

Industry perspectives on Malaysian hotel minimum wage issues

Hotel
minimum
wage issues

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Abstract

Purpose – The purpose of this paper is to investigate and compare the impact of the minimum wage order from the perspectives of two different stakeholders, namely, hotel managers and employees, in the Malaysian hotel industry.

Design/methodology/approach – For the study, qualitative data were collected through semi-structured interviews from three managers and three employees from hotels in West Malaysia.

Findings – From the managers' perspective, minimum wage implementation has resulted in managers adopting the best payment structure to reduce labour costs for the operators, deciding to reduce the service charge allocation to employees and having to deal with minimal improvement in employee productivity and motivation. In contrast, the positive impact from the managers' perspective is lower turnover intentions and social justice for foreign workers. From the employees' perspective, there is a rather negative impact – minimum wage policy has resulted in a minimal increase in the salary. From a positive perspective, employees said that they have experienced an improvement in living standards.

Originality/value – This research presents current responses from hotel participants regarding the latest wage increase impact, some six years after its implementation.

Keywords Minimum wage order, Hotel employees, Hotel operators, Malaysia

Paper type Research paper

Introduction

The minimum wage concept originated in 1894 in New Zealand and spread to the UK in 1909 and is adopted by 90 per cent of the International Labour Organisation member states (International Labour Organisation [ILO], 2019a, 2019b, 2019c). Minimum wage is defined as:

[. . .] the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract (International Labour Organisation [ILO], 2019a, 2019b, 2019c).

The purpose of implementing a minimum wage is to protect workers against low pay, increase income growth for the bottom 40 per cent of the population by 2030 and reduce inequality (International Labour Organisation [ILO], 2019a, 2019b, 2019c). The minimum



wage was introduced in Malaysia in 2012 as part of the country's transformation plans for a higher income status, poverty reduction and increased domestic demand and to encourage enterprises to move up the value chain by investing in more advanced technology, better labour productivity and reduced reliance on unskilled foreign workers (ILO, 2016).

Malaysia introduced its minimum wage policy after the National Consultative Council Act 2011 was passed by the Parliament in 2012 (*Daily Express*, 2019). In 2013, the minimum wage was implemented across all industries in Malaysia. This was set at RM900 in Peninsular Malaysia and RM820 in East Malaysia (*Star Online*, 2014). In 2016, the minimum wage increased to RM1,000 in West Malaysia and RM920 in East Malaysia, and it is expected to reach RM1,500 (*Star Online*, 2014; *Attorney General's Chambers of Malaysia*, 2016). As of January 2019, the new minimum wage was RM1,100 for both West and East Malaysian employees (*National Human Resource Centre Malaysia*, 2018). From an international perspective, Malaysia ranks 43 out of 197 countries in its minimum wage per hour rate. In comparison with Australia, which offers the highest minimum wage of US \$13.15 per hour, Malaysia offers US\$1.30 or RM5.29 per hour (*Australian Government*, 2019; *National Human Resource Centre Malaysia*, 2018; *Che Ahmat*, 2018).

The reference point for determining the minimum wage in Malaysia is the poverty line income (PLI), as reflected by the median wage, changes in consumer price index, productivity growth and real unemployment rate. The PLI averaged RM800 for Malaysia at the time the minimum wage was introduced. The PLI for Sabah and Sarawak was actually higher than that for West Malaysia. A person in West Malaysia should earn at least RM763 to live above the poverty line but would require RM1,048 in Sabah or RM912 in Sarawak to do the same (*Gan and Goh*, 2014). Thus, the current minimum wage of RM1,100 is above the PLI for West and East Malaysia.

One of the industries affected by the minimum wage policy is travel and tourism. The Malaysian travel and tourism industry contributes 11.8 per cent to Malaysia's total employment, equivalent to 1.7 million jobs in the workforce (*World Travel and Tourism Council [WTTC]*, 2018; *Department of Statistics Malaysia*, 2016). The implementation of the minimum wage law in the hospitality industry differs from other industries, as the payment of wages includes a basic wage, supplemented by a service charge. Prior to the minimum wage implementation, the minimum wage for entry-level employees was as low as RM350 per month, and employees were heavily reliant on the service charge to increase their salary (*The New Straits Times*, 2015). The minimum wage order (MWO) was enforced in the hospitality industry after much deferment due to issues raised about the service charge payment.

