



## Effects of minimum wage policy implementation: Compensation, work behaviors, and quality of life



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### ABSTRACT

This study develops and tests a research model to analyze the overall effects of minimum wage policy implementation on hotel employees' overall perception of the minimum wage policy in relationship to satisfaction with compensation, work behaviors, and perceived quality of life. An electronic survey was developed, and data were collected from hotel employees who worked at three-, four-, and five-star hotels in Malaysia. Results from the structural equation modelling analysis and the bootstrap mediational effects analysis offered significant empirical findings that will enable understanding of the overall effects of minimum wage increases on Malaysian hotel employees. Employee perception of minimum wage policy significantly influenced their satisfaction with compensation and work motivation. Additionally, employee satisfaction with compensation significantly influenced their work motivation, job satisfaction, and perceived quality of life. Limitations and future research directions are discussed.

### 1. Introduction

In 2009, the Ministry of Human Resources Malaysia found 40% of private sector employees had incomes below the poverty level (Guie, 2012). Knowing that the poverty rate could be reduced by increasing employee income (Yusof et al., 2016), Malaysia government took steps similar to other countries and implemented a minimum wage policy in 2013. The policy was implemented throughout all businesses and was set monthly at RM900 (USD215) for Peninsular Malaysia and RM800 (USD191) for other regions (Attorney General's Chambers of Malaysia, 2012). In 2016, the monthly minimum wage was increased by 10% to RM1,000 (USD236) for Peninsular Malaysia and RM920 (USD217) for other parts of Malaysia (Attorney General's Chambers of Malaysia, 2016). Given the National Wages Consultative Council (NWCC) review of the Minimum Wages Order of 2016 and current economic conditions, another increase in the minimum wage (RM1,100 per month) started January 2019; this rate was standardized throughout the country (Attorney General's Chambers of Malaysia, 2018). The minimum wage policy objectives in Malaysia include assuring basic needs of employees and their families are met and giving social protection to employees through minimum acceptable wages (<http://minimumwages.mohr.gov.my/>). The minimum wage policy aims to improve the living standards of Malaysian and non-Malaysian employees and reflects the Malaysian

government's commitment to overcoming poverty.

According to the NWCC (2012), the method of restructuring compensation systems is subject to negotiation between employer and employee. Nonetheless, minimum wage is a major concern in Malaysia's hospitality industry as employees' earnings are often comprised of a low base salary and service charges collected from customers (Affandi, 2013). Given the seasonal nature of hotel business, most operators fear that their businesses will suffer during low season because room revenue and service charges are less. The introduction of the minimum wage policy has impacted hotel businesses and employees. Several studies are found examining the impact of minimum wage policy implementation in Malaysia from business operators' perspectives (Lee and Yuen, 2015; Senasi and Khalil, 2015; Yuen, 2013), while limited studies are found considering employees' perspectives (Joo-Ee, 2016; Malaysian Association of Hotels (MAH, 2013a,b). This study was undertaken to analyze the overall effects of the minimum wage policy implementation on employee work behaviors and quality of life, after a minimum wage increase.

This study is unique as it examines employees' perception of minimum wage policy, compensation satisfaction, perceived work behaviors, and quality of life after minimum wage implementation and a subsequent increase. The value of this study is threefold: value to researchers, policymakers, and hotel operators. For academics and

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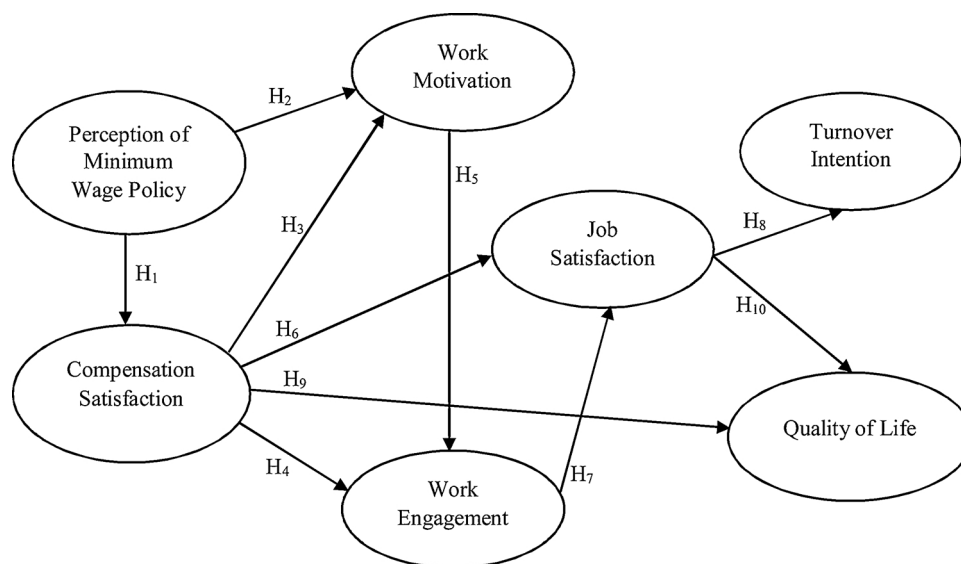


Fig. 1. Theoretical hypothesized model.

researchers, this study offers evidence about the extent to which minimum wage impacted hotel employees in Malaysia, a developing country. In addition, findings extend the literature related to the study variables as illustrated in the research model (Fig. 1). Even though individual relationships between each of the variables have been investigated, only a limited number of empirical studies have attempted to investigate these variables holistically. Research examining work behaviors and quality of life while considering a minimum wage implementation is scarce, particularly in the hospitality industry. For policymakers in Malaysia, who were involved in the minimum wage policy implementation, this study offers a snapshot of the overall effects of minimum wage policy implementation on employee compensation satisfaction, work behaviors, and quality of life. For hotel operators, this study offers evidence in terms of the extent redesigned compensation systems, which were needed after minimum wage policy took effect, impacted employee work behaviors. Awareness of compensation systems is integral as employers' decisions about compensation systems could influence employee satisfaction with compensation and work behaviors (Malaysian Association of Hotels (MAH, 2013a, b)).

