

The reduction of fringe benefits seems to contradict the main purpose of providing minimum wages, which is set at a level intended to prevent exploitation and provide protection to the workers (Butcher, 2012). The implementation of the minimum wage policy seems to have led to another kind of exploitation of workers, whereby the fringe benefits enjoyed by the workers previously are reduced. This might create dissatisfaction among the workers and reduce total productivity rate in the long term. According to Herzberg's motivation-hygiene theory lists salary and company policies as among the factors which lead to dissatisfaction among the employees (Herzberg, 1968). Thus, changes to the fringe benefits can lead to dissatisfaction among the employees.

Many studies have explored the effect of minimum wages on fringe benefits. Welch (1978) argued that employers often absorb part of the increased wage costs resulting from an imposed higher minimum wage by providing fewer fringe benefits to their workers. In addition, Ippolito (2003) concluded that minimum wage increases money income of low skilled workers but reduces workers' welfare coverage. For instance, countries such Hong Kong have experienced manpower streamlining, and fringe benefits and bonus reduction as cost cutting measures in the implementation of minimum wages (Hong Kong Wage Commission, 2010). These fringe benefit changes could demotivate the workers from performing well in the workplace.

Specifically, employees' allowances such as for meals or food, transport and phone have been impacted by the implementation of the minimum wage policy. For instance, the implementation of minimum wages in the UK has shown compensatory changes in terms and conditions of work, such as reduction of overtime, the cancellation of paid meal and new rules on distribution of tips (Low Pay Commission, 2001). Therefore, it is important to examine if there has been any kind of changes in the Malaysia context.

Health or medical insurance is one of the important factors that can improve workers' health, increase productivity at work and reduce turnover in the long-term (O'Brien, 2003). However, reduction of health insurance or medical benefits of workers definitely would send a negative signal to the firm's growth. A recent study by Simon and Vistnes (2012) shows that an increase in minimum wage has reduced the provision of health insurance for employers with an entirely or majority low-wage workforce. Conversely, McCarrier, Zimmerman, Ralston, and Martin (2011) found minimum wages have not led to reduced insurance coverage of low-skilled workers. Thus, this study aims to identify the effects of minimum wage on workers' insurance coverage too.

5.3 Minimum wage effects on training

Training is one of the main fringe benefits affected by the implementation of the minimum wage policy. The human capital theory predicts that minimum wage will reduce investment on training of the workers (Arulampalam, Booth & Bryan, 2004). The competitive labor market believes in lowering the employees' training provision. Most of the time, employers make decisions pertaining to the training of their subordinates. Most employers include learning phases, such as training to improve career progress and productivity of each worker in the firm. However, once the wages are raised mandatorily (hike of the minimum wage), employers have fewer incentives to conduct training programs for the workers. Kosters (1996) confirmed that minimum wage leads to reduced training and consequently, fewer opportunities to upgrade workers' skills, which can negatively impact their careers later on. Many other studies have also indicated that minimum wages indeed reduce the training provision of the workers. For instance, Hashimoto (1981) and Neumark and Wascher (2001) agreed that some employers respond to the increased wages by cutting back on training programs intended to improve skills and knowledge on the current job. For instance, many employers are concerned that training can develop skills and workers tend to leave the firms for better jobs; hence, it is better to offer less training for the workers.

In addition, dual labor market theories believe that firms effectively control training opportunities of the workers. As such, in the long-term, shortage of skilled workers would become an obvious problem for the firms. Moreover, trained workers might move to jobs in firms which offer higher wages and with more career prospects than their current firm, leading to greater 'brain drain' from one firm to another. Some low pay sectors, such as the hospitality sector, have found that although some firms cut training investment, the effects of minimum wage have had a modestly positive effect on training strategies (Low Pay Commission, 2001). Surprisingly, implementation of minimum wages has prompted some companies to introduce strategies to improve the quality of training (Heyes & Gray, 2003). Adam and Paul (1999) found there is no evidence of minimum wage effects on training opportunities, either on male or female workers. Therefore, this study investigates whether there are any changes due to the introduction of minimum wages on workers' training.