The service charge is defined as a charge above the goods or services tax imposed by the government. A service charge is applied in the hospitality industry, which consists of monies collected by the hotel or restaurant to be paid to the staff instead of tips (*Royal Malaysian Customs Department*, 2014). With the implementation of the minimum wage, the service charge component can only be collected by hotels and restaurants with unionised employees, where an employer–employee collective agreement has been put in place. In addition, the restaurant or hotel must clearly place a notice of the service charge for the customers to see (*Star Online*, 2018a, 2018b). The service charge value is permitted within a range of 5–10 per cent. The service charge is calculated based on the monthly sales performance of the hotel. If the hotel performs well for the month, the 10 per cent service charge is distributed across the employees in the form of service charge points. Employees are awarded service charge points based on the hotel's revenue and employees' rank and position (*Says*, 2015). Other than the service charge, the hotel industry also provides a number of employee allowances, such as accommodation, staff meals, transportation and

uniforms. In addition, fringe benefits such as insurance, social security and compulsory retirement scheme payment (Employee Provident Fund [EPF]) are provided by the employer.

To overcome the challenges relating to the minimum wage faced by the hospitality industry, four payment structures were developed for hotel operators: clean wage, fully top-up from service point, partially top-up from service point and top-up by hotel (Che Ahmat, 2018). In fact, most hotels use clean wage or fully top-up from service point. A clean wage is a payment without any service charge where hotels “repackage” their employees’ total remuneration in a manner that does not result in a drastic increase in salary levels (Che Ahmat, 2018). Fully top-up allows hotels to convert part of the service charge into wages, for the purpose of complying with the MWO (Che Ahmat, 2018). Partially top-up is where the hotel makes up the difference between the original base pay and new base pay after the implementation of the minimum wage by drawing on the hotel revenue. The hotel also uses a portion of the service charge to make up the minimum wage (Che Ahmat, 2018). Top-up by the hotel is where the hotel fully makes up the difference between the original base pay and new base pay after the implementation of minimum wage from its revenue – excluding the service charge (Che Ahmat, 2018). Table I summarises the four wage structures for the Malaysian hotel industry.

From a hotel operator’s perspective, the implementation of the minimum wage law means incurring additional 20-40 per cent operating costs (Ahmad *et al.*, 2016; Che Ahmat, 2018). In the past, wages were determined based on staff productivity and seniority and the hotel’s sales performance. With the implementation of the minimum wage law, these considerations are not accounted for. Thus, irrespective of staff productivity and skill levels, the minimum wage is paid. In a study of hotels on the Malaysian island of Langkawi, operations managers and owners of hotels faced the challenge of having to pay minimum wages to underperforming employees with low productivity levels (Ahmad *et al.*, 2016). Hotels with a full range of services (four- to five-star hotels) that need more entry-level staff would be required to increase the minimum wages from RM500 to RM900, directly increasing payroll costs (Ahmad *et al.*, 2016). Even if the hotel’s sales performance is low, especially during low-peak season, the hotel still needs to pay the minimum wage. Due to the increase in operating costs, hotels may have to consider reducing the number of employees, operating hours and

| Minimum wage structure | Definition |
|------------------------|---|
| Clean wage | A clean wage is payment without any service charge where hotels “repackage” their employees’ total remuneration in a manner that does not result in a drastic increase in salary levels |
| Fully top-up | Enables hotels to convert part of the service charge into wages, for the purpose of complying with the MWO |
| Partially top-up | The hotel makes up the difference between the original base pay and new base pay after implementation of the minimum wage, drawing on hotel revenue. It also uses a portion of the service charge to make up the minimum wage |
| Top-up by hotel | The hotel fully makes up the difference between the original base pay and new base pay after implementation of the minimum wage from its revenue excluding the service charges |

Table I.
Summary of the four
payment structures
for the hospitality
industry

Source: Che Ahmat (2018, p. 2)

fringe benefits (Gan, 2016). In some instances, hotels considered increasing product pricing to sustain their businesses (Che Ahmat, 2018; Gan, 2016).

