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# Insights



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## RECTOR'S MESSAGE



Congratulations Faculty of Business and Management of Universiti Teknologi MARA Cawangan Kedah, Kampus Sungai Petani on the publication of the 6<sup>th</sup> Volume of FBM Insights!

I am very pleased to know that there are more than 40 authors and more emerging issues are being presented in this latest volume of FBM Insights. This portrays that UiTM Kedah Branch is actively involved in disseminating business related information and knowledge to the public.

I hope this bulletin can provide an opportunity for the Faculty of Business and Management staff to produce more academic materials and develop their skills in academic and creative writing. Furthermore, more initiatives should be launched to support this life-long process.

Again, well done to the Faculty of Business and Management and those who were involved directly and indirectly with the publishing of FBM Insights Vol.6. I wish FBM Insights all the best and continue to grow and move rapidly forward in the future.

**Prof. Dr. Roshima Haji Said**  
Rector  
Universiti Teknologi MARA (UiTM)  
Cawangan Kedah



السلام عليكم ورحمة الله وبركاته

Assalamualaikum warahmatullahi wabarakatuh

Welcome to the 6<sup>th</sup> Edition of FBM Insights 2022. This edition boasts 40 articles by the academics of Faculty of Business and Management UiTM Kedah Campus. The topics involved a broad range of business and management knowledge. Congratulations to all authors for your endless support and valuable contribution to the newsletter.

FBM Insights was mooted in 2020 and it came about with the intention to encourage and improve research writing activities among the lecturers of UiTM Kedah's Business and Management Faculty. As the editions progressed, the support from the academics has not faltered. I hope the support continues in editions to come.

I would like to congratulate the editors and the committee for the hard work and perseverance in managing the newsletter. All the best to everyone and thank you again.

**Dr. Yanti Aspha Ameira Mustapha**  
FBM Insights Advisor

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# REVIEW ON MALAYSIA'S STATUTORY MINIMUM WAGE

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## INTRODUCTION

In 2013, Malaysia adopted a minimum wage system. However, the wage system specifies different rates for Peninsular Malaysia, Sabah, Sarawak, and the Federal Territory of Labuan. The wage system is recommended by the National Wages Consultative Council; they suggested a set of criteria and a formula to calculate the rates. The National Wages Consultative Council was established under the National Wages Consultative Act 2011 (NWCCA 2011). The role of the Council is to obtain public opinions on the suitability of wage rate by assessing the socio-economic factors and analysing the data. The Council also formulates and recommends suitable wage rates and publishes the findings as stipulated in Section 21 of the National Wages Consultative Council Act 2011 (Ministry of Human Resource, n.d.).

A simple definition of minimum wage is the lowest legal wage that organisations can offer to employees. The primary purpose of minimum wage laws is to protect workers from being exploited by employers. In addition, it aims to provide sufficient income to employees to afford a living wage, the amount needed to afford enough food, clothing, and shelter. Section 2 of the NWCCA 2011 defines minimum wage as "*the basic wages to be or as determined under Section 23*" (Department of Labour Peninsular Malaysia, n.d).

In Section 21, the Council is required to, at such time as the Minister of Human Resources (MoHR) may determine, make a recommendation to the Government through the Minister on the following pursuant to Section 22 of the NWCCA 2011:

- a) *the minimum wage rates;*
- b) *the coverage of the recommended minimum wage rates according to sectors, types of employment, and regional areas;*
- c) *the non-application of the recommended minimum wage rates and coverage to any sectors, types of employment, and regional areas or to any person or class of persons;*
- d) *the commencement of the minimum wage order and the different dates for the commencement of the minimum wage order to different sectors, types of employment, and regional areas, or to different persons or class of persons; and*
- e) *other matters relating to minimum wage, including the implementation of the recommended minimum wage rates and coverage.*

Upon recommendation, if the Government agrees with the Council in pursuant to Section 23 of the NWCCA 2011, the MOHR is required to make a minimum wage order by notification in the Federal Government Gazette. The NWCCA 2011 stated therein that the revision of the amount of minimum wage is to be revised every two years with the commencement year of 2012.

Since the establishment of the NWCCA in 2011, the initial minimum wage baseline in 2012 was RM900 per month for Peninsular Malaysia, RM800 per month for Sabah and Sarawak, and the Federal Territory of Labuan has raised to RM1,500 nationwide. The newly established minimum wage, which could eliminate inefficiencies in the labour market and enhance the social welfare of low-paid employees, would benefit up to one-third of the Malaysian workforce. The new rate also promotes higher labour market participation and boosts the economy's labour usage. The decision to raise the minimum wage has the potential to have far-reaching implications, even if it is unquestionably a good thing for employees in the Malaysian job market.

Section 43 of the NWCCA 2011 on the non-compliance category specified that a convicted employer would be liable to a fine of not more than RM10,000 for each employee who is not paid the new minimum wage. If convicted, Employers are obligated to settle the unpaid wage discrepancy between the minimum wage rate and the wages actually paid to the affected employees as well as any other accrued payments. The calculation of the differences and other accrued payments should be based on the Employment Act 1955, Sabah Labour Ordinance, and Sarawak Labour Ordinance.

The Government is obliged to review the minimum wage every two years. The minimum wage was previously reviewed on February 1<sup>st</sup>, 2020. The minimum wage applies to businesses in the private sector that have five employees or more. It was later announced by the Minister of Human Resources, Datuk Seri M. Saravanan, to extend the same amount of wage to businesses with less than five employees on January 1<sup>st</sup>, 2023, upon approval from the Prime Minister. The minimum wage of RM1,500 ringgit (USD341) is also applicable to employers whose businesses are classified under the Malaysia Standard Classification of Occupations (MASCO), regardless of the number of employees.