## 2. Literature review and hypotheses development

### 2.1. National minimum wage policy implementation in Malaysia

The minimum wage policy was implemented so that all Malaysian and non-Malaysian employees could have a better quality of life. Such an increase in employee income also increases spending and purchasing power, thus improving the economic activity of the country (Central Bank of Malaysia, 2013). The policy also aims to generate demand for Malaysian employees, highlighting the social obligation of the government for its people (Ibrahim and Said, 2015) while controlling a ballooning population of non-Malaysian employees in Malaysia (Ministry of Human Resources (MOHR, 2013). More Malaysian employees were expected to join the industry after minimum wage increases, hence decreasing the country's dependence on non-Malaysian employees.

According to the 2017 annual report by the Central Bank of Malaysia, "the living wage is the wage level that could afford the minimum acceptable living standard" (p.90, Chong and Khong, 2017) and it is usually more than the minimum wage rate, mainly when the minimum acceptable living standard "has been less frequently updated in line with living cost increases" (Chong and Khong, 2017, p.92). In other words, the living wage should be enough to cover more than just

the basic necessities and also allow people to have a minimum acceptable living standard. Therefore, it is important to understand the extent to which minimum wage policy has improved the living standards of employees, given the possible rise in cost of living (Chong and Khong, 2017; Mahyut, 2013).

The Malaysian Association of Hotels (Malaysian Association of Hotels (MAH, 2013a,b) reported that labor costs increased since the policy took effect in 2013. Such an increase in operational and labor costs caused hotel operators to eliminate all or part of the service charge portion from employee monthly wage calculations, which then caused frustration among employees because their total take-home pay decreased (Malaysian Association of Hotels (MAH, 2013a, b)). Minimal pay differences between more senior employees and newly hired employees as well as management decision to eliminate the service charge portion are potential causes for unmotivated employees, thus contributing to high turnover (Malaysian Association of Hotels (MAH, 2013a,b)). Consequently, it is important to examine to what extent perception of minimum wage policy influenced employee compensation satisfaction and work behaviors.

Limited studies are found examining the impact of minimum wage policy on employees in Malaysia. At the initial stage of policy implementation, Joo-Ee (2016) investigated hospitality employees' ( $n = 171$ ) perceptions regarding minimum wage policy implementation and found that 54% believed that the policy would increase their base pay while 44% believed that their total pay would increase once the policy took effect. Additionally, 58% believed that the policy could encourage more Malaysian employees to join the industry, so the country could decrease reliance on non-Malaysian employees. While Joo-Ee (2016) was among the first to determine hospitality employee perceptions about minimum wage, Joo-Ee (2016) did not investigate to what extent perception of minimum wage policy influenced employee work behaviors such as compensation satisfaction and work motivation. For that reason, the following hypotheses are proposed:

**H1.** Perception of minimum wage policy will influence compensation satisfaction.

**H2.** Perception of minimum wage policy will influence work motivation.

## 2.2. Compensation satisfaction and impact on work behaviors and quality of life

Compensation satisfaction includes a general evaluation of employee satisfaction with pay level, benefits, raises, pay structure, and administration (Heneman and Schwab, 1985). Numerous studies are found examining compensation satisfaction in various industries (De Gieter et al., 2006; Jung and Yoon, 2015). De Gieter et al. (2006) examined for-profit and nonprofit employees' ( $n = 788$ ) compensation satisfaction and found that both types of employees were less than satisfied with compensation. However, employees working at for-profit organizations reported higher satisfaction scores than those working for non-profit, particularly for benefits, which reflected that employees working for-profit organizations were less dissatisfied with compensation than those who worked for the non-profit organization.

It is important to acknowledge that employee compensation is one of the largest expenses in any service organization (Davidson et al., 2010) and employers' decisions about compensation systems influences employee compensation satisfaction. Therefore, it behooves employers to design compensation systems effectively because compensation satisfaction influences employee work behaviors (Jung and Yoon, 2015; Negash et al., 2014) and quality of life (Sirgy et al., 2001). This study operationalizes work behaviors as: motivation, engagement, job satisfaction, and turnover intention. Each are discussed next.

### 2.2.1. Motivation

Vroom (1964) emphasizes that employees tend to behave in a way that can maximize positive outcomes (e.g., rewards) and minimize negative outcomes (e.g., punishments). Nonetheless, Lewin (1935) claimed that peoples' behaviors are determined by prior events that have occurred. Applying Lewin's approach to employee behavior, a minimum wage increase would boost employee motivation at work while negative events, such as an employer eliminating the service charge portion from employees' monthly wage calculation, would potentially demotivate employees (Malaysian Association of Hotels (MAH, 2013a,b). Later, Deci and Ryan (1985) introduced self-determination theory to study employee work motivation which differentiates autonomous motivation (e.g., intrinsic such as recognition) from controlled motivation (e.g., extrinsic such as pay) (Gagne' and Deci, 2005).

Several researchers found evidence that compensation impacts work motivation (Ghazanfar et al., 2011; Putra et al., 2017). Negash et al. (2014) studied the role of compensation on university employees' work motivation ( $n = 214$ ) and found that motivation can be explained by pay, promotion, recognition, work conditions, and benefits. In other words, all compensation components influenced employee work motivation. Additionally, 40% of the study participants ranked pay as the primary motivational factors while 37% ranked benefits as the lowest. Findings about pay as the primary motivation factor corroborates with other researchers who found that employees ranked good wages as the primary motivation factor (Breiter et al., 2002). DiPietro, Kline, and Nierop (2014) studied lodging employees' motivational factors and found appreciation by supervisors was ranked the highest, followed by good wages and good working conditions. Based on previous studies, motivation to work is influenced by employee satisfaction with compensation (Ghazanfar et al., 2011; Islam and Ismail, 2008). Accordingly, the following hypothesis is proposed:

**H3.** Compensation satisfaction will influence work motivation.

### 2.2.2. Work engagement

There are three dimensions used to measure work engagement: vigor, dedication, and absorption (Schaufeli et al., 2002, 2006). Jung and Yoon (2015) studied hotel employees' compensation satisfaction on work engagement and found benefits, pay level, and pay structure impacted work engagement and job withdrawal. In contrast, Babakus et al. (2017) found that rewards did not influence work engagement.

