

THE IMPLEMENTATION OF MINIMUM WAGES ORDER 2012  
IN ENHANCING BETTER STANDARD OF LIVING  
AMONG MALAYSIAN EMPLOYEES

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Partial fulfillment of the requirements for the award of  
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## CONFESSION

“Hereby, I declare that this thesis entitled “*The Implementation Of Minimum Wages Order 2012 In Enhancing Better Standard Of Living Among Malaysian Employees*” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature :

Name :

Date :

## DEDICATION

In this research, I would like to thank my lovely parents who always support and provide the caring encouragement during my studies. During my university life, they really contribute and give the full support to help me succeed within 4years in Universiti Teknikal Malaysia Melaka (UTeM).

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## ABSTRACT

The Minimum Wage Order 2012 provides the lowest wage permitted and specified by contract or law. The Malaysian Government determines the amount of the minimum wage in Malaysia, taking into account the cost of living and location and geographical area. This amount is adjusted according to the level of a person to survive and support their families. One advantage is that the minimum wage helps to narrow the income gap between rich and poor. The government effort is to ensure the optimum level of the national economy by introducing of a minimum wage in Malaysia. The minimum wage was established to improve the quality of life in Malaysia. The main focus of the government is to help low-income workers that these groups will not survive below-average wages. Three factors were selected for further study on the economy of individual employee, both the ability of workers to earn a living and also increase the performance and motivation of all employees in achieving a better quality of life. The conceptual framework on the implementation of minimum wage in enhancing the standard of living among Malaysian employees has been constructed to illustrate the relation between independent variables with the dependent variable. The primary data sources used in this study is mainly from the survey questionnaires. The secondary data used in this study, came from various sources. Among these sources are the published online journals, research papers and newspaper articles. Respondent are from Government-Linked Company and also private sectors in Malaysia.

## ABSTRAK

Gaji minimum adalah gaji yang paling rendah yang dibenarkan dan ditentukan oleh kontrak atau undang-undang. Kerajaan Malaysia telah menentukan jumlah gaji minima di Malaysia, dengan mengambil kira faktor kos sara hidup dan kawasan. Jumlah ini diselaraskan mengikut tahap seseorang untuk meneruskan kelangsungan hidup dan menyara keluarga. Satu kelebihan gaji minimum adalah yang membantu untuk merapatkan jurang pendapatan antara golongan kaya dan juga golongan miskin. Kerajaan telah berusaha dalam memastikan ekonomi negara di tahap optimum dengan memperkenalkan gaji minima di Malaysia. Gaji minima diwujudkan bertujuan meningkatkan kualiti hidup masyarakat di Malaysia. Fokus utama kerajaan adalah untuk membantu golongan pekerja yang berpendapatan rendah agar golongan ini tidak terus hidup di bawah kadar purata gaji. Tiga faktor telah dipilih untuk dikaji dengan lebih lanjut berkenaan ekonomi pekerja secara individu, kemampuan pekerja untuk menyara hidup dan juga peningkatan prestasi dan motivasi dalam diri pekerja dalam mencapai tahap kualiti hidup yang lebih baik. Rangka kerja konseptual mengenai pelaksanaan gaji minimum dalam meningkatkan taraf hidup di kalangan pekerja Malaysia telah bentuk untuk menggambarkan hubungan antara pembolehubah bebas dengan pembolehubah bersandar. Sumber-sumber data utama yang digunakan dalam kajian ini adalah daripada soal selidik kajian. Data sekunder digunakan dalam kajian ini, diperoleh melalui pelbagai sumber. Antara sumber-sumber ini adalah jurnal yang diterbitkan dalam kertas penyelidikan dan rencana akhbar. Responden terdiri daripada syarikat berkaitan kerajaan dan juga sektor swasta di Malaysia.