The national monthly minimum wage increase on May 1, 2022, by 25 per cent from RM1,200 (USD273) to RM1,500 (USD341), as stated by the NWCCA 2011. The new minimum wage rate equates to:

RM57.69 (USD13.13) per day for employees working six days per week.  
RM69.23 (USD15.76) per day for employees working five days per week  
RM86.54 (USD19.70) per day for employees working four days per week.

The minimum wage rates differ based on city council or municipal council areas. For example, the monthly minimum wage of employees whose place of employment is located in a city council or municipal council is RM1,200 (USD273). This is applicable from May 1<sup>st</sup>, 2022, to December 31<sup>st</sup>, 2022. This equates to:

RM46.15 (USD10.51) per day for employees working six days per week;  
RM55.38 (USD12.61) per day for employees working five days per week; and  
RM69.23 (USD15.76) per day for employees working four days per week.

The regional variations in earnings and salaries caused by Malaysia's high cost of living have led to frequent discussions. Employees are typically paid a high wage wherever the cost of living is higher. A spatial pricing index (SPI) is used to explain disparities in the cost of living among states. However, there is no data report on the cost of living at the state level. Thus, the SPI measures variations based on a reference basket of item prices across various locations at a point in time to address the issue. The SPI data from the Poverty Line Income (PLI) reference basket of the World Bank are utilised for this. The reference basket generally includes all the necessary items consumed by the poorest group, which constitutes 1% of the total population (Tham & Kevin, 2022).

Government rules and regulations also have an impact on the organisational pay system. Malaysia's minimum wage increase to RM1500 (US\$344), according to the Federation of Malaysian Manufacturers (FMM), would increase remuneration costs and imperil the business



recovery for 2022 (Claire, 2022). The contended issues are relatively associated with entry-level pay. It concerns the question of how much is the minimum wage for entry-level positions. However, it is sad to note that some employers are taking advantage of the minimum wage rate to offer employment irrespective of the compensable factors. As highlighted in the Malay Mail dated 1 Jun 2022, the Human Resource Ministry data noted that the high rate of unemployment was related to job compatibility issues and problems of work that are in conflict with the level of qualification (Zarrah, 2022).

Data by the Department of Statistics (2021) showed that the pandemic has caused the number of unemployed individuals with education to rise by 30.1% from 181,200 to 235,700 in 2020. It has caused Malaysia's economy to contract by 5.65% and increased the number of recent graduates with low income. Furthermore, the salaries offered do not correspond to the graduates' education level. Despite Government efforts, including apprenticeship programmes, this issue has yet to be rectified. The lack of capacities, skills, and work experience are noted as the contributing factors to low salaries among recent graduates. It is advised that the Government establish regulations to ensure that graduates earn high salaries and consider increasing the minimum wage for recent graduates to prevent employers from refusing to recruit them for suitable positions. Additionally, the Government should offer more incentives for graduates to find employment (Mohd Shahidan, 2021).

Lim and Ayamany (2021) highlighted an issue in the Malay Mail with the title, Lower Earnings for Malaysian Fresh Graduates, which was a long-standing issue due to the lack of skills and job prospects in the country and not entirely caused by the COVID-19 pandemic. Analysts disagreed with the Government's claim that the economic disruptions from the pandemic were to blame for the rising percentage of low-paid graduates. Statistics showed that in 2019, the pay range was between RM2,001 and RM2,500 at 18.7% compared to 2020, with the highest earning being at 22.3%.

To further justify the issue, Schmitt (2015) conducted a meta-study that revealed a minimum effect of minimum wage by examining 11 possible adjustments to minimum wage increase. The effects were consistently lower. The results also indicated that the increase in minimum wage rate incurred a relatively low cost for employers, but these adjustments could avoid employment losses. Schmitt (2015) claimed that a minimum wage increase could benefit affected employees economically. These small adjustments across a few of these margins could compensate for the higher wage floor. In the aspect of reduction in working hours, the minimum wage does not raise the cost of hiring employees, but it increases the cost of hiring based on hourly work basis. In the aspect of reductions in non-wage benefits, employers would normally reduce non-wage benefits, such as health insurance and pension contributions. As alternatives, employers could also make adjustments toward a higher minimum wage by upskilling the workforce, passing over added costs to consumers by setting higher prices, increasing employees' performance to improve operational efficiency, exploiting the efficiency wage by motivating workers to work harder to increase productivity, compensating for higher wage costs at the bottom by reducing wage growth for top-level employees, absorbing the extra costs by accepting lower profit margins, reducing the turnover costs, increasing the retention level of employees, and reducing the recruitment costs. These strategies could balance the increase in the minimum wage and organisation operational costs.

## **CONCLUSION**

The minimum wage system creates a harmonious relationship between labour and management by setting the minimum rate as the benchmark to create a fair and equitable basic payment system. The minimum wage system addresses the issue of underpaid and overpaid pay rates. Nevertheless, Malaysian employers had indicated that the implementation of the new minimum wage was initiated at the wrong time, which was right after the COVID-19 pandemic when most employers were struggling to make proper adjustments and stabilise their operations to maintain their sustainability in the business market environment. However, the establishment

of the new rate is considered compatible with the current standard of living. Thus, the Malaysian Government should take further measures to impose certain restrictions and precautions on the possible adverse impacts on the employers while ensuring employees' well-being.

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