

Minimum wage legislation – good or bad for business in malaysia? discuss.

[Business](#), [Employment](#)



Generally, we can define minimum wage as a wage at a minimal level given by employers regardless any sectors, genders, qualifications, background and so on. According to the International Labour Organization (ILO), minimum wage may be understood to mean the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions. A minimum wage is introduced to “ secure workers a reasonable standard of life as this is understood in their time and country”. Minimum wage legislation determines minimum amount of remuneration that needs to be paid by the employers legally. However, the minimum wage policy is not a guarantee of better things to come. It has to be matched with hard work, innovation and vigilance. The enactment of minimum wage legislation was first started in New Zealand in 1984. It was widespread to other countries where nowadays there are more than 90% of all countries throughout the world which have enacted minimum wage legislation or wage binding collective bargaining. The history of introduction to minimum wage in Malaysia was started by the Malaysian Trade Union Congress (MTUC) as a result of increase in the salary of government servants. They demanded the government to increase the wage of employees in private sectors by organising a nationwide picket throughout Malaysia. Their request to the government of Malaysia was to set a minimum wage of RM 900 including cost of living allowance of RM 300 so that it would benefits all the employees

in private sectors in terms of it would rise their household income and to lessen the numbers of foreign workers by attracting more local citizens to fill up the positions especially the positions conquered by the foreign labours. The Prime Minister of Malaysia, Datuk Seri Najib Tun Razak has recently announced the national minimum wage for private sector on 1 May 2012. The minimum wage for Peninsular Malaysia is set at RM 900 whereas in Sabah, Sarawak and the Federal Territory of Labuan it is set at RM 800. The implementation of this new minimum wage policy will be done in six months after the minimum wages order is gazetted. The reason is to give employers ample time to make adjustments before implementing the minimum wage. This announcement has received many feedbacks especially from the union workers. They welcomed the implementation of national minimum wage, however they wanted the government to provide an allowance of RM 300 as cost of living allowance (COLA) for private sector workers. The implementation of minimum wage would benefit all the private sector workers. One of the benefits is it can improve their living standards of life and therefore it could increase their productivity and workplace morale. On the other hand, absenteeism in organizations occurs everywhere. It might happen because there is diminishing motivation to work due to morale problems. The implementation of minimum wage could help an organization to reduce the rate of absenteeism. When employees are motivated by a raise in wage, they will give better job performance. However, the organizations might need to provide more training for their employees. The percentage of crimes may also be reduced especially among low-level foreign workers. However it is only applicable to those who are employed.

What will happen to those who are unemployed or be laying off due to the minimum wage implementation in a company? Not being gainfully employed, they live off the generosity of family and friends, secure public assistance, beg, work in the black market or become common criminals. They become burdens on society. Criminologist Dr P. Sundramoor-thy said some people turned to crime when driven by poverty and usually, these cases occurred when the opportunity arose. Besides, the minimum wage could also reduce the rate of turnover in an organization. If a higher minimum wage persuades workers to stay at their job longer, many employers will more than offset the higher wage costs by reduced turnover costs. On the other hand, minimum wage legislation is seen as a way to improve private sectors' workers' welfare. Having said that, in order to support the implementation of minimum wage among private sectors workers, employers will increase their training for low skilled and low paid workers. It means that, the employers need to hire high-skilled workers so that the productivity can match up with the new wages. Besides that, this implementation may attract more Malaysians especially youngsters to work in private sectors especially low level jobs conquered by foreign workers such as contract workers or factories workers. Therefore, the unemployment rate could be reduced. However, it can also be foreseen that there will be more foreign workers interested to work in Malaysia as a result of the new minimum wage. The national minimum wage may reduce the dependence on foreign workers. But according to Malaysian Employers Federation (MEF) Executive Director Hj. Shamsuddin Bardan, the introduction of minimum wage and high cost of levy being paid by employers, which amounts to about

RM4 billion every year, has made the cost of employing foreign workers very expensive. " The long term goal of the Government of reducing the number of foreign workers to five per cent of the total workforce by 2015 should be appropriately implemented. " Other than that, when people has extra wage, it means that they will have extra disposable income. The workers can afford to buy things as their buying power is increased. This may lead to extra spending in their daily life and obviously it may boost our economy.