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Background Of Study

Datuk Seri Najib Tun Razak has said, in the move to transform Malaysia into a high- income nation as envisioned by Vision 2020, preparing the standard pay for every industries is very important and is a requirement for the growth of the economy (Bernama, 2006). Minimum wages gazette has been constructed in order to help low income people and reduce poverty line. The National Minimum Wages initiative for Malaysia was announced by the Prime Minister in his Budget Speech on 15 October 2010. It is one of the Government's policy instruments vide New Economic Model (NEM) to ensure inclusiveness by transforming the economy from a middle-income to a high-income economy by the year 2020. The policy is meant to ensure workers can meet their basic needs and create the necessary environment for industries to move up their value chain. Minimum wages is basic wages, excluding any allowances or other payments.

The Minimum Wages Policy also applies to employees who are paid on piece-rates, tonnage, trip- or commission-based. Employers are required to supplement the wages of these employees if their income does not meet RM900 per month for

Peninsular Malaysia and RM800 for Sabah, Sarawak and Labuan. A study conducted in 2009 showed that 33.8% of workers in the private sector earned less than RM700 per month, relative to the country's Poverty Line Income (PLI) level of RM800. One of the key goals of the Minimum Wages Policy is to ensure that all employees in Malaysia earn more than the PLI as the country transforms into a high-income nation. The implementation of the Minimum Wages Policy supports Malaysia's ambition to become a high-income nation by setting floor wages for all employees in Malaysia. Given the significant number of employees in the country who earn less than minimum wages, the new initiative is expected to boost gross national income. The Minimum Wages Policy will also encourage employers to move up the value chain by increasing the productivity of their employees through the use of technology and other innovations. The establishment of a floor wage for all employees in Malaysia will ensure that all layers of Malaysian society enjoy the great of development and transformation made by the government, which in turn will spur further consumption and economic activity. This implementation of Minimum Wage Order 2012 will bring a lot of impacts in everyone as it can strengthen the economic standing of employees; they also can bear the high cost of living. A part from that, through implementation of this enactment will provide motivation in increasing their working performance in workplace.

## **1.2 Problem Statement**

This case study arises from the reliance of the minimal wages to worker and performance in jobs. The rapid growth of the economy with the speed development of human capital, wage adjustments should be implemented to ensure the quality of work of the workers will be enhanced at the maximum. Therefore, the employee earned wages is also an important factor for the stability of output to align employee and organization development. There many impacts on the policy of minimal wages in Malaysia as it may



motivate workers to work be more productive, besides contributing to organizational performance and increased profits. The implementation of this order will help the employees to live in the high cost of living and at the same time would help to strengthen their economic. Malaysia cannot be a developed nation if a significant portion of its employees earn below the poverty line. As we all know, the government has developed a policy of minimum wage for all firms and the policy Minimum Wages Order 2012 has been enforced in January 2013. It is highlighted HRM will positively impact the policy recommended by govern. Previous study was conducted by Matthew Chesnes (2001) on The Effects of Minimum Wage Policy on Employment and Poverty Levels. Matthew Chesnes (2001) through his study, both empirical and theoretical determine the minimum wages effects with a general review of the evidence on the effects of the minimum wage. It elaborates about the mechanism of measuring the impacts of minimum wage policy on high cost of living and also study on the impact on employees' motivation. Despite that abundant of studies by Kaviyarasu Elangkovan (2013); A New Solution to Increasing Rate of Unemployment: Introduction of Minimum Wage Laws in Malaysia. By implementing Minimum Wages Order 2012 will bring positive impact on the individual economic standing of the employees. This study conducted to determine on (a) By implementing Minimum Wages Order 2012 will bring positive impact on the individual economic standing of employees, (b) the ability of employees to bear with the high living costs and also (c) Performance and motivation of employees towards their work field will increase after the Minimum Wages Order 2012 was enforced.

### **1.3 Research Questions**

This study conducted to address the extent in implementing minimal wages of workers in Malaysia and the importance of standardization of wages among the

employee. It offered three important questions that had not been previously investigated in other studies.