Before the MWO, hoteliers typically offered a low basic salary that was enhanced by service charge payments. However, after the implementation of the minimum wage, the service charge payment and minimum wage resulted in entry-level employees earning as much as managers. Thus, some hotels resorted to restructuring their wages approach by adopting the top-up system (Ahmad *et al.*, 2016). However, unionised hotels faced lawsuits due to disagreements about using the service charge to make up the minimum wage (Ahmad *et al.*, 2016). To avoid lawsuits, many hotels resorted to the clean minimum wage system. The new policy allows operators to restructure the pay system to a clean minimum wage and reduce fringe benefits for employees (Gan, 2016). In 2015, 7 per cent of the hotels adopted the clean wage system, and by 2016, 33 per cent had adopted the clean wage system (Ng, 2016), indicating a switch in the adoption of the wage structure from the other three structures to the clean wage system.

The clean minimum wage system resulted in negative reactions from employees. From an employee perspective, the minimum wage law is only applicable to entry-level and operational operatives – not managerial-level employees who are paid a fixed, monthly salary. The higher paid salary positions such as chefs, hotel managers, restaurant managers, event coordinators, engineers, executive housekeepers, sommeliers and casino managers are not impacted by the minimum wage law. Its purpose is to improve the pay of entry-level, low-skilled employees.

Past literature from a managerial perspective suggests that the MWO increases social justice for foreign workers and also increases operating costs (Ahmad *et al.*, 2016). For employees, the MWO has helped to reduce the scale of poverty-level wages and led to an improvement in the quality of life, an increase in long-term productivity, improved job opportunities for locals and, as noted earlier, social justice for foreign workers (Yuen, 2013; Gan, 2016; Che Ahmat, 2018). However, there is also an indication that a reduction in the number of job opportunities has occurred and with this fringe benefits, namely, overtime payments (Gan, 2016).

The objective of this study is to investigate and compare the current impact of the MWO on two stakeholder groups, namely, managers and employees, in the Malaysian hotel industry.

Research approach

This is an exploratory study that compares and contrasts the impact of the MWO from the perspective of two groups, hotel managers and hotel employees. The research method used was qualitative in nature, and personal interviews were conducted with the hotel managers and employees. This study used purposive and convenience sampling methods. The participants were first recruited by telephone, prior to a personal interview. Most human resource managers and owners participated and willingly answered the questions. However, some human resource managers were not willing to allow their employees to be interviewed, as they took the view that wages and salaries are “private and confidential” company information. Thus, employees were informally interviewed away from their place of employment. Semi-structured interviews were used, as two different questionnaires were prepared for the hotel managers and employees, respectively. A standardised set of questions and predetermined answers were prepared. These questions and answers were read out so that each participant could then respond as appropriate (Saunders *et al.*, 2009).

Findings

Profile of the respondents

Hotel managers' perspectives were obtained from interviews with one five-star hotel human resource manager, one four-star hotel human resource manager and one owner and manager of a budget hotel. The employees' perspective was obtained by interviews with three different hotel employees. Two employees were from two different five-star hotels, and one employee was from a four-star hotel. M1H1 refers to Manager 1 from Hotel 1 and E1H1 refers to Employee 1 from Hotel 1 (Table II).

Management perspectives on the impact of the minimum wage order

The new payment structure for hotels. All three managers from the five-star, four-star and budget hotels claimed that the clean wage system had been adopted. The managers believed that it was well received by the employees of their hotels: "Employees generally accept the clean wage system implemented by the hotel" (M1H1) and "the minimum wage is a benchmark set by the government for hotels to follow and to take care of employees" (M3H3). Thus, from the managers' perspective, the clean wage payment structure was considered to be suitable and accepted by employees and suited various hotels, irrespective of the star rating.

The service charge allocation to employees. The three hotel managers interviewed claimed that with the implementation of the clean wage system, the service charge is removed from the wage structure. However, a service charge collection from guests still exists, as the published rate on each hotel's website displays the price, government tax and a service charge component.

Labour cost. The three managers had differing responses to the effect of minimum wage implementation on hotel labour costs. The manager from the five-star hotel claimed that, "Our hotel did benefit from lower overall labour costs" (M1H1). This five-star hotel adopted the clean wage system. However, the second manager from the four-star hotel claimed that the MWO increased the labour costs of the hotel. One of the reasons attributed to the increase in labour costs is overtime payments and higher EPF contributions due to higher base pay.