However, this statement is arguable because when minimum wage is legislated, companies or businesses might increase their prices of products or services in order to cover their increasing cost of production. It is obvious that, the buying power of workers might not be changed. When there is a minimum wage, there is also a higher cost of living that is burdened on the consumers. The higher wage also contributes to increase in Employees Provident Fund (EPF). When there is an increase in the EPF, there will be extra savings for their retirement. However, there are effects on business in Malaysia. While it is said that the minimum wage legislation will benefits the private sectors workers, businesses in Malaysia has to do several adjustments in their organisation before implementing the minimum wage legislation and have to bear all the consequences in order to sustain their businesses. One of the disadvantages to the business in Malaysia is there is no guarantee that the unemployment rate could be lessen as in fact it is supposed to provide employment, but due to increase in training for low-skilled workers, not all workers will be employed. The businesses will only hire those who are really competent as to minimise the cost of production particularly the labour cost. It can be seen through below diagram : In the

diagram above, £3. 80 is the free market equilibrium wage, supply is equal to demand. At this point 1000 people are employed. Imagine that a minimum wage is imposed at £4. 20. Some businesses can't afford their wage bill and reduce their workforce. Now only 750 workers are employed. 250 have become unemployed. We could assume that if there is no minimum wage being legislated, both employers and workers will continue to adjust the quantity of labour supplied according to price until the quantity of labour demanded is equal to the quantity of labour supplied, reaching equilibrium price, where the supply and demand curves intersect. Minimum wage behaves as a classical price floor on labor. Standard theory says that, if set above the equilibrium price, more labor will be willing to be provided by workers than will be demanded by employers, creating a surplus of labor, i. e., unemployment. So the basic theory says that raising the minimum wage helps workers whose wages are raised, and hurts people who are not hired (or lose their jobs) because companies cut back on employment. The setting of minimum wage may cause cost push inflation. When businesses want to minimise their labour cost, they might increase their products or services price meaning the consumers will absorb the expenses. Therefore, the buying power of those who gets a rise in their wage will not be changed. In order to prevent this problem from happening, the new minimum wage must to be matched to the current rate of inflation by having a process of indexing. The minimum wage can drive some small businesses out of business. Many people believe businesses have endless supplies of cash and can easily withstand minimum wage increases or other cost increases. However this belief is not applicable to all businesses. When small

companies increase their costs of businesses, they also need to increase their products or services price. For example, a small groceries shop in a small remote community will need to increase their prices of goods in order to cover their labour cost. By doing so, they are threatening their business as customers may look for other substitutes such as buying from other groceries shop or hypermarket which is obviously offering cheaper price at better services. As a result, it will be driven out of business. According to The Federation of Sabah Manufacturers (FSM), employers are claiming that they would have to close shop if they have to fork out a minimum wage of RM800 monthly per worker. The Malaysian Employers Federation has warned that around 200, 000 small-time employers could close due to the potential increase in staff costs. Implementation of the new wage also will likely be gradually phased in to soften its impact and to allow time for companies to adjust and improve productivity, given the potential impact on business costs, particularly for smaller companies. As mentioned earlier, small businesses may need to increase their products or services prices. Having said that, they will bear all the consequences of decreased sales, decreased revenues and lower profits. Small business owners need to do cutbacks in spending and effects such as fewer customers, because of decreased advertising; increased interest payments; and inability to attract or retain salaried workers might happen. However, small business which cannot sustain their business is also at risk. They might have problems when for instance if recession occurs, it may cause small businesses to be closed down or being sold to big companies. It may lead to bankruptcy and the only way to save the business from being closed down or total loss is to sell it to a

bigger company. One of the positive impact of minimum wage is it may increases workers' productivity. However, if say a company is trying to minimise their costs of productions, they will choose more high-skilled workers and might not employ the less-skilled workers. The remaining workers in the company may need to do extra workloads and as a consequence productivity might be affected. Thus, it can be said a raise in pay can motivate better-skilled workers and increase productivity but at the same time, workers who are overworked are more likely to commit errors, poor service and absenteeism which can decrease productivity. As to conclude, the minimum wage legislation in Malaysia has both pros and cons or has good and bad effects towards the employees and also to businesses. Minimum wage is perceived as to increase the standard of living of private sectors employees and to reduce poverty. However, there are also other factors that needed to be taken into account seriously to ensure that this minimum wage legislation will protect the welfare and the rights of the employees in private sectors. While for businesses in Malaysia, a lot of adjustments need to be done before implementing it because it will involves a lot of costs and changes as they need to sustain the business. | | Reference Minimum wages : wage-fixing machinery, application and supervision, Report III (Part B), International Labour Conference, 79th Session, Geneva, 1992 Press Release. Malaysian Employers Federation (MEF), Malaysia Should Further Reduce Dependence on Foreign Workers, 8 May 2012 The Star. 2 May 2012, Hard work, innovation needed to match minimum wage The Star. 6 March 2012. Manufacturers want minimum wage policy implemented in stages Joseph J. Sabia, University of Georgia, May 2006, The Effect of

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