

The Impact of Minimum Wage Order on Employment in Langkawi Hotels

Rozila Ahmad, Nor Azimin Zainol and Hamimi Omar

School of Tourism, Hospitality and Environmental Management, Universiti Utara Malaysia,
Sintok, 06010 Kedah, Malaysia

Abstract: The hotel industry is susceptible to environmental changes such as changes in law and regulations. In Malaysia, the hotel industry is afflicted by the increasing labour cost due to the implementation of a national minimum wage policy that started in 2012. As in other countries, the labour cost increased has affected organization's employment practices. Despite being a labour intensive industry, literature on human resources issues focusing on Malaysian hotel industry in relation to Minimum Wage Order (MWO) is scarce. The hotel industry is labour intensive and many of its employees are minimum wage earners. Thus, it is crucial to investigate and discuss how the policy affects hotel organizations employment practices. For this purpose, twenty Langkawi hotel managers were interviewed. This study discovered that the impact of MWO varies and it is influenced by the hotel's volume of business. Contradictory to the literature, it does not affect the employment of female in the workforce. This study contributes to human resource management literature by giving an insight to the impact of MWO on employment in hotels in a developing country. Besides adding number of literatures related to MWO and human resource issues, it may also serve as guide for the hotel managers in other developing countries that are new to MWO.

Key words: Developing country, minimum wage, employment, female, human resource management, hotel

INTRODUCTION

In 2012, the government of Malaysia has announced the implementation of a national minimum wage policy for the private sectors, set at RM 800 applied to East Malaysia and RM 900 in the Peninsular Malaysia (Ghee *et al.*, 2015). The implementation of Minimum Wage Order (MWO) implies changes in employee's pay and an increased in labour cost and the impacts are greater compared to developed countries due to higher total staff numbers in developing countries (Nankervis, 2000; Todorovic and Ma, 2008). The impact of MWO on employment is frequently discussed in MWO literature.

MWO implementation and the increased of MWO level are more likely to decrease the employment among female, low-skilled and low-paid workers whose pay are lower than the MWO rate (Kawaguchi and Yamada, 2007). Increase unemployment occurs especially among the low-paid teenage and female workers (Addison and Ozturk, 2012; Ni *et al.*, 2011; Sabia, 2009; Singell and Terborg, 2007). As for the female workers increased unemployment also affects those who are not paid below the MWO rate due to social and physiological factors (Ni *et al.*, 2011; Sabia, 2009; Singell and Terborg, 2007).

There are numerous studies on MWO impact on employment. However, most of the studies are concentrated in developed countries (Kawaguchi and Yamada, 2007; Ni *et al.*, 2011) when there are more people living in poverty in developing countries. Existing studies revealed that while MWO reduced poverty among the lowest paid employees in the formal sector, it also hinders employment creation and reduces the number of good jobs (Danziger, 2010; Gindling and Terrell, 2010).

MWO implementation in Malaysia, a developing country has increased labour cost and the extent of labour cost increased depends on the company's labour intensity (Ghee *et al.*, 2015). However, employer's reaction towards the labour cost increased is yet to be discussed. Despite the crucial importance, empirical studies focusing on the impact of MWO implementation on employment especially among the females in Malaysian hotel industry is yet to be found. Thus this study investigates how MWO implementation affects employment especially among the females. The research questions are:

- How does MWO implementation affect employment in Langkawi hotels?
- What is the impact of MWO implementation on female employment?

It is crucial to explore the impact of MWO implementation on employment especially among the females in hotels in Langkawi, Malaysia for three reasons. Firstly, female is a group often mentioned to be negatively affected in the MWO literature (Ni *et al.*, 2011; Sabia, 2009; Singell and Terborg, 2007). Secondly in Malaysia the utilization of labour in hotel organizations is higher because employers recruit individual employees to perform each and every tasks especially in five-star hotels (Ahmad *et al.*, 2010).

With MWO this is no longer possible as the wages of labour amounted to a relatively high proportion of total operating costs (Buultjens and Howard, 2001; Gindling, and Terrell, 2010). Finally, Langkawi is selected due to the high number of hotels located in this area and the island is populated by majority Muslim.