Therefore, the following hypothesis is proposed:

**H4.** Compensation satisfaction will influence work engagement.

Putra et al. (2017) examined restaurant employees' intrinsic and extrinsic motivations on work engagement and found that both intrinsic and extrinsic motivations influenced work engagement. However, the direct paths from extrinsic motivation to work engagement dimensions (i.e., vigor, dedication, absorption) were no longer significant when testing intrinsic and extrinsic paths simultaneously. Such results further emphasize the importance of both intrinsic and extrinsic motivation, and that intrinsic motivation is still needed even if extrinsic motivation is present. This then highlights the role of intrinsic motivation as a driver of employee work engagement (Chiang and Jang, 2008; DiPietro et al., 2014). Given this study tested both motivations combined, the subsequent hypothesis is proposed:

**H5.** Work motivation (intrinsic and extrinsic) will influence work engagement.

### 2.2.3. Job satisfaction

Job satisfaction is one of the most widely studied constructs when examining work behaviors (Hirschfeld, 2000). Herzberg's two-factor theory emphasizes that motivation factors (e.g., recognition), lead to job satisfaction whereas hygiene factors (e.g., salary), greatly influence employee job dissatisfaction (Herzberg et al., 1964). Similarly, improving motivational factors will increase job satisfaction and improving hygiene factors will decrease job dissatisfaction. Hancer and George (2003) investigated restaurant employees' job satisfaction and found that the intrinsic factors (e.g., job security) had the higher mean scores than extrinsic factors (e.g., compensation). In contrast, Gu and Siu (2009) found that salary and benefits were the key drivers of employee job satisfaction. DiPietro et al. (2014) found that employees were satisfied with their work accomplishments while slightly dissatisfied with their pay, and further concluded that compensation is an important motivational factor that could influence job satisfaction. With that, the next hypothesis is proposed:

**H6.** Compensation satisfaction will influence job satisfaction.

While Jung and Yoon (2015) found that four dimensions measuring employee compensation satisfaction (i.e., pay level, benefits, pay raises, pay structure) affected work engagement, it is important to acknowledge that a limited number of studies have been found examining work engagement and job satisfaction, particularly in the hospitality industry. Lu et al. (2016) found that an increase in work engagement leads to an increase in job satisfaction. Such results corroborated with Park and Gursoy (2012) when they found that work engagement was positively associated with job satisfaction. Furthermore, Lu et al. (2016) found significant differences in vigor, dedication, and absorption between managerial and non-managerial employees. On the basis of the above studies, another hypothesis is proposed:

**H7.** Work engagement will influence job satisfaction.

### 2.2.4. Turnover intention

Previous researchers affirmed that employee turnover is costly for companies (Davidson et al., 2010). Examining the impact of compensation on employee turnover intention is crucial; additionally, intention to leave a job may contribute to actual turnover (Bothma and Roodt, 2013). The MAH (2013a,b) reported that employers' decisions about compensation systems, after the minimum wage policy took effect, contributed to high turnover rates because some employees preferred that the service charge be part of their wage calculation. However, many employers did not include the service charge after policy implementation (Malaysian Association of Hotels (MAH, 2013a,b). Other studies also found that turnover intention is influenced by employee satisfaction with compensation (Babakus et al., 2017; Rizqi and

Ridwan, 2015).

Several studies are found examining work motivation, work engagement, and job satisfaction in predicting turnover intention (Bonenberger et al., 2014; DuPlooy and Roodt, 2010). Bonenberger et al. (2014) found that both motivation and job satisfaction were significantly associated with turnover intention whereas Dysvik and Kuvaas (2010) found that intrinsic motivation is the key predictor of turnover intention. DuPlooy and Roodt (2010) found an inverse relationship between work engagement and turnover intention, indicating that lower work engagement leads to higher turnover intention. In contrast, Babakus et al. (2017) found no significant association between work engagement and turnover intention. Although it has been found that work motivation and work engagement may influence turnover intention, many studies are found assessing the impact of job satisfaction on employee turnover intention (Lu et al., 2016; Park and Gursoy, 2012).

Park and Gursoy (2012) examined work engagement, job satisfaction, and turnover intention among hotel employees and found that the three dimensions of work engagement (i.e., vigor, dedication, absorption) were significantly associated with job satisfaction. Moreover, they found that job satisfaction was negatively associated with turnover intention. Later, Lu et al. (2016), who also studied employee work engagement, job satisfaction, and turnover intention, found that increases in the three dimensions of work engagement led to increases in job satisfaction and decreases in turnover intention. Gu and Siu (2009) noted that higher job satisfaction leads to lower turnover intention, which was later supported by Jang and George (2012) who studied hotel employees and found that job satisfaction causes turnover intention. These findings suggest another hypothesis, as follows:

**H8.** Job satisfaction will influence turnover intention.

### 2.2.5. Quality of life

In addition to examining work behaviors, this study investigated employee perceived quality of life after a minimum wage increase. Quality of life encompasses the well-being of employees and is measured by employees' satisfaction with their financial condition and family needs (Sirgy et al., 2001). Recognizing the importance of employee quality of life, employers should consider setting a base pay that is sufficient to cover cost of living, so that employees will have adequate income to maintain a certain standard of living (Central Bank of Malaysia, 2016). For this reason, the Malaysian government initially setting the minimum wage slightly above the poverty level and then in 2018, increased it further to ensure that the basic needs of employees and their families would be met.