Overtime payment is now calculated based on the fixed salary which attracts a higher rate. This is the same situation for EPF payment by the employer. As a result of the negative impact of MWO on the hotel's labour costs, the hotel conducted a complete restructuring of the hotel's compensation structure for all employees. (M2H2)

The owner/manager of the budget hotel stated that:

Our hotel previously paid employees RM700 – then the minimum wage and this has now increased to RM1100. Those with wages above RM1100, were also given an increase in salary of RM100 to create a fair increase in wages for all employees. To overcome the increase in labour

| Respondent | Post | Years of experience | Hotel's star rating |
|------------|-------------------------|---------------------|---------------------|
| M1H1 | Human resource manager | 6 | Five-star |
| M2H2 | Human resource manager | 5 | Four-star |
| M3H3 | Hotel owner and manager | 10 | Budget hotel |
| E1H1 | Front-line staff | 2 | Five-star |
| E2H2 | Front-line staff | 5 | Five-star |
| E3H3 | Front-line staff | 19 | Four-star |

Table II.
Profile of the
respondents

costs, no service points are allocated to staff even though the service charge is paid by the customer. In addition, tips given by guests are put into a box and distributed equally among all staff. (M3H3)

In summary, the four-star and budget hotels both experienced an increase in labour costs, but the five-star hotel managed to achieve a reduction in labour costs.

Employee productivity. Only one out of the three managers who responded indicated that employees were more productive since the implementation of the minimum wage policy. The owner of the budget hotel added that, "I pay incentives above the minimum wage to staff who are more productive as a reward for their hard work" (M3H3). This would suggest that the increase in minimum wage has not had a positive impact on productivity. To link the two, the minimum wage needs to be supplemented with incentives to reward employees who are more productive.

Improved living standards. The employer and employee now have higher EPF contributions due to an increase in their basic wage:

With a higher basic salary, the ability of employees to take loans from financial institutions (improves) as basic salary and fixed allowances are considered in a loan application. Previously with a low basic salary and fluctuating service charge this was more problematic. Higher EPF contributions enable employees to increase their savings for retirement. (M2H2)

"It is compulsory for the employer to provide insurance, Occupational Insurance System (SIP), EPF and social security for employees" (M3H3). Indirectly, the increase in the minimum wage also increases the value of fringe benefits for employees and, specifically, insurance, retirement funding and social security, and this, in turn, improves living standards.

Employee motivation. One manager believes that the MWO reduced employee motivation, as overtime pay motivated staff to work beyond the normal working hours. "The negative outcome of the minimum wage order is the reduction of overtime work that previously motivated staff to work harder and longer hours" (M2H2). However, from a different perspective, another manager said that money alone does not motivate staff but that non-monetary issues such as employer respect and recognition for employees contribute to employee motivation. "Payment is only one form of motivation in addition to the manager building a good relationship with staff to motivate them" (M3H3). In summary, the minimum wage does not appear to motivate staff, rather it is a combination of monetary and non-monetary rewards (including the minimum wage) that motivates employees.

Employee turnover intentions. All three hotel managers responded positively to employee turnover intentions. "There is a lower turnover intention among the staff" (M1H1 and M2H2). "Most of my employees are loyal staff" (M3H3). In view of the consensus, it is evident from the employers' perspective that the minimum wage has decreased employee turnover intentions.

Social justice for foreign workers. There were varied responses as to whether the minimum wage improved social justice for foreign workers who were previously paid less than local Malaysian employees.

The positive impact of MWO for the hotel is the increase in social justice as both Malaysian and foreign employees will receive the same minimum wage rate. The foreign worker is often willing to work more hours than local employees without complaint, thus they deserve the same minimum wage as locals. (M2H2)

"In my hotel, no foreign workers are employed as locals are able to perform the task" (M3H3). The four-star hotel still hires foreign workers, and the manager believed that social

justice has increased for foreign workers in hotels. A different perspective was provided by the budget hotel owner who has no need to hire foreign workers and so is able to maximise job opportunities for locals.

Employee perspectives on the impact of the minimum wage order

Three entry-level employees from three different hotels were interviewed to determine the impacts of the MWO.