Literature review

Definition of MWO: MWO refers to lowest hourly, daily or monthly wage that employers legally pay to workers (Elangkovan, 2012). The primary function of MWO is to guarantee the minimum earnings ensuring the satisfaction of basic physiologi and social need of an employed individual (Paulauskaite and Kamandulienė, 2013). The intention of MWO implementation is to increase the income of the nation especially the low-wage labour's economy (Elangkovan, 2012; Todorovic and Ma, 2008). Before the implementation of MWO, wages in Malaysia are largely determined by labour market forces that is characterised by a high presence of low-skilled workers and over reliance on low cost unskilled foreign workers who have contributed to dampening effect on wages (Elangkovan, 2012).

In May 2012, the government of Malaysia announced the implementation of MWO policy which applies to employers of six or more persons and was scheduled to commence on 1st January 2013 but came into effect in stages and was fully in effect on January 2014 covering local and foreign worker to comply with International Labour Organisation conventions (Ghee *et al.*, 2015). Although it is clearly stated that MWO implementation has increased labour cost, more empirical studies is needed to evaluate the effectiveness of the policy as it also interacts with other environmental factors such as changes in policies and the economic and labor market condition (Elangkovan, 2012; Khamis, 2013; Ghee *et al.*, 2015).

MWO impacts: The outcomes of MWO implementation depends on the dynamics, structure and the view of labour market (Khamis, 2013). MWO implementation is expected to have a net positive impact to the economy as any potential small loss of jobs will be covered by the increasing purchasing power of those getting the pay increased (Elangkovan, 2012). Other positive impact of

MWO are: guarantee the right to a fair wage, increase efficiency of low income workers, increase labour supply, increase amount of tax revenue, reduce the big gap in salary difference, reduce the burden on state welfare benefits, promote the growth of national economy, motivate productivity and efficiency and create competitive advantages of products in international trade (Paulauskaite and Kamandulienė, 2013).

On the other hand, it is argued that MWO implementation has negative impacts to the socio economic. Economic theories postulate that MWO has negative effect on employment (Ni *et al.*, 2011). Other negative social impacts of MWO are: it creates the conditions for poverty circle, causes social problems, reduce opportunity for training and creativity and does not guarantee a positive impact on those who are working part-time (Paulauskaite and Kamandulienė, 2013).

The implementation of MWO implies an increase of labour costs to the employers (Croes and Tesone, 2007; Ghee *et al.*, 2015). This concerns the hotel industry because the industry is labour intensive and the wages of labour amounted to a relatively high proportion of total costs for two reasons (Buultjens and Howard, 2001). First, labour costs comprise a wide variety of factors with wages being the most evident cost element (Gindling and Terral, 2010). Second, low-paid employment is widespread in the hotel industry where the majority of hotel employees are clustered around the MWO level due to high level of low-skilled job in the industry (Croes and Tesone, 2007; Warhurst *et al.*, 2008). In developed countries, labour cost increased is controlled by having fewer employees (Nankervis, 2000).

Minimum wage order impacts on female employment:

Worldwide, women comprised the majority of low-skilled and low-wage workers regardless how developed the country is (Kawaguchi and Yamada, 2007; Luce and Weinbaum, 2008).

However, the intensity differs. In developing countries the intensity is higher and the labour market is more regulated. According to Addison and Ozturk (2012) the least regulated labour market produces the best outcome for women. In this market the effect of MWO on the employment of prime age female (teenagers and young adult) does not exhibit stronger unemployment. Countries identified as least regulated labour markets are Canada, Japan, United States and United Kingdom. In countries with highly regulated labour market where the fertility rate and the wage gap are high, MWO has the most damaging effect on female employment. The effect is stronger on women whose wage was below the MWO level (Kawaguchi and Yamada, 2007).

According to Luce and Weinbaum (2008) barriers to high wage jobs for women includes sexual harassment,

discrimination, cultural attitudes towards gender and work and shortage of good jobs with good working condition. On the other hand, Addison and Ozturk (2012) mentioned that women are more concentrated on low skills job are less productive and have less work experience. Women have different goals than men and some women are not willing to take extra responsibilities even when offered promotion due to their obligation to their family (Burgess, 2003). This is more obvious in Muslim women (Tlaiss and Kauser, 2010).