Joo-Ee (2016) noted that employees understood how the minimum wage policy would change their quality of life as 60% ( $n = 102$ ) of hospitality employees perceived that cost of living would increase after the minimum wage policy took effect. The 2015 annual report by the Central Bank of Malaysia (2016) reported different households' spending patterns for households in highly-urbanized states as compared to less-urbanized states. Household spending patterns based on different state types (i.e., highly-urbanized, less-urbanized) aligned with earnings data, where employees who live in urban areas earn more than those in rural areas (Department of Statistics Malaysia, 2015). In this sense, employees who earn more are inclined to spend more on optional goods and services (e.g., hotel stays), whereas employees who earn less prioritize their spending for basic needs (e.g., food).

Since the Malaysia government introduced a minimum wage and later increased it, the percentage of those employed in urban areas increased from 67% in 2000 to 74% in 2014 (Department of Statistics Malaysia, 2014) and the poverty level in Malaysia decreased from 1.7% in 2012 to 0.6% in 2014 (Department of Statistics Malaysia, 2015). Despite the growth in employment after the first minimum wage increase, all states in Peninsular Malaysia received the same minimum wage rate, albeit some states within Peninsular Malaysia have a higher

cost of living (e.g., Kuala Lumpur, Pulau Pinang) (Central Bank of Malaysia, 2016). Recently, the Malaysia government announced another increase starting January 2019 with a standardized rate of RM1,100 per month, thus reflecting that the new government is committed to improving the quality of life of all employees nationwide (Attorney General's Chambers of Malaysia, 2018).

Additionally, cost of living differs across households depending on demographic characteristics (e.g., number in household) and area of residence (e.g., rural, urban) (Central Bank of Malaysia, 2016). Ling et al. (2014) suggested that Malaysian policymakers consider the cost of living for each state as well as the sectoral differences when setting the minimum wage rate given the cost of living is different based on the geographical location. In terms of the sectoral differences, Shanmugam (2016) acknowledged the challenges in implementing the minimum wage policy in the hotel industry because the service charge portion has historically been used as part of employee wage calculations. Findings from the MAH (2013a,b) reported that employers' decision when restructuring the compensation systems influenced employees' dissatisfaction with compensation and led to high turnover. Lee, Back, and Chan (2015) studied frontline employees and found that perceived quality of work life was associated with job satisfaction. Accordingly, and informed by the literature, compensation satisfaction and job satisfaction could influence perception of quality of life. The foregoing discussion suggests two direct hypotheses be tested:

**H9.** Compensation satisfaction will influence perceived quality of life.

**H10.** Job satisfaction will influence perceived quality of life.

The research model is illustrated in Fig. 1.

## 3. Methods

### 3.1. Data collection and analyses

A self-reported questionnaire with two languages (i.e., English, Malay) was developed, translated, and back-translated, as recommended by Brislin (1970). Using Qualtrics®, the electronic questionnaire was disseminated via an alumni list (from a university in Malaysia with a hospitality program) and social networking sites (e.g., Facebook, LinkedIn). A person in-charge of the alumni association distributed the survey link to approximately 300 alumni, who graduated between 2010 and 2017. The uses of multiple sampling frame surveys (combining social media websites and alumni list) is recommended by Dillman et al. (2014) as one strategy to maximize the coverage of the sampling frame; therefore, this was done. Prior to the final questionnaire distribution, two pilot tests were conducted. This study was approved by the appropriate institutional review board.

Data were coded and analyzed using the Statistical Program for Social Science (SPSS) version 20. First, descriptive statistics were used to examine the data distribution. This study used latent variables because the relationship between variables in the model (see Fig. 1) can be precisely estimated and the measurement errors can be minimized when using latent variables (Geiser, 2013). The original scales were maintained to preserve the meaning of each scale and assist with interpretation. For those variables without specific dimensions (i.e., perception of minimum wage policy, quality of life, turnover intention), item parcels were created from a larger set of items for better distribution of scores on the measured variables, as recommended by Little et al. (2002). Three dimensions were created for perception of minimum wage policy and quality of life, and two dimensions were created for turnover intention (Table 1). Next, a confirmatory factor analysis (CFA) was performed to evaluate the measurement model. After testing the measurement model, structural equation modeling (SEM) together with the indirect effects was used to test the hypothesized model and measured seven latent (unobserved) variables as depicted in Fig. 1. Both CFA and SEM models were analyzed using Mplus



**Table 1**  
Demographic profile of respondents (n = 158–239).

Variable	Category	%	Variable	Category	%
Age	19-35	80.6	Years worked at current hotel	5 years or less	75.5
	36-55	16.9		6 years – 15 years	17.6
	Over 55	2.5		More than 15 years	6.9
Highest education	STPM/SPM	13.1	Years working in hotel industry	5 years or less	75.5
	Diploma/Degree	73.1		6 years – 15 years	17.6
	Master/PhD	13.8		Over 15 years	6.9
Working status	Currently working	45.2	Monthly income	Less than RM1,000	7.0
	Previously worked	54.8		RM1,000 – RM5,000	88.0
Department	Front office	22.5		More than RM5,001	5.0
	Food and beverage	42.5	Working at the time minimum wage policy was implemented	Yes	44.4
	Housekeeping	5.0		No	55.6
	Others	30.0		Supervisory responsibilities	Yes
Average hours worked (week)	Less than 40 hours	15.1	No		27.2
	40 – 50 hours	56.0			
	More than 50 hours	28.9			

program version 8.

### 3.2. Measures

#### 3.2.1. Perception of minimum wage policy

This study utilized 14 out of the 15 items from Joo-Ee’s (2016) questionnaire as the one remaining item is irrelevant for this study. The original nominal scale (i.e., yes/no) was changed to a Likert-type scale ranging from 1 = *strongly disagree* to 5 = *strongly agree*. One sample item included, “The minimum wage policy has improved my base salary”.

#### 3.2.2. Compensation satisfaction

The Pay Satisfaction Questionnaire developed by Heneman and Schwab (1985) with 18 items measured pay level, benefits, pay raise, pay structure, and administration, was used and each question employs a five-point Likert-type scale (1 = *very dissatisfied* to 5 = *very satisfied*). One sample item included, “I am (satisfied) with how the company administers pay”.