6. Methodology

This study is based on interviews with six employers who hold various top management positions in electrical and electronic firms in three industrial zones. Specifically, the interviews were conducted with one Director-General, three human resource managers, one human resource business administrator and one human resource executive. The minimum sample size for interview data collection procedure is at least six participants (Johnson & Christensen, 2008; Krueger, 2000; Langford, Schoenfeld & Izzo, 2002). Thus, this study has complied with the required sample size to conduct interviews. Purposive sampling is applied in this qualitative study. The respondents were chosen based on the "information rich" approach (Patton, 2002). The information rich approach ensures that the respondents have in-depth knowledge of the issue that would help the researcher to understand the topic. This factor is important due to the fact that most of the interview questions required in-depth knowledge on the minimum wage policy in Malaysia.

Semi-structured face-to-face interviews were conducted with selected employers in this study. This type of interview allows the researcher to use the same set of questions for all the respondents (Lichtman, 2014). Although, the set of questions are the same, the interviewer can adjust the questions based on each individual interview. The questionnaire is divided into four sections: questions pertaining to demographics, challenges in implementing minimum wage, minimum wage effects on fringe benefits (including training, allowances and insurance coverage) and conclusion. An interview protocol form was used in this study. During the interview, detailed notes were taken on the important issues that came up from the conversation. The interview was recorded with respondent's permission. The quality of the transmission was ensured and the respondents were assured of privacy. The interview transcripts were then manually analyzed. Findings from the interview are discussed in the following section.

7. Results

This research found that minimum wages not only improves the labor market competitiveness but also enhance employees' capabilities and upgrade their financial standing. As such, the minimum wage policy is accepted positively by most of the employers. Implementation of the minimum wage policy should be seen as a long-term agenda to correct labor market and produce requisite capacity for continuous growth in the 21st century.

7.1 Challenges to implement minimum wages

In this section, the challenges faced by the employers and the effects of minimum wages on the workers' fringe benefits are highlighted based on the interviews with six employers in Malaysian manufacturing industries. Based on the interviews with the employers, the result indicates that most of the employers agree that there are some challenges that they encountered when coping with the minimum wage policy. This situation is acknowledged by Mr. C as follows:

"We only have to do some logistical arrangements in terms of system. We review people who are earning less and duly notify employees about the necessary changes in their salary. So, all the preparatory work and arrangements need to be done before incorporating the minimum salary" (Mr. C, personal communication, May 27, 2014).

However, based on Madam D's opinion, some employers are unhappy due to the impact of the implementation of the minimum wage policy on company overheads or costs. She shared her thoughts on the implementation of minimum wage policy as below:

"Our sub-company only gave RM700 to the workers before the minimum wage policy. Due to minimum wage, they adjusted the salary to RM900."

When adjusting the salary, it gives big impact to the company because we have to invest more. For example, previously all in with their accommodation and transportation is about RM1000; after the implementation, the basic salary was adjusted to RM900 and all this increased to nearly RM2000 per head for foreign workers' salary. The starting adjustments of the minimum wage have actually impacted our process, profit and productivity" (Madam D, personal communication, February 19, 2014).

In line with the above statement, Mr. E & Mr. A confirm there are effects of minimum wage on the cost and profit in firms:

"Of course, the cost will go up, and profit margin will drop. These will impact all in the company. Some of the SMEs even close down, relocate or strategize the employees" (Mr. E, personal communication, March 3, 2015).

"It might give higher cost to the employer. Tangible benefits come in along the way" (Mr. A, personal communication, October 14, 2014). However, Madam F argued that one of the minimum wage objectives to decrease the foreign workers in Malaysia is visible. She says,

"It's actually one of the ways to stop the foreign workers working in Malaysia. Actually, companies can focus on locals. Now, cost of hiring foreign workers is higher. The new implementation actually protects the workers" (Madam F, personal communication, July 21, 2014).

Based on the above interview, it is clear that there are challenges faced by the employers in the implementation of minimum wages in terms of logistical arrangements, adjustments to the wage scale and finally, to the cost and profit of the firms. As such, Benassi (2011) stated there is the issue of noncompliance with implementation of the minimum wage policy due to high costs involved. This study found that most of the employers complied with the minimum wage policy with certain managerial adjustments as mentioned above. However, does an employer make any adjustments when absorbing the cost of implementing the minimum wage policy? The next discussion is on the minimum wage effects on workers' fringe benefits, particularly on training, allowances and insurance coverage.