The new payment structure for hotels. The three respondents from four- and five-star hotels said that they are paid using the clean wage, fully top-up and top-up payment structures. The first employee interviewed was from a five-star hotel and was paid using the clean wage system. The employee mentioned that “the hotel no longer collected the service charge or paid service points” (E1H1). The second employee interviewed was a five-star resort hotel employee. The respondent indicated that the hotel paid minimum wages only to new employees. However, all other employees were entitled to one service point. “The hotel still practised the collection of service charges from its guests” (E2H2). The third employee of a four-star city hotel reported that “his hotel chain decided to pay a flat payment above the RM1,100 minimum wage to all employees without imposing a service charge” (E3H3). The first hotel employee of the five-star hotel was paid using the clean wage system, and the second hotel employee from the five-star hotel was paid using the top-up method. The third four-star hotel employee was paid using the top-up method.

The service charge allocation to employees. E1H1 and E3H3 said that their hotel no longer collected service charges. E2H2 said that the hotel retained its service charge received from customers. However, the published rate on the hotel’s website indicated a service charge (for the benefit of employees) was still in use. Two of the three employees seemed unaware of the new payment structure operated by the hotel and that the service charge collected from guests has been “repackaged” via the minimum wage.

Employee productivity. The employees representing the two five-star hotels commented that the new minimum wage does not demand more work of them, but the employee from the four-star hotel stated that:

[...] my hotel has reduced its number of employees from 250 staff to 130 staff and reduced overtime pay. This means that each of us is effectively doing the work previously done by three people during our 8 hour shift. Also, the hotel operates with skeletal staffing on public holidays to reduce the triple pay payment. (E3H3)

The employee from the four-star hotel was affected by the new top-up payment structure, where all employees were paid RM1,500 flat salary with no service points and expected to work more within the 8 h of work per day. The job scope for the four-star hotel employee has increased, but for the five-star hotel remains the same.

Improved living standards. Two of the three employees interviewed implicitly indicated an improvement in living standards through a higher base wage and EPF contributions.

The MWO increased my standard of living as the minimum wage increases the value of the retirement fund or Employee Provident Fund (EPF) contributions which are now calculated based on the higher minimum wage as opposed to the calculation based on the basic wage previously. (E1H1)

“The new pay system has increase my overall salary and provided more EPF contributions” (E2H2).

Employee motivation. One employee out of the three hotels was demotivated by the implementation of the new minimum wage.

I view the new minimum wage as a benefit for my hotel as they can now save on service point payments but they now have to pay a similar salary for experienced and inexperienced employees and this hotel has reduced the number of staff to manage its costs. (In terms of motivation) this flat payment is a disadvantage to the hotel as it has created resentment among the staff (E1H1).

Table III summarises the comments made by the managers and employees during the interview sessions.

Discussion

The original intention of minimum wage policy implementation was to help facilitate the country's transformation plan – towards Vision 2020 with the objective of securing higher income status, reducing poverty, increasing domestic demand, encouraging enterprises to move up the value chain by investing in higher technology, increasing labour productivity and reducing the demand for unskilled foreign workers. In the hospitality industry, the minimum wage policy was implemented via four wage structures. Past literature by Ng (2016) suggests that most employers and managers implemented the top-up system with a shift over time to the clean wage system. This study found that new hotels tended to adopt the clean wage system, but older and more established hotels adopted the clean wage, fully top-up from service point, partially top-up from service point or top-up by hotel minimum wage structure. The clean wage system equates with the minimum wage as per the current government guidelines.

The clean wage system is being adopted by hotels because it does not involve service charge payments to employees. Employees' take-home pay that was previously made up of base pay plus service charge is now combined and offered as the minimum wage. Prior to minimum wage implementation, employees were paid a base salary in addition to service points arising from high occupancy as a reward for added workload. With the clean wage minimum, the new salary remains fixed at RM1,100 per month irrespective of high- or low-peak season, and if hotel revenues increase, there is no salary increment or reward. This is a source of resentment among employees due to what is in effect, a reduction in income during peak periods with no reward for an increased workload.

As employee salaries are now stable and do not fluctuate with hospitality industry seasonality, employees are better placed to plan and manage their finances. The interviews with managers indicated that in general, staff are in favour of the clean wage structure. In contrast, the employees interviewed seemed resentful due to lack of awareness of the way that wage payments have been repackaged.