#### 3.2.3. Work motivation

The Motivation at Work Scale with 12 items developed by Gagne’ et al. (2010) was used and each question employs a seven-point Likert-type scale (1 = *strongly disagree* to 7 = *strongly agree*). One sample item included, “I do this job because of the paycheck”.

#### 3.2.4. Work engagement

The Utrecht Work Engagement Survey with nine items developed by Schaufeli et al. (2006) was used and each question employs a seven-point Likert-type scale (0 = *never to 6 = always/every day*). One sample item included, “My job inspires me”.

#### 3.2.5. Job satisfaction

Job satisfaction was measured using seven items from the Minnesota Satisfaction Questionnaire focusing specifically on the job (Weiss and Dawis, 1967). Each question employs a five-point Likert-type scale (1 = *very dissatisfied* to 5 = *very satisfied*). One sample item included, “I am (satisfied) with the chance to do something that makes use of my abilities”.

#### 3.2.6. Turnover intention

Turnover intention was measured using four items from the Turnover Intention Scale (TIS) developed by Roodt (2004). Each question employs a five-point Likert-type scale (1 = *never/highly unlikely* to 5 = *always/highly likely*). A sample item included, “How often do you dream about getting another job that will better suit your personal needs?”. Bothma and Roodt (2013) compared employees who left

their job after certain period (or leavers) to those who stayed (or stayers) and found significant differences in the mean scores between the leavers and the stayers, thus confirming the use of the TIS scale in measuring turnover intention and predicting actual turnover.

#### 3.2.7. Quality of life

Perceived quality of life was measured using ten items from the Quality of Work-Life scale developed by Sirgy et al. (2001). Each question employs a seven-point Likert-type scale (1 = *very untrue* to 7 = *very true*). One sample item included, “My job provides well for my family”.

#### 3.2.8. Demographic characteristics

Respondent’s demographics were collected. These included: sex, age, highest education level, department, hours worked, and monthly income.

## 4. Results

### 4.1. Profile of respondents

The respondents consisted of 61.3% female and 38.8% male; most had supervisory responsibilities (72.8%, n = 174) and 44.4% (n = 106) were working when the initial minimum wage policy was first implemented. Nonetheless, all respondents had been impacted by the recent minimum wage increase. The largest age group was between 19–35 years (80.6%, n = 129) and the majority worked 40 or more hours per week (84.9%, n = 135). Most respondents (93%, n = 147) earned more than RM1,000 per month which was more than the minimum wage at the time (Attorney General’s Chambers of Malaysia, 2016) (see Table 1).

### 4.2. Confirmatory factor analysis and reliability check

Based on the analysis, the measurement model adequately fit the data,  $\chi^2 (188, N = 239) = 487.902, p < 0.001, CFI = 0.924, RMSEA = 0.082$ . Several researchers considered RMSEA value between 0.05 to 0.10 as a fair fit (Hooper et al., 2008; MacCallum et al., 1996). Loadings of the measured variables on the latent variables were significant ( $p < 0.001$ ) and ranging from 0.618 to 0.947, which suggests convergent validity and considered acceptable (Hair et al., 2010) (see Table 2).

The average variance extracted (AVE) estimates range from 59.4%–86.7% and the composite reliabilities scores range from 0.95 to 0.99; which exceed 50% rules for AVE and exceed 0.70 rules for composite reliability, as suggested by Hair et al. (2010). Overall, all constructs suggest convergent validity. The correlations of less than 0.85 shown in Table 3 indicate no problems with discriminant validity (Hair

**Table 2**  
Confirmatory factor analysis results.

Scale items	Raw loading	Standard error	t-value	Standardized loading
<i>Perception of minimum wage policy</i>				
Perception of minimum wage policy 1 (e.g., minimum wage policy improved my base salary, minimum wage policy increase labor cost)	1.000	0.037	22.894	0.852
Perception of minimum wage policy 2 (e.g., know method of salary calculation, minimum wage policy has improved my total salary)	1.072	0.042	18.817	0.795
Perception of minimum wage policy 3 (e.g., aware of minimum wage policy, minimum wage policy does not benefit me)	1.252	0.042	18.211	0.768
<i>Compensation satisfaction</i>				
Pay raise	1.000	0.015	60.224	0.908
Pay structure/administration	1.020	0.016	56.989	0.902
Benefit	1.049	0.021	41.216	0.851
Pay level	1.003	0.021	40.451	0.850
<i>Work engagement</i>				
Dedication	1.000	0.014	68.480	0.940
Absorption	1.190	0.016	56.576	0.909
Vigor	1.062	0.024	34.874	0.834
<i>Work motivation</i>				
Identified regulation	1.000	0.013	73.940	0.944
Intrinsic motivation	1.074	0.019	46.270	0.872
Introjected regulation	0.918	0.023	36.658	0.837
External regulation	0.685	0.044	14.303	0.623
<i>Job satisfaction</i>				
Extrinsic satisfaction	1.000	0.019	46.832	0.901
General satisfaction	1.427	0.020	43.861	0.890
Intrinsic satisfaction	1.314	0.035	21.342	0.749
<i>Turnover intention</i>				
Turnover intention 1 (i.e., getting another job, frustrated when not given the opportunity)	1.000	0.064	12.198	0.780
Turnover intention 2 (i.e., consider leaving job, accept another job)	0.798	0.064	11.965	0.761
<i>Quality of life</i>				
Quality of life 1 (e.g., hotel offers program to help employees invest and manage finances effectively)	1.000	0.012	76.288	0.933
Quality of life 2 (e.g., supervisor cares about my financial wellbeing)	1.024	0.013	74.493	0.933
Quality of life 3 (e.g., my job provides well for my family)	1.045	0.013	71.357	0.928

Note: All loadings are significant at 0.01 level.

et al., 2010).

