

Breaking the Hiring Barrier

Leveraging Wage and Non-Wage Solutions for Faster Recruitment



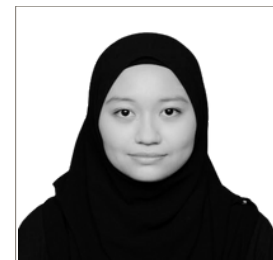
Summary

- ◆ Both wage and non-wage factors are important recipes in determining hiring decisions. Employers must balance the need to offer competitive wages to attract talent with the need to create an appealing work environment for their employees.
- ◆ Analyses indicate that wage and non-wage interventions are important variables in increasing the labor supply. In the case of Penang, salaries and wages provided by industries are considerably low and increasing salaries and wages in Penang could induce migration of youth unemployment to Penang.
- ◆ For some labor force segments such as graduates, non-wage interventions such as working environment, fair employers and comfortable working space are important elements to attract their participation.
- ◆ For the case of labor shortage economy like Penang, both wage and non-wage interventions should be integrated in any effort to increase and retain employment.

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Introduction

The unemployment rate in Malaysia is still above the pre-pandemic level (in 2019 the unemployment rate was 3.3%). In 2022, the unemployment rate was recorded at 4.3% compared to 4.6% in 2021. The unemployment rate in 2023 is expected to continue to decrease but still be above 3.3%. We project the 2023 unemployment rate to around 3.8% if Malaysia is able to record a GDP growth of 4.5%. These statistics do not split employment into formal and informal sectors, which shows another different story. take into account those working in the informal sector. The size of informal employment increases in the post-pandemic periods and reducing it also should become one of the policy targets.

The key challenges of the post-pandemic labor market are not only to reduce unemployment but also to return workers to the formal sector. The youth workforce, especially university graduates, is a labor force segment that needs to be given priority. How can these two goals, reducing unemployment and informal employment, be accomplished?

At EU-ERA, we believe that a combination of wage and non-wage interventions can be an effective

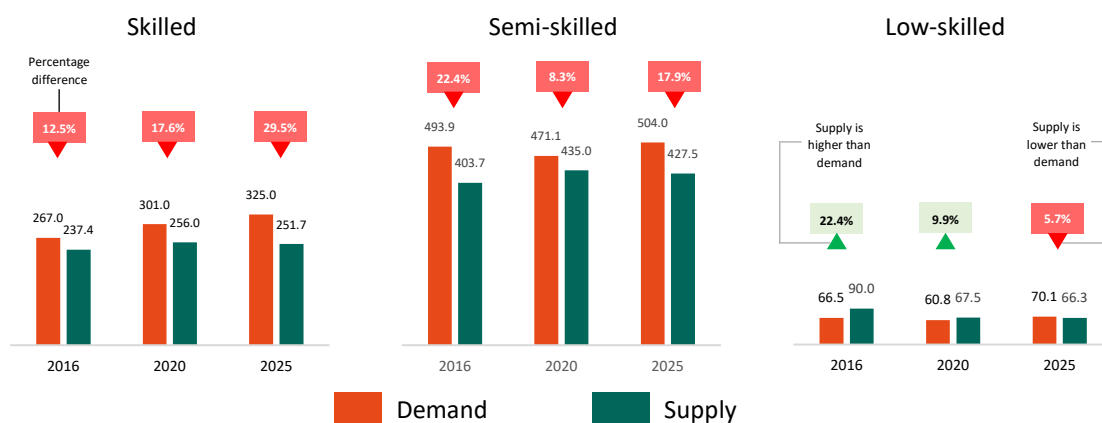
strategy for increasing and retaining employment. By offering competitive compensation packages and creating a positive work environment, companies can attract and retain talented employees who are motivated to perform at a high level. This policy brief offers insight into the importance of wage and non-wage interventions in increasing employment absorption. We share key findings obtained from a *Graduates Job Preference Survey* in Penang, conducted by EU-ERA in collaboration with the Malaysia Productivity Corporation.

Wage and non-wage factors

The labor market landscape in Penang shows a considerable shortage of workers when demand exceeds labor supply for the skilled and semi-skilled categories (Figure 1). The shortage is expected to continue if specific interventions do not take in place. With the unemployment rate in Penang being below the national average, this means that Penang needs a supply of labor from other states to fulfil the gap. Allowing this shortage to continue in Penang's economy will limit the state's growth potential.