- a. How does Minimum Wages Order 2012 help to improve the employees' economy personally?
- b. How important is the enforcement of minimum wage in Malaysia in helping workers to sustain high costs of living?
- c. How far the implementation minimum wage impacts on employee's performance and motivation?

#### **1.4 Research Objectives**

Specifically, this study is intended to achieve the following objectives:

- a. To examine the extent of the Minimum Wages in improving the employees' economy.
- b. To analyze the coordination of Minimum Wages Order 2012 help employee to sustain in the current living costs.
- c. To determine the effectiveness of the minimum wage in improving employee performance and motivation in their job.

#### **1.5 Scope, Limitation Key Assumption of the Study**

The scope of study for this research includes the employees of Government-Linked Companies and private sectors in entire Malaysia. Each of the sectors have offer different background and relies on different adaptation on the Minimum Wages Order gazette by Malaysia government. The emphasis on the problems on the impact in implementing the minimum standard pay among workers in Malaysia and the feedback

of employers on the Minimum Wages Act 2012. The employees who have participated in the survey, are assessed on three variable such as the Employee's economic standing, ability to sustain in high living costs, and last but not least the measurement of their performance and motivation after receiving the standard pay.

## **1.6 Significance of the Study**

The significances of this study are on the factors that contribute to enhance the standard living of employees after they received their standard wages. The factors that contribute to a standard of living that will be examine in this study is on the economic standing of the employees in personally after they received the standard minimum wages. Besides, this study is to know ability of employees to sustain in the high living costs after they had received the wages followed the Minimum Wages Order 2012, and also their level of performance and motivation. The implementation of the minimum wage leads to higher levels of employment in the economy, lower levels of poverty, and overall makes the economy better off.

## CHAPTER 2

### LITERITURE REVIEW

#### 2.1 Introduction

Standard of living can be measured by the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area. The standard of living includes factors such as income, quality and availability of employment, class disparity, poverty rate, quality and affordability of housing, hours of work required to purchase necessities, gross domestic product, inflation rate, number of vacation days per year, affordable access to quality healthcare, quality and availability of education, life expectancy, incidence of disease, cost of goods and services, infrastructure, national economic growth, economic and political stability, political and religious freedom, environmental quality, climate and safety. The standard of living is closely related to quality of life. The standard of living is often used to compare geographic areas, such as the standard of living in the Malaysia versus Singapore, or the standard of living in Canada versus New York. The standard of living can also be used to compare distinct points in time. For example, compared with a century ago, the standard of living in the United States has improved greatly. The same amount of work buys an increased quantity of goods, and items that were once luxuries, such as refrigerators and automobiles, are now widely available. As well, leisure time and life

expectancy have increased, and annual hours worked have decreased. Some empirical studies have tried to ascertain the benefits of a minimum wage beyond employment effects. In an analysis of Census data found the minimum wage statistically significant evidence that minimum wage increases helped reduce financial, housing, health, or food insecurity. This study was undertaken by the Employment Policies Institute, a think tank funded by the food, beverage and hospitality industries (Joseph & Robert, 2012).

It is very important for an organization to prepare a standard pay for their employees. As we know that nowadays, with the challenges to survive, money is important. The action taken by the employer to provide their worker with the minimum wage constructed by the law, it will give advantages to both parties. The minimum wage can be said as a best medium to provide employees such a best adaptation to their workplace and responsible.

## **2.2 What is Minimum Wage?**

Minimum wage is the minimum amount of compensation an employee must receive for performing labor. Minimum wages are typically established by contract or legislation by the government. As such, it is illegal to pay an employee less than the minimum wage. The minimum wage attempts to protect employees from exploitation, allowing them to afford the basic necessities of life. The minimum wage rate fluctuates between countries, and sometimes between states or provinces. Minimum wages have drawn strong criticism from many economists, since it establishes a price floor on wages. Price floors can lead to a dead weight loss in the economy, which means that inefficiencies exist. In this case, the minimum wage might force companies to hire fewer employees, thus increasing unemployment. According to Brown (2008), the U.S. federal minimum wage rate was \$6.55/hour. However, in states where the state minimum wage

is higher than the U.S. federal minimum wage, workers must be paid the higher minimum wage. In Malaysia, minimum wage has been enforced by the government in 2012. Malaysia government has set the average rates of payment by following the areas of place in Malaysia.