4.3. Structural equation model results and hypotheses tests

Next, the causal model was tested to evaluate the fit of the hypothesized structural equation model (see Fig. 1). Results from the analysis indicated that the fit indices for the causal model are identical to the measurement model,  $X^2(198, N = 239) = 504.884, p < 0.001$ , CFI = 0.922, RMSEA = 0.081 and were adequately fit (Hair et al., 2010). Standardized coefficients for the paths included in the model are shown in Fig. 2. Among 10 estimated path coefficients, nine paths were statistically significant at the 0.01 level. The significant paths were observed between perception of minimum wage policy on other variables, such as compensation satisfaction ( $\beta = 0.356, p < 0.01$ ) and work motivation ( $\beta = 0.368, p < 0.01$ ); hence H<sub>1</sub> and H<sub>2</sub> are supported. The other hypotheses are also supported (i.e., H<sub>3,5,6,7,8,9</sub>), except for H<sub>4</sub> due to insignificant path from compensation satisfaction to

work engagement ( $\beta = 0.005, p > 0.05$ ). All results are summarized in Table 4 and Fig. 2.

A series of indirect effects were tested to investigate the potential mediating effects. The statistical significance of indirect effects was tested with bias-corrected bootstrap sampling procedure using Mplus program. The total indirect effects of variables as well as the specific mediational paths are presented in Table 5. Based on the 95% confidence interval results, all nine total indirect paths tested were significant when the confidence intervals do not include zero ( $\alpha = 0.05$ ), hence providing empirical support for the existence of mediational effects in the model.

Moreover, most of the specific mediational paths tested were significant. For instance, compensation satisfaction and work motivation significantly mediated the relationship between perception of minimum wage policy and work engagement [0.041, 0.163]; however, compensation satisfaction alone does not mediate the same relationship [-0.052, 0.045]. Work motivation, work engagement, and job

**Table 3**  
Means, standard deviation, correlations among latent variables, squared correlations, and reliability alpha values.

Variable	M(SD)	1	2	3	4	5	6	7
1. Perception of minimum wage policy	3.22(0.62)	(0.784)	0.09	0.19	0.11	0.14	0.01	0.14
2. Compensation satisfaction	2.70(0.76)	0.298**	(0.953)	0.18	0.10	0.37	0.10	0.41
3. Work motivation	4.51(1.28)	0.436**	0.423**	(0.942)	0.55	0.40	0.12	0.25
4. Work engagement	5.10(1.18)	0.334**	0.317**	0.739**	(0.943)	0.34	0.09	0.13
5. Job satisfaction	3.25(0.93)	0.369**	0.608**	0.630**	0.579**	(0.911)	0.16	0.51
6. Turnover intention	3.60(0.87)	-0.115	-0.311**	-0.342**	-0.297**	-0.405**	(0.754)	0.19
7. Quality of life	3.26(1.47)	0.373**	0.639**	0.500**	0.356**	0.714**	-0.433**	(0.943)

Notes: N = 239. Reliability coefficient alpha values are shown on the diagonal. Perception of minimum wage policy, 1 = strongly disagree to 5 = strongly agree; Compensation satisfaction, 1 = very dissatisfied to 5 = very satisfied; Work motivation, 1 = strongly disagree to 7 = strongly agree; Work engagement, 0 = never to 6 = always/everyday; Job satisfaction, 1 = very dissatisfied to 5 = very satisfied; Turnover intention, 1 = never/highly unlikely to 5 = always/highly likely; Quality of life, 1 = very untrue to 7 = very true. Values below the diagonal are correlation estimates among latent variables and values above the diagonal are squared correlations.

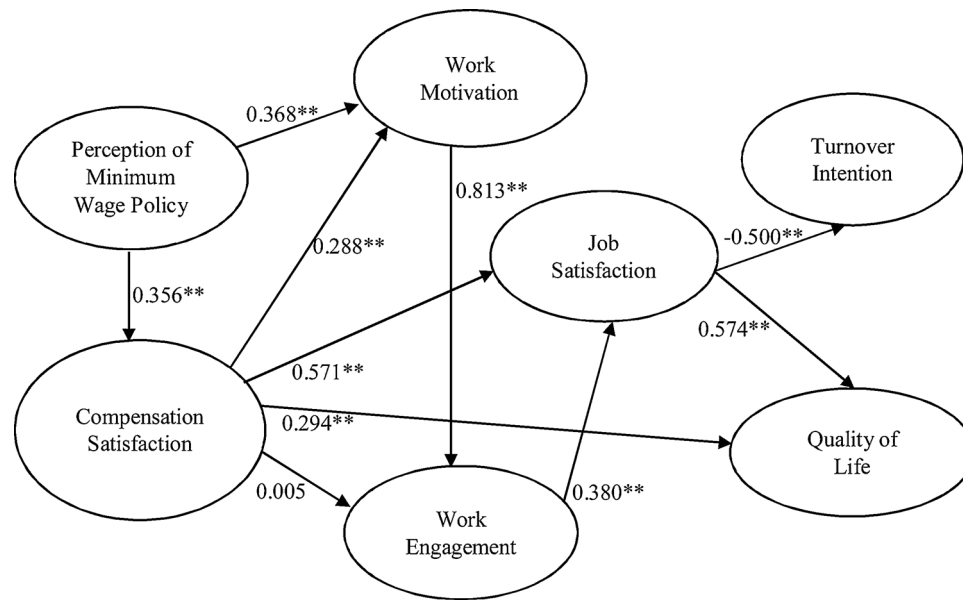


Fig. 2. Results of structural equation model analyses. \*\*  $p < 0.01$ .