When employees were questioned as to whether the hotel still makes a service charge, most employees thought that the service charge allocated to employees had ceased. This was not the case in reality. Most hotels retain the service charge and they use this to make up the difference between the previous base wage and the new base wage. This suggests that there has been little or no increase in operating costs, as the customer is paying for the increase in the base pay. Thus, the five-star hotel's decrease in labour costs is justified, as reported by MIHI. Past literature suggesting that labour costs increased by 20-40 per cent (Ahmad *et al.*, 2016) is no longer relevant to a five-star hotel using the clean wage system. However, for the four-star hotels that used the top-up by hotel payment structure, overtime payments and fringe benefits increased due to the increase in base pay. Thus, it may be implied that the clean wage structure for a five-star hotel is a cost-effective wage structure for employers and that the top-up structure is not cost-effective.

For hotel managers who have faced increased costs, employees reported a cut-back in the number of overtime hours and a reduction in the number of employees since the increase in the minimum wage. Hotel managers have realised the need to become prudent in managing

| Issues related to MWO | Manager perspective | Employee perspective |
|--|---|---|
| New payment structure | <p>“Employees generally accept the clean wage system implemented by the hotel.” (M1H1)</p> <p>“The minimum wage is a benchmark set by the government for hotels to follow and to take care of employees.” (M3H3)</p> | <p>“The hotel no longer collects the service charge or paid service points.” (E1H1)</p> <p>“Minimum wages are only for new employees. The rest still have one service point.” (E2H2)</p> <p>“My hotel decided to pay a flat payment above the RM1100 minimum wage to all employees - without the service charge.” (E3H3)</p> |
| Service charge allocation to employees Labour costs | <p>The service charge allocation has been removed from the wage structure</p> <p>The five-star hotel claimed lower labour costs, but the four-star and budget hotels have higher labour costs</p> <p>“I pay incentives above the minimum wage to staff who are more productive as a reward for their hard work.” (M3H3)</p> | <p>“The hotel no longer collects a service charge.” (E1H1 and E3H3)</p> |
| Employee productivity | <p>“With a higher basic salary, the ability of employees to take loans from financial institutions is enhanced, as the basic salary or fixed allowance is considered in a loan application. Previously, a low basic salary and fluctuating service charge was disadvantageous. Higher EPF contributions enable employees to have more savings for retirement.” (M2H2)</p> | <p>“My hotel has reduced the number of employees – from 250 staff to 130 staff, and reduced overtime pay. This means that employees have to do the work of three people in their 8 hour shift. The hotel operates on skeletal staffing during public holidays to reduce the triple pay payment.” (E3H3)</p> |
| Improved living standards | <p>“It is compulsory for the employer to provide insurance, occupational Insurance System (SIP), EPF and social security for employees” (M3H3H)</p> | <p>“The MWO increased my standard of living as the minimum wage increases the value of the retirement fund or Employee Provident Fund (EPF) contributions. This is now calculated based on the higher minimum wage whereas previously it was calculation based on the basic wage.” (E1H1)</p> <p>“The new pay system has increase my overall salary and provided more EPF contributions” (E2H2)</p> |
| Employee motivation | <p>“The negative outcome of the minimum wage order is the reduction of overtime work that previously motivated staff to work harder and longer hours.” (M2H2)</p> <p>“Payment is only one form of motivation in addition to the manager building a good relationship with staff to motivate them.” (M3H3)</p> | <p>“I view the new minimum wage as a benefit for my hotel as they now save on service point payments but would have to now pay similar salary for experienced and inexperienced employees. The payment of minimum wage is beneficial for hotels but this hotel has reduced the number of staff to manage its costs. This flat payment was a disadvantage to the hotel as it created resentment amongst staff.” (E1H1)</p> |

(continued)

Table III.
Summary of
comments: manager
and employee
perspectives

Table III.

| Issues related to MWO | Manager perspective | Employee perspective |
|------------------------------------|---|----------------------|
| Employee turnover intention | "There is a lower turnover intention among the staff." (M1H1 and M2H2) | |
| Social justice for foreign workers | "Most of my employees are loyal staff." (M3H3) "The positive impact of MWO for the hotel is the increase in social justice as both Malaysian and foreign employees will receive the same minimum wage rate. The foreign worker is willing to work more hours than local employees and rarely with complaint so they deserve the same minimum wage as locals." (M2H2) "In my hotel, no foreign worker is employed as local are able to perform all the tasks." (M3H3) | |

labour costs due to restructuring in the minimum wage by reducing overtime pay and the number of staff.