7.2 Minimum wage effects on training

Training is a basic requisite for upgrading the skills and technical knowledge of the workforce. The discussions with the employers found that the minimum wage does not affect the training provision. Many employers see training as a continuous process to enhance their workers' technical and soft skills. Training is continuously conducted with or without the implementation of the minimum wage policy. This evidenced by many employers:

"Training is the same whether there is implementation of minimum wage or not. They have to ensure the workforce is able to sustain productivity at all times. In order to enhance productivity, continuous training is implemented for the workforce" (Mr. C, personal communication, May 27, 2014).

"There are no changes in the process of training. All the time, there is training for staff. We are maintaining the training" (Mr. B, personal communication, December 10, 2014).

"We need training to enhance the workers' skills and not because of minimum wage" (Madam D, personal communication, February 19, 2015).

"Company never cut the cost of training. Based on the budget, the company sticks to it" (Mr. A, personal communication, October 14, 2014).

The discussions with the employers clearly indicate that training is a basic necessity for an organization to enhance the skills of the workforce. Thus, wage policies seem to have little impact on the training conducted in an organization. The findings in this study clearly do not concur with Hashimoto (1981); Newmark and Wascher (2001), who argued minimum wage can, have adverse effects on workers' training. From the above interviews, we can conclude that there are minimal effects of the minimum wage policy on the workers' training provision. Most of the employers are eager, either to sustain or improve the training programs in their firms. This finding shows the employers value training to enhance productivity.

7.3 Minimum wage effects on fringe benefits

Allowances and medical insurance are among the fringe benefits evaluated in this study. This study found that there are improvements in offering or upgrading the workers' allowances. There are however significant effects of the minimum wage policy on workers' insurance coverage. This clearly shows the employers' effort to enhance the provision of workers' allowances and decrease the rate of insurance coverage.

The results of this study concur with arguments on the negative effects of minimum wages on the allowances and insurance coverage by the Low Pay Commission (2001). Below are the excerpts regarding the effects of minimum wages on workers' allowances and insurance coverage?

"Now, we have extended the maternity benefits for employees as well as for the spouse. We extend the paternity benefit. We have group term insurance, accident benefit and group life insurance which provide inpatient and outpatient treatment for all employees"(Mr. C, personal communication, May 27, 2014).

"We are trying to improve the other benefits, such as optical benefits: they can go for make own glasses. There are telephone allowances too. We increased transport allowances recently. Also, there is some tagline that we are going to introduce soon to the employees. We do some revision from time to time to stay ahead of the competition, or else the workers may leave for other companies which offer better benefits. So, we come up with some new package and so on. Also when the business picks-up, you have to share profit with the employees. Other benefits, such as hospitalization might be RM100 per day, increased to RM150 or RM200 the next day. So, in terms of that, definitely I think minimum wage increases the health benefits too"(Mr. E, personal communication, March 3, 2015).

"We have petrol (transportation) allowances, shift allowances, overtime allowances, rescue team allowances. The overtime allowances would be around RM100 per day. There are equipment specialist and multi skill allowances (MSA) too. If the technician has more than one skill, if he or she has license until level 3, he or she will get RM200. He or she also can come over to replace other staff" (Mr. A, personal communication, October 14, 2014).

"We provide health insurance. Hospitalization covered is up to RM15, 000 per year for staff, for both local and foreign workers, to cover their medical expenses. In terms of allowances, there are grinding allowances, attendance allowances (without unpaid leave) without utilizing their medical certificate and annual leave we still provide the allowances" (Madam D, personal communication, February 19, 2015).

"Definitely, we have unlimited health insurance for spouse and up to five kids. We have transport and shift allowances. On-the-job training is compulsory every two or three months" (Madam F, personal communication, July 21, 2014).

Allowances are one of the ways for employers to value and appreciate the workers. All the above discussions on workers' allowances clearly show that most of the employers have retained and provided more allowances to the workers after the implementation of the minimum wage policy. As suggested by Yazdanifard and Usman (2011), employees' allowances must create a good impression and confidence among workers of the organization. Thus, harmonious working environment would lead to better work productivity. However, Mr. B believes that minimum wage has affected the workers' medical benefits compared to other allowances. He agrees that there is significant reduction in the percentage of health insurance provided by the employers before and after the implementation of minimum wage policy. Mr. B also assures that the coverage of health insurance remains the same. This may be due to the benefits of health insurance to improve worker's health which reduces absenteeism and increases productivity at work (O'Brien, 2003). In contrast, Simon and Vistnes (2012) found increase of minimum wage reduces the likelihood of coverage of health insurance, including for dependents of low-skilled workers.