Increasing number of Muslim women seek employment due to the move toward moderate liberalism and the need for additional sources of income to support the family (Jamali *et al.*, 2005; Tlaiss and Kauser, 2010). Different from (Addison and Ozturk, 2012; Kawaguchi and Yamada, 2007; Luce and Weinbaum, 2008) believe that MWO increased will benefit women especially those in unionised organisations and suggests strengthening women's rights and opportunities.

MATERIALS AND METHODS

This study is an exploratory study with the intention to assess the impact of the implementation of MWO on employment especially among females. To fit this purpose, a qualitative research methodology and semi-structured interview method was used. This study employed a semi-structured interview because it increases the researcher's possibility to probe and generate richer information.

Hotels and the participants for each hotel were recruited by phone. The human resource manager from each hotel served as the gatekeeper who decided whether the hotel will participate in the interview. The interview was stopped once it reached the point of saturation. On average each interview took approximately 40 min.

The interviews were recorded, transcribed and analysed using thematic content analysis. Content analysis is a research technique for making replicable and valid inferences from texts and allows a researcher to discover what the text reveals (Krippendorff, 2004). With thematic content analysis, data is analysed by themes that emerges from the data. Each transcript is systematically and thoroughly read through to identify the outcomes with codes allocated to portions of the text. Codes concerning various outcomes were grouped based on their similarities into a small number of manageable themes.

About 2 owners and eighteen hotel managers from nineteen hotels participated in the interview. The participants are from hotels of various types and sizes. The managers are from various departments. About 11 managers are representative from human resource department while others are also in-charge of the

Table 1: Respondent's profile

Respondent	Post	Industrial experience (years)	Hotel star rating
R1H1	Human resource manager	18	4 star
R1H2	Hotel executive	7	Budget hotel
R1H3	Human resource executive	2	Budget hotel
R1H4	Operation manager	30	Budget hotel
R1H5	Operation manager	17	2 star
R1H6	Senior human resource manager	18	5 star
R1H7	Operation manager	25	Boutique hotel
R1H8	Operation manager	1	Chalet
R1H9	Marketing executive	3	Budget hotel
R1H10	Human resource director	18	5 star
R1H11	Director of finance	15	5 star
R1H12	Human resource executive	3	3 star
R1H13	Owner	2	2 star
R1H14	Owner	2	Boutique
R1H15	Human resource manager	8	4 star
R1H16	Human resource and account manager	12	4 star
R1H17	Human resource director	30	5 star
R1H18	Human resource director	18	5 star
R1H19	Human resource director	30	5 star
R2H19	Assistant human resource manager	20	5 star

respective hotel's human resource management. Respondent's industrial experience ranges from one to thirty years. To ensure confidentiality, respondent's name is coded. R1H1 refers to Respondent One from Hotel One and R2H19 refers to Respondent Two from Hotel Nineteen. The details of the respondents are listed in Table 1.

RESULTS AND DISCUSSION

MWO impact on employment: The impact of MWO implementation on employment varies. Most of the respondents mentioned that MWO implementation does not affect employment. Only two respondents admitted that they have reduced the number of their employees due to increasing labour cost while others claimed that they are still recruiting new employees.

R1H2 and R1H18 solemnly admitted that MWO has increased their labour cost and reducing the number of employees is one of the means to control the labour cost increased. The number of employees is reduced by not replacing those who resigns. R1H18 stated "I noticed that other hotels are starting to reduce their employees, the manning have reduced. As for us when someone resigns, there is no more in-take for replacement". R1H2 clearly stated the number of employee reduction. R1H16 mentioned that H16 has reduced the number of employees about a year before MWO enforcement:

The hotel's profit has reduced since MWO enforcement because of the increased total salary and wages. If I'm not mistaken many companies have reduced their manning. When there is employee shortage the employee has to work for two shifts. We used to have 16 employees now we only have 11 (R1H2)

R1H10 and R1H11 clearly mentioned that there is no impact on employment. According to R1H10, "Hiring continues as usual and is made based on volume of business". This is consistent with R1H11 who mentioned that the company would freeze employment if the business drops and they cannot cover the payroll cost:

There is no impact on employment. Those who resign will be replaced. Manning labor is still the same. So far we haven't practice multi-tasking. However, if our business drops, we have to. Then, we will practice. For now there is no plan for that. When the need arises we will plan for multi-tasking. That is normal. If the business drops and we cannot cover our payroll cost, then only we will freeze hiring and then start to train staff for multi-tasking (R1H11)

About 4 respondents (R1H6, R1H10, R1H13 and R1H17) mentioned that they are not planning to reduce the number of employees because they want to maintain their level of service. R1H6 stated "We cannot reduce the number of staff because of the level of service that we want to maintain. Currently we don't do much. We just maintain whatever we have. We are striving for better sales".