**Table 4**  
Detailed information on results of structural equation model analyses.

Hypothesis	Path	Total effect	Standardized estimate	Standard error	Results of hypothesis tests
H <sub>1</sub>	Perception of minimum wage policy → Compensation satisfaction	0.487**	0.356**	0.096	Supported
H <sub>2</sub>	Perception of minimum wage policy → Work motivation	0.928**	0.368**	0.087	Supported
H <sub>3</sub>	Compensation satisfaction → Work motivation	0.529**	0.288**	0.071	Supported
H <sub>4</sub>	Compensation satisfaction → Work engagement	0.007	0.005	0.063	Not supported
H <sub>5</sub>	Work motivation → Work engagement	0.645**	0.813**	0.049	Supported
H <sub>6</sub>	Compensation satisfaction → Job satisfaction	0.570**	0.571**	0.060	Supported
H <sub>7</sub>	Work engagement → Job satisfaction	0.260**	0.380**	0.069	Supported
H <sub>8</sub>	Job satisfaction → Turnover intention	-0.588**	-0.500**	0.084	Supported
H <sub>9</sub>	Compensation satisfaction → Quality of life	0.574**	0.294**	0.083	Supported
H <sub>10</sub>	Job satisfaction → Quality of life	1.123**	0.574**	0.097	Supported
<i>Endogenous variables</i>					<i>R<sup>2</sup></i>
Work engagement					66.4%
Quality of life					65.4%
Job satisfaction					62.1%
Work motivation					29.3%
Turnover intention					25.0%
Compensation satisfaction					12.6%

\*\*  $p < 0.01$ .

satisfaction significantly mediated the relationship between compensation satisfaction and quality of life [0.023, 0.090]. All results for the significant specific indirect effects are presented in Table 5.

## 5. Discussion, implications, and conclusions

### 5.1. Discussion and implications

This study analyzed the overall effects of minimum wage policy implementation on employee work behaviors and perceived quality of life. Results reflect changes in compensation system and an increase in minimum wage. Detailed empirical analysis provided important findings and implications.

First, perception of minimum wage policy significantly influenced compensation satisfaction and work motivation. The MAH (2013a, b) reported that employees were dissatisfied when their total take-home pay decreased after the policy implementation and those who preferred a higher take-home pay quit their current jobs. Employers' decisions about how to structure compensation systems influenced employee

satisfaction with compensation, motivation to work, and later contributed to high turnover rate (Malaysian Association of Hotels (MAH, 2013a,b). Findings from this study expanded Joo-Ee (2016)'s study in the sense that perception of minimum wage policy was measured only after five years of policy implementation in 2013 and years after another minimum wage increase in 2016. This study also took into account the impact of perception of minimum wage policy on employee work behaviors and perceived quality of life.

Second, compensation satisfaction significantly influenced employee work motivation, job satisfaction, and perceived quality of life. A few researchers also found evidence as to what extent compensation satisfaction influenced work motivation (Ghazanfar et al., 2011; Negash et al., 2014) and job satisfaction (Cruz et al., 2014; Stringer et al., 2011). Rationally, those employees who are less satisfied with compensation are often less motivated to work and vice versa (Ghazanfar et al., 2011). Unhappy employees are among the key findings by the MAH (2013a,b) since most Malaysian hotel employees' total take-home pay decreased after management restructured compensation systems. It seems reasonable that the Malaysian hotel employees who participated

**Table 5**  
Statistically significant indirect effects of the predictor variables.

Predictor	Effect estimate	95% CI	Standardized effect estimate
<b>Perception of minimum wage policy to Work engagement</b>	0.768	[0.237, 0.516]	0.384
Perception of minimum wage policy > Work motivation > Work engagement	0.598	[0.154, 0.453]	0.299
Perception of minimum wage policy > Compensation satisfaction > Work motivation > Work engagement	0.166	[0.041, 0.163]	0.083
<b>Perception of minimum wage policy to Quality of life</b>	0.816	[0.164, 0.443]	0.305
Perception of minimum wage policy > Compensation satisfaction > Quality of life	0.280	[0.042, 0.234]	0.105
Perception of minimum wage policy > Compensation satisfaction > Job satisfaction > Quality of life	0.312	[0.054, 0.215]	0.117
Perception of minimum wage policy > Work motivation > Work engagement > Job satisfaction > Quality of life	0.175	[0.028, 0.118]	0.065
Perception of minimum wage policy > Compensation satisfaction > Work motivation > Work engagement > Job satisfaction > Quality of life	0.049	[0.008, 0.041]	0.018
<b>Compensation satisfaction to Work engagement</b>	0.341	[0.113, 0.355]	0.234
Compensation satisfaction > Work motivation > Work engagement	0.341	[0.113, 0.355]	0.234
<b>Compensation satisfaction to Job satisfaction</b>	0.091	[0.035, 0.162]	0.091
Compensation satisfaction > Work motivation > Work engagement > Job satisfaction	0.089	[0.044, 0.153]	0.089
<b>Compensation satisfaction to Turnover intention</b>	-0.388	[-0.462, -0.209]	-0.331
Compensation satisfaction > Job satisfaction > Turnover intention	-0.335	[-0.411, -0.180]	-0.286
Compensation satisfaction > Work motivation > Work engagement > Job satisfaction > Turnover intention	-0.052	[-0.085, -0.019]	-0.044
<b>Compensation satisfaction to Quality of life</b>	0.742	[0.249, 0.515]	0.380
Compensation satisfaction > Job satisfaction > Quality of life	0.640	[0.208, 0.460]	0.328
Compensation satisfaction > Work motivation > Work engagement > Job satisfaction > Quality of life	0.100	[0.023, 0.090]	0.051
<b>Work motivation to Job satisfaction</b>	0.168	[0.196, 0.431]	0.309
Work motivation > Work engagement > Job satisfaction	0.168	[0.196, 0.431]	0.309
<b>Work motivation to Turnover intention</b>	-0.098	[-0.242, -0.087]	-0.155
Work motivation > Work engagement > Job satisfaction > Turnover intention	-0.098	[-0.242, -0.087]	-0.155
<b>Work engagement to Turnover intention</b>	-0.153	[-0.294, -0.112]	-0.190
Work engagement > Job satisfaction > Turnover intention	-0.153	[-0.294, -0.112]	-0.190

Notes. The 95% CI shows the lower and upper 2.5% of the bootstrap estimates for the indirect effects. Cases where the CI does not include zero are statistically significant.

in studies done by the MAH (2013a,b) were not satisfied with their compensation, thus influenced their work motivation and job satisfaction.