In line with the objective of implementation of the Minimum Wages Order 2012, a full time employee shall be paid an average minimum wages of not less than RM900 (Peninsular Malaysia) or RM800 (Sabah, Sarawak and Federal Territory of Labuan) a month. A full time employee paid on a daily basis and was present to work on normal working days as determined and who completes the agreed normal hours of work as per the contract of service without regard to the total hours worked in a day shall be paid a daily minimum wages based on the following formula:

$$\text{Daily Wages Rate} = \frac{\text{Rate of Monthly Minimum Wages} \times 12 \text{ months}}{52 \text{ weeks} \times \text{No. of Working Days in a Week}}$$

- (i) The daily minimum wage rates for Peninsular Malaysia are as follows:

Table 2.1 Daily Minimum Wage Rates For Peninsular Malaysia

No. of Working Days in a Week	Daily Wages Rates	Average Monthly Wage
6	RM34.62	RM34.62 x 26 days =RM900.12 ≈ RM900
5	RM41.54	RM41.54 x 21.67 days =RM900.17 ≈ RM900
4	RM51.92	RM51.92 x 17.33 days =RM899.77 ≈ RM900

Note: The above calculation is based on total working hours of a maximum of 48 hours a week.

Resource: Federal Government Gazette MINIMUM WAGES (AMENDMENT) ORDER 2012, 28 December 2012.

- (ii) The daily minimum wage rates for Sabah, Sarawak and Federal Territory of Labuan are as follows:

Table 2.2 Daily Minimum Wage Rates for Sabah, Sarawak And Federal Territory of Labuan

<b>No. of Working Days in a Week</b>	<b>Daily Wages Rates</b>	<b>Average Monthly Wage</b>
6	RM30.77	RM30.77 x 26 days =RM800.02 ≈ RM800
5	RM36.92	RM36.92 x 21.67 days =RM800.06 ≈ RM800
4	RM46.15	RM46.15 x 17.33 days =RM799.78 ≈ RM800

Note: The above calculation is based on total working hours of a maximum of 48 hours a week.

Resource: Federal Government Gazette MINIMUM WAGES (AMENDMENT) ORDER 2012, 28 December 2012.

Issues relating to the minimum wage have always been debated by many countries, with in the intention to build a high level nation. Besides, Pierre (2012) commented on this issue of the International Journal of Labor Research is wholly dedicated to the question of the minimum wage, a matter that has gained in importance and profile in recent years. No doubt, the main reasons behind this rise in prominence relate to the stagnation of wages in several parts of the world, a generalized increase in earnings inequality as well as the rise in social unrest across the globe. This matter is crucial in order to maintain the workers performance that will give a relevant influence to company profit.

In Malaysia, legislation on minimum wage has been gazette as the changes of the cost of living and also the employees working performance. In the aftermath of this

exchange, other economists began to accumulate empirical evidence on the effects of the minimum wage, with much of this research suggesting that increases in the wage floor were having adverse effects on the minimum wage of employees (Goldfarb, 1974).

### 2.3 Standard of Living

Standards of living are often referred to economic and also social well-being. According to Fontinelle (2011), standard of living generally refers to the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class, in a certain geographic area. An evaluation of standard of living commonly includes the following factors:

- Income
- Quality And Availability Of Employment
- Poverty Rate
- Quality And Affordability Of Housing
- Hours Of Work Required To Purchase Necessities
- Gross Domestic Product (Gdp)
- Inflation
- Climate
- Safety
- Quality And Availability Of Education
- Life Expectancy
- Incidence Of Disease
- Cost Of Goods And Services
- Infrastructure
- National Economic Growth
- Economic And Political Stability
- Political And Religious Freedom
- Environmental Quality