R1H19 mentioned that they are hiring new employees because of the property expansion and the market size increased. He stated "We are recruiting more employees. The number has increased from 406-438. We need more employees because the hotel is under renovation, we will upgrade all the rooms and our sale is expanding to China".

MWO Impact on female employment: Different from findings in previous studies this study found that MWO does not impact female employment. All respondents mentioned that MWO impact on employment does not differentiates based on gender. R1H18 mentioned that it is wrong to discriminate. R1H10 stated that employment should be based on performance and R1H14 stressed on the importance of attitude instead of age or gender. R1H14 shared her experience with her young female staff:

When she came she doesn't know much and she can't speak English. She was nothing. Now she has been with us for 2 year, she can cook everything on the menu and she can prepare many things. So it is not about the age or gender. Attitude is number one (R1H14)

While the impact on employment differs from one organisation to another, there is a consensus that employment decision is made based on attitude and performance instead of age or gender. Very few hotel managers admitted that they have reduced the number of their employees while a number mentioned that it is the move taken by other hotels. Many mentioned that they stop hiring and very few claimed that the hotel is increasing its number of employees. It is clear and evident that Langkawi hotel's employment decision is made based on their volume of business. Sufficient increased in revenue to cover the increasing labour cost resulted from MWO enforcement will counterbalance the negative impact on employment. Furthermore many are concerned about maintaining their level of service (Pizam, 2012).

The findings of this study is consistent with earlier studies that suggested planned responses such as reducing the number of employees, training staff to be multi-skilled and using more part-time and casual workers (Brown and Crossman, 2000; Radiven and Lucas, 1997). Large and luxury hotels are concerned that they will have difficulties maintaining their level of service if the number of employees is reduced. However, the practise of organisational flexibility allows organization to operate efficiently with fewer employees (Ni *et al.*, 2011). As mentioned by one of the Langkawi hotel managers when the workforce size is smaller, hotels need to train employees to practise organisational flexibility that is comprised of functional flexibility and numerical flexibility (Desombre *et al.*, 2006).

While functional flexibility allows employees to be reassigned to different jobs or tasks, numerical flexibility refers to the employment of part-time and casual workers during full occupancy (Peel and Boxall, 2005).

Despite being a developing country with majority Muslim population, MWO enforcement does not negatively affect female employment in Langkawi hotels. This finding is different from previous studies that found negative impact on young female employment especially those in a more regulated labour market (Addison and Ozturk, 2012). Langkawi hotel managers trust the importance of employing based on attitude and performance and they do not discriminate based on gender.

CONCLUSION

This study discovered that MWO implementation in Langkawi hotels has some impact on employment and the extent of the impact depends on their volume of business. On the other hand, MWO implementation does not affect female employment differently from the male. The findings of this study contributes to the industry by highlighting how they can remain in the business despite the increasing labour cost due to the enforcement of MWO. It also contributes to the literature by exploring the action taken by the practitioners in a developing country. This study may also benefit other developing countries that are new to MWO policy. However, this study has several limitations. It is merely a qualitative exploratory study that gained information from a few hotel managers in Langkawi. Thus, the findings cannot be generalised. Future studies can adopt quantitative method to allow for generalisation.

ACKNOWLEDGEMENT

This study is funded by Research Acculturation Grant Scheme (RAGS).