Minimum wage policy has not increased productivity from the managers' and employees' perspective. Managers stated that added incentives need to be provided to motivate staff and increase productivity. One employee claimed that productivity was enforced by management, as fewer staff are available to complete a task. That said, the current living standards of employees permit loan applications for cars and housing, as the base salary is fixed and both the managers and the employees agree that standards of living have increased. In addition, the future retirement funds of the employee are more secure with a higher value. However, the positive outcome of the improvement in living standards has not yielded any improvements in employee motivation and productivity, suggesting that this study is consistent with past research by [Ahmad et al. \(2016\)](#).

The minimum wage policy was also intended to reduce dependency on unskilled foreign workers and increase the number of local employees. Four- and five-star hotels in this research appear to hire more foreign workers than budget hotels, as the staff-to-guest ratio is higher. In addition, foreign workers are more willing to work longer hours than locals. The four-star hotel manager claimed that the social justice between local and foreign workers was now evident, as both locals and foreigners receive the same pay, which is justified due to the higher productivity levels of foreign workers. In contrast, the budget hotel owner refused to hire foreign workers, as locals were as capable as foreigners if they are correctly motivated and incentivised. Larger and higher star-rated hotels require more labour and still depend on foreign workers, but small hotels like budget hotels have reduced their prior dependency on unskilled foreign workers.

The minimum wage is also intended to increase domestic demand for local hospitality products. However, since the implementation of the minimum wage policy in 2013, GDP has been an average of 5.18 per cent for the past five years ([The World Bank, 2019](#)). No increase in domestic demand is evident, and the objective of increasing domestic demand has not been achieved. In addition to increasing domestic demand, the minimum wage policy was introduced to encourage enterprises to move up the value chain by producing new products and services. Hotels need to innovate and create more cost-efficient processes and products through the use of the internet and artificial intelligence, which is slowly being adopted by the Malaysian hotel industry.

Conclusion

From the managers' perspective, minimum wage implementation has resulted in managers adopting the best payment structure to reduce labour costs for operators. They decided to reduce the service charge allocation to employees and, as a consequence, must now address the minimal improvement in employee productivity and motivation. In contrast, the positive impact from the managers' perspective is lower turnover intention and social justice for foreign workers. From the employees' perspective, the minimum wage policy has resulted in a minimal increase in salary and added work. From a positive perspective, employees have experienced improvement in living standards.

The implications of this research are self-evident for policymakers and hotels. For policymakers, there is a need to continually review and improve the wage setting mechanism (ILO, 2016). The four types of wage structure for hospitality organisations were complicated and led to dissatisfaction among employees and/or the union to the extent that several hotels faced lawsuits for being non-compliant with the "top-up" wage structure designed by policymakers. As most hotels have adopted the clean wage system, policymakers need to review it to determine whether this system is beneficial for the

employee groups that the minimum wage sought to prioritise. A comprehensive wage assessment survey or study needs to be undertaken regularly to determine the actual impact of the minimum wage on employees (ILO, 2016).

For hotel managers and owners, the clear requirement of the minimum wage system is the need to have good human resource practices (Ahmad *et al.*, 2016). Specifically, the hiring, training, scheduling and firing practices need to be implemented in line with governmental regulations. Managers need to be selective in hiring staff to ensure high productivity levels. The hotel is also responsible for ensuring the understanding and awareness of the wage structure among its employees to prevent confusion about the different wage systems.

The limitation of this study is that the managers and employees interviewed were not from the same company, and so, there are differences in perceptions arising from different hotels with different payment structures. In future, it would be helpful to conduct a quantitative study of the different perceptions of managers and staff in the one-star-rated hotel category and gather data from a larger sample size for greater reliability and validity. A follow-up study of staff and employees in four-star and, separately, in budget hotels would help to clarify the varying perspectives of those working in different-star-rated properties. Alternatively, the impacts can be studied from varying star hotels using the common wage structure. More specific research would result in focused perspectives on the impact of the minimum wage policy in Malaysian hotels.

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