Figure 1

Labor demand-supply gap in Penang, 2016-2025



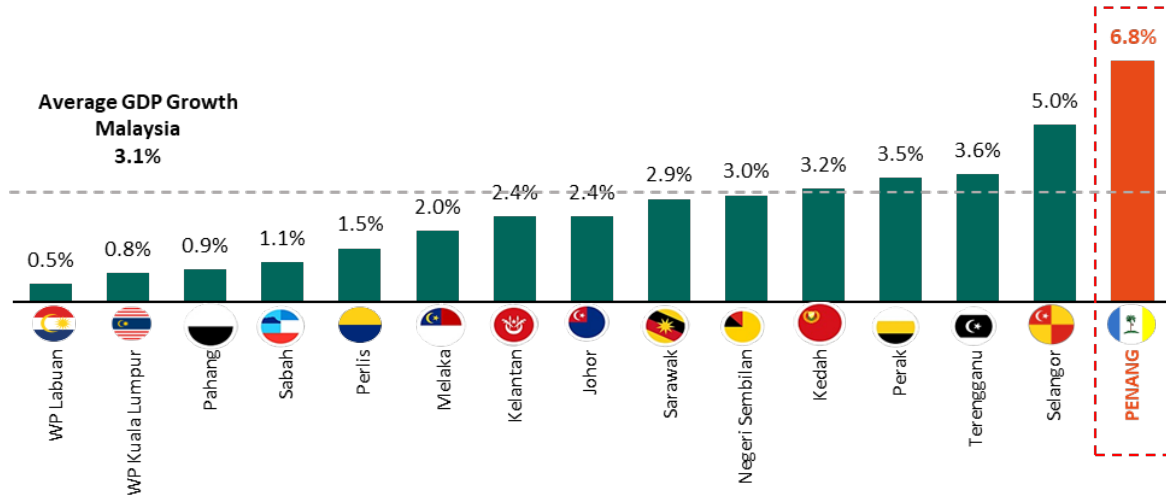
Source: Data for the 2016-2020 periods are obtained from the Department of Statistics Malaysia (various years) while the forecasted periods are estimated by EU-ERA

The first fact that can explain the labor shortage is the level of wages. In many cases, wages are a driving factor in the decision to migrate. For example, individuals may choose to move from less developed to developed states where wages tend to be higher and there are more job opportunities. Does the level of wages in Penang encourage migration?

Penang's economy is one of the main contributors to Malaysia's overall economy. In 2021, the gross domestic product (GDP) of Penang recorded the highest growth among states in Malaysia with 6.8% (Figure 2). Based on this performance, Penang seems to be the fastest state in Malaysia that shows substantial recovery after the pandemic crisis.

Figure 2

GDP growth by states, 2021



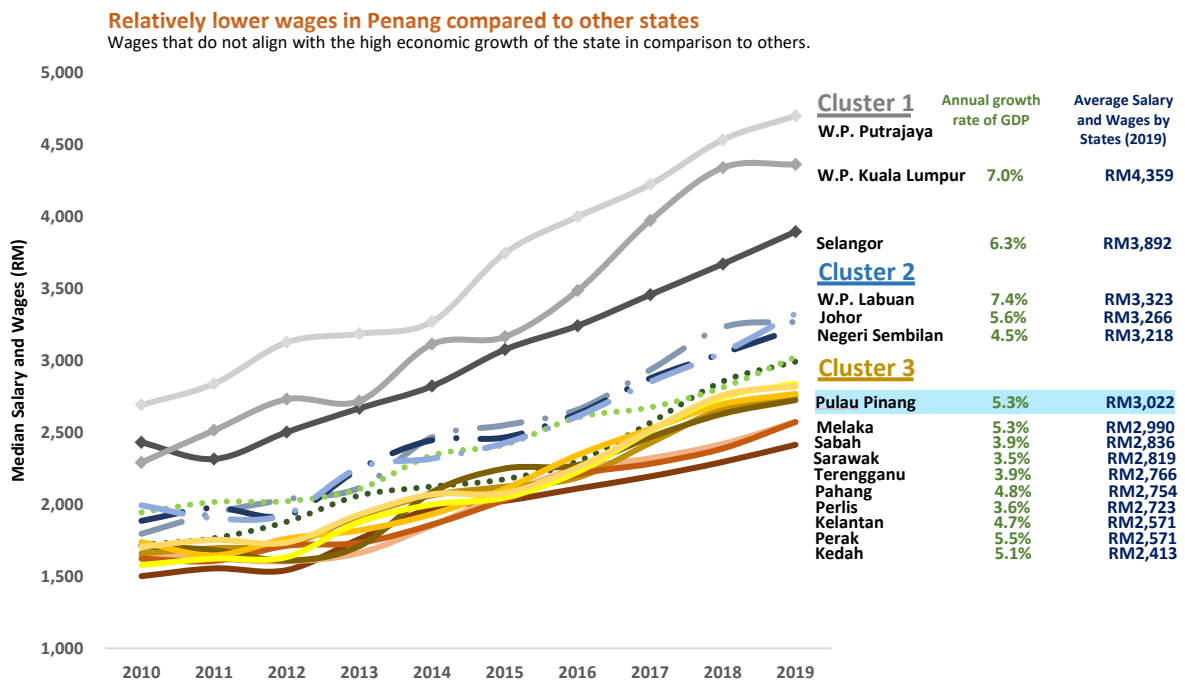
Source: Illustrated based on data from the Department of Statistics Malaysia (2022a)