REFERENCES

- Addison, J.T. and O.D. Ozturk, 2012. MWOs, labour market institutions and female employment: A cross country analysis. *ILR. Rev.*, 65: 1-4.
- Ahmad, R., D. Solnet and N. Scott, 2010. Human resource practices system differentiation: A hotel industry study. *J. Hospitality Tourism Manage.*, 17: 72-82.
- Brown, D. and A. Crossman, 2000. Employer strategies in the face of a national MWO: An analysis of the hotel sector. *Ind. Relat. J.*, 31: 206-219.
- Burgess, C., 2003. Gender and salaries in hotel financial management: Its still a mans world. *Women Manage. Rev.*, 18: 50-59.
- Buultjens, J. and D. Howard, 2001. Labour flexibility in the hospitality industry: Questioning the relevance of deregulation. *Intl. J. Contemp. Hospitality Manage.*, 13: 60-70.
- Croes, R. and D.V. Tesone, 2007. The indexed MWO and hotel compensation strategies. *J. Hum. Resour. Hospitality Tourism*, 6: 1-1.
- Danziger, L., 2010. Endogenous monopsony and the perverse effect of the minimum wage in small firms. *Labour Econ.*, 17: 224-229.
- Desombre, T., C. Kelliher, F. Macfarlane and M. Ozbilgin, 2006. Re-organizing work roles in health care: Evidence from the implementation of functional flexibility. *Br. J. Manage.*, 17: 139-151.
- Elangkovan, K., 2012. Minimum wage laws in Malaysia: An answer to the increasing rate of unemployment. *Intl. J. Acad. Res. Econ. Manage. Sci.*, 1: 135-146.
- Ghee, T.C., S.K. Mooi and M.L.M. Sang, 2015. An initial review of the implementation of the Malaysian minimum wage order: A case for a win-win intention, implementation and enforcement. *J. Dev. Areas*, 49: 313-324.
- Gindling, T.H. and K. Terrell, 2010. Minimum wages, globalization and poverty in Honduras. *World Dev.*, 38: 908-918.
- Jamali, D., Y. Sidani and A. Safieddine, 2005. Constraints facing working women in Lebanon: An insider view. *Women Manage. Rev.*, 20: 581-594.
- Kawaguchi, D. and K. Yamada, 2007. The impact of the minimum wage on female employment in Japan. *Contemp. Econ. Policy*, 25: 107-118.
- Khamis, M., 2013. Does the minimum wage have a higher impact on the informal than on the formal labour market? Evidence from quasi-experiments. *Appl. Econ.*, 45: 477-495.
- Krippendorff, K., 2004. *Content Analysis: An introduction to its Methodology*. Sage, UK., ISBN: 9780761915454, Pages: 413.
- Luce, S. and E. Weinbaum, 2008. Low-wage women workers: A profile. *N. Labor Forum*, 17: 20-31.
- Nankervis, A.R., 2000. Human resource management strategies as competitive advantage: A case example of the hospitality sector in Southeast Asia the Pacific Rim. *Res. Pract. Hum. Resour. Manage.*, 8: 111-133.
- Ni, J., G. Wang and X. Yao, 2011. Impact of minimum wages on employment: Evidence from China. *Chin. Econ.*, 44: 18-38.
- Paulauskaite, G. and A. Kamandulienė, 2013. Assessment of economic and social impact of minimum wage on individuals. *Appl. Econ. Syst. Res.*, 7: 117-135.
- Peel, S. and P. Boxall, 2005. When is contracting preferable to employment? An exploration of management and worker perspectives. *J. Manage. Stud.*, 42: 1675-1697.
- Pizam, A., 2012. *International Encyclopedia of Hospitality Management*. 2nd Edn., Elsevier, Abingdon, UK., ISBN:978-1-85617-714-6, Pages: 712.
- Radiven, N. and R. Lucas, 1997. Abolition of wages councils and the introduction of a national minimum wage with particular reference to British hotels. *Intl. J. Hospitality Manage.*, 16: 345-359.

- Sabia, J.J., 2009. Identifying minimum wage effects: New evidence from monthly CPS data. *Ind. Relat. J. Econ. Soc.*, 48: 311-328.
- Singell, L.D. and J.R. Terborg, 2007. Employment effect of two Northwest MWO initiatives. *Econ. Inq.*, 45: 1-1.
- Tlaiss, H. and S. Kauser, 2010. Perceived organizational barriers to womens career advancement in Lebanon. *Gender Manage. Intl. J.*, 25: 462-496.
- Todorovic, Z.W. and J. Ma, 2008. A review of minimum wage regulation effect: The resource-based view perspective. *J. Collective Negotiations*, 32: 57-75.
- Warhurst, C., C. Lloyd and E. Dutton, 2008. The national minimum wage, low pay and the UK hotel industry: The case of room attendants. *Sociology*, 42: 1228-1236.