"There are changes. In terms of medical benefit, initially the benefit is covered 100% but now they cover 15-20% if hospitalized, like co-sharing. It also covers the wife and child. There are only percentage changes, coverage the same. Recently, they covered the wife's maternity too. It's called post-maternity coverage. We also have stocks, medical benefit, and subsidies for toll, petrol allowance and car allowances too" (Mr. B, personal communication, December 10, 2014).

Although, there are changes to certain fringe benefits provided by the employers, continuous efforts to improve the fringe benefits can be seen from the above interviews. In a nutshell, the effects of minimum wages on workers' fringe benefits depend on the firm itself. If firms decide to comply with the wage law and pay the workers minimum wage or above-minimum wage, they tend to maintain or increase the fringe benefits. However, if the firms struggle to pay the standard minimum wage, then there are chances that will adjust the fringe benefits to substitute the increased wages.

8. Discussion and Suggestion

The findings clearly reveal that the employers face minimal challenges in implementing the minimum wage policy. Most of the employers' concerns are on adjusting the profit and cost in their respective firms. This result supports the notion that employers impose the minimum wages as top-down pressure which can lead to investment cost. This result seems to be consistent with many arguments on the challenges of the firms which mainly rely on the costs. For example, Teh, Sum, and Michelle Lee (2014) agreed that employers have to bear the labor costs and non-labor costs due to the implementation of the minimum wage policy in Malaysia. Moreover, demand for wage increase (ripple-effect demand) by the local workers in line with the minimum wage adds to the challenges faced by Malaysian employers. This study concludes that minimum wage does not affect workers' training. There is also minimum impact on allowances and insurance coverage received by the workers due to the implementation of the minimum wage policy. Minimum wage does not affect the workers' training because it is seen as a basic need of an organization and not as a negotiable non-wage benefit. Thus, training is conducted regardless of the implementation of the minimum wage policy. Adam and Paul (1999); Fairris and Pedace (2004), found there is no evidence of minimum wage effects on training opportunities. Moreover, many employers agree that training conducted to upgrade the workers' skills can thereafter help in sustaining the workers' productivity.

This study also found that employers retain and improve the allowances provided to the workers. It shows that the employers understand the importance of allowances to increase work productivity. Negotiable fringe benefits such as insurance coverage are often affected due to implementation of minimum wages. For instance, the percentage reduction in health insurance shows that the employers substitute the increase in minimum wage by co-sharing the medical insurance coverage. Simon and Vistnes (2012) argued that an increase in minimum wage subsequently reduces health insurance coverage for most low-wage workers.

This study has two suggestions for employers. First, the employers should draw a strategic plan to manage the risks ensuing from the implementation of the minimum wage policy. That plan should list the possible risks of the wage policy. Thus, employers might be more prepared with solutions that might affect the workers and resources in future. Moreover, compliance with the wage law is responsibility of the employers. Therefore, the employers need to ensure consistent measures are in place to comply with the minimum wage policy to avoid penalty by the government. Second, the employers and employees should cooperate through their representatives to understand both parties' current needs of fringe benefits. Such a discussion will ensure a better understanding of the proportion of fringe benefits which affect the firm's future productivity. For instance, employees' satisfaction with their basic needs will be reciprocated in the form of greater effort and higher productivity. Continuous assessment on certain fringe benefit components such as, meal allowances or uniforms can increase the workers' satisfaction, which in turn can help in retaining a productive workforce.

9. Conclusion

Most of the employers who were interviewed in this study positively welcomed the minimum wage policy despite the effects of minimum wage on their profit margin. However, many parties have urged the need to review the wage rates and make necessary amendments to the current minimum wages. These wage adjustments can improve the worker's productivity. Overall, the minimum wage policy poses minimal challenges to the employers and does not adversely impact the workers' fringe benefits. A good strategic plan and negotiation between both employers and employees can ensure the smooth implementation of the minimum wage policy in Malaysia.

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