Third, work motivation significantly influenced work engagement and the causal path between these variables was highly significant ( $\beta = 0.813, p < 0.01$ ). Some might be concerned with the highly significant path between these two variables and question why the two variables were not combined in the analysis. Similar results by Putra et al. (2017) also found highly significant paths from work motivation to work engagement dimensions (i.e., vigor,  $\beta = 0.94$ ; dedication,  $\beta = 0.92$ , absorption,  $\beta = 0.82, p < 0.01$ ). It is important to highlight that analysis for both constructs showed convergent validity and therefore it appears that there is no problem with discriminant validity. These variables were also different theoretically (Deci and Ryan, 1985; Gagne' and Forest, 2008; Schaufeli et al., 2006). Work motivation was measured using intrinsic motivation and extrinsic motivation whereas work engagement was measured using vigor, dedication, absorption. Reasonably, work motivation drives work engagement. Putra et al. (2017) found that both intrinsic and extrinsic motivation influenced work engagement. Employees could be engaged at work, but they are not necessarily motivated at work. Based on the total mean scores for both variables as found in this study, the respondents were very often engaged at work ( $M = 5.10$ ) but only slightly motivated at work ( $M = 4.51$ ). Therefore, it is justified to treat these two variables as a separate construct.

Fourth, work engagement significantly influenced job satisfaction. Such result supported findings by previous studies (Lu et al., 2016; Park and Gursoy, 2012), when they also found that increases in employee work engagement leads to increases in job satisfaction. Next, job satisfaction significantly influenced turnover intention and perceived quality of life. These findings are similar to those previous studies examining the impact of job satisfaction on turnover intention (Gu and Siu, 2009; Jang and George, 2012; Lu et al., 2016; Park and Gursoy, 2012). When employees are satisfied with their job, they would be less

likely to leave their company. Moreover, a limited number of studies found significant associations between job satisfaction and quality of life (Lee et al., 2015; Sirgy et al., 2001) and it seems reasonable that employee overall satisfaction with their job influenced employee perceived quality of life. This is an important contribution to the literature as no known studies have considered impact of minimum wage policy implementation on work behaviors and quality of life, particularly in developing countries.

Additionally, only one direct path tested was not significant; from compensation satisfaction to work engagement ( $\beta = 0.005, p > 0.05$ ). One plausible reason is that this direct path was mediated by another variable, because the indirect path was significant and mediated by work motivation [0.113, 0.355]. This finding is important to emphasize that when considering an increase in a minimum wage and changes in compensation systems, work motivation significantly mediated the relationship between compensation satisfaction and work engagement. Further analysis and the results of mediating effects highlighted the role of work behaviors (i.e., work motivation, work engagement, job satisfaction) and perceived quality of life in explaining turnover intention. As reported in Table 5, compensation satisfaction, work motivation, work engagement, and job satisfaction mediated the relationship between perception of minimum wage policy and quality of life [0.008, 0.041]. Such finding contributes significantly to the literature as this study not only examining the impact of minimum wage policy perception on quality of life, but also jointly assessing the mediating effects of important variables such as compensation satisfaction and work engagement.

Moreover, this study found that work motivation, work engagement, and job satisfaction mediated the relationships between compensation satisfaction and turnover intention [-0.085, -0.019] as well as between compensation satisfaction and quality of life [0.023, 0.090]. Simply put, employee motivation and engagement to work as well as overall satisfaction toward their job were significantly mediating the relationships between compensation satisfaction and



turnover intention, and between compensation satisfaction and quality of life. As this study considered changes in compensation systems and an increase in minimum wage rate, these findings are crucial when examining employee intention to leave their job and perception of quality of life.

Additional results of the mediational effects strengthen the study objective as this study attempted to holistically analyzed the overall effects of minimum wage policy implementation on Malaysian hotel employees. In other words, this study not only examined to what extent the minimum wage policy implementation impacted employees' work behaviors and quality of life but also looked at how these variables were mediated within a model. All things considered, this study is unique as it provides a comprehensive examination of a minimum wage policy implementation by a developing country were provided, compared to other studies in the same realm. The novelty of the findings gathered contributed to the literature, given that this study reflects the changes in compensation systems resulting from a minimum wage policy implementation and a minimum wage increase in Malaysia.

## 5.2. Conclusions

While results of this study supporting some of the findings by other researchers, this study also provided additional evidences on the overall impact of the minimum wage policy implementation and a minimum wage increase on employee work behaviors and perceived quality of life. This study has the following strengths: (a) all four work behaviors together with perceived quality of life were jointly assessed when examining the impact of minimum wage policy implementation; (b) data were collected approximately five years from the initial minimum wage policy implementation in 2013 and years after another increase in 2016; and (c) this study considered a change in compensation systems by the hotel operators. The originality of the findings is not limited to the aforementioned statements; this study fills gaps existing in the literature concerning minimum wage policy implementation by developing countries and to what extent the implementation impacted employee work behaviors and perceived quality of life. In conclusion, the results of this study offer practical benefits for hotel operators in Malaysia and make theoretical contributions in the hospitality field.

## 6. Limitations and future research

The theoretical model developed measured the impact of minimum wage policy implementation on compensation satisfaction, work behaviors, and perceived quality of life. Under those circumstances, this study did not measure how compensation satisfaction impacted employee work performance. Future research could adopt the framework developed in this study to further explore the impact of compensation on employees while considering minimum wage policy implementation; adding other variables into the current model will allow for measurement of compensation on work behaviors and work performance, in addition to quality of life. Adding more variables also allows future research to examine any additional mediating effects that might appear in the model.

The Central Bank of Malaysia (2013) projected that the minimum wage policy implementation would boost Malaysia's economy. Therefore, future research should consider examining the impact of minimum wage policy implementation on organizational financial performance, given this study focused only on hotel employees. Moreover, this study is cross-sectional as data were collected at a specific time point; hence, recommendation for future research is to collect data repeatedly over a certain period and later compare findings to examine the patterns. Because minimum wage increases continue after initial policy implementation, a longitudinal study could offer additional benefits in terms of changes in employee work behaviors and perceived quality of life over time.

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