Although economic growth in Penang is impressive, the level of salaries and wages is relatively lower than in other states (Figure 3). In 2021, the average salaries and wages paid in Penang is RM3,080 lower than the salaries and wages in Selangor (RM3,544). The economic growth of Penang is higher than that of Negeri Sembilan but the average salaries and wages in Negeri Sembilan are higher than in

Penang. When the wage rate is low, there may be less incentive for individuals to migrate to an area in search of employment opportunities. This is because the cost of living in the new location may be too high relative to the wages being offered, making it difficult for individuals to sustain themselves financially.

Figure 3

Average GDP growth and average salary and wages by states



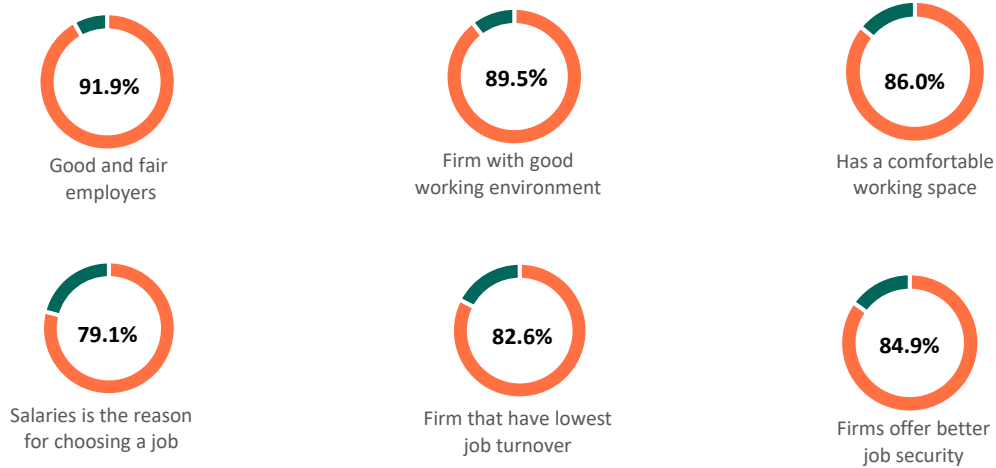
Source: Illustrated based on data from the Department of Statistics Malaysia (2022b).

In addition to wages, the working environment is found to be one of the important determinants for the decision to work. From the survey findings, most employed graduates seek for good working environment and secure jobs to work (Figure 4). As a result, employers must thus anticipate future

labor demands and take steps to enhance working conditions, employer-employee relations and management practices. They must also take into account the importance of career development for their future employees through training and communication.

Figure 4

Reason for choosing to work in Penang



Sources: *Graduates Job Preference Survey* in Penang conducted by EU-ERA in collaboration with MPC

Graduates Job Preference Survey in Penang

A behavioral insight survey on graduates in Penang is performed to understand the wage and non-wages determining factors of job preference. A deep dive investigation has been conducted through a survey that runs from 10th to 16th December 2022 to obtain insights on the pull factors for job preference in Penang. This survey also observes job mobility and employment characteristics among graduates from education and training institutions in Penang within 12 months. A total of 429 responses are successfully collected with the rejection of 106 respondents for not meeting the survey objectives. Thus, 385 accepted respondents for this survey have been used to deep-dive insight into understanding the behavior of graduates and job market conditions.

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Recommendations

Wage transformation

Addressing the transformation in workers' wages and compensation are needed to increase the supply of workers. Labor shortages occur when job offered are not attractive to the new workers due to their low wages and ineffective—or lack of—incentives given. To attract new and retain workers, industries in the Penang need to have wage

structure scheme, and competitive compensation packages and employee benefits. The wage structure scheme is the main components of workers' compensation that will affect the labor supply in the market. Competitive compensation packages along with employee benefits are one of the keys to attract and retain workers.

Facilitating labor mobility

First, reducing the opportunity costs of labor migration to enhance the benefits for workers and destination. High labor migration costs can reduce the benefits for workers and their families and diminish their positive contribution to Penang. Several policy options could be considered to promote labor mobility including providing temporary and targeted housing assistance, particularly in areas that face a high house price-income ratio. In addition, providing a wider range of services for childcare, child education and the elderly that can offer to workers can induce people to mobile.

Second, the public employment services (PES) can be an effective mechanism for mobilizing diverse partners to address the recruitment challenges facing Penang's industries. The upgrading and strengthening of the capacities of PES is necessary to support the labor mobility. These capacities included improving the information required by the employer; coordinating; monitoring performance; establishing policy priorities; and a continuous consultation and dialogue with industries and stakeholders. Another factor that also had a positive impact on the intervention was the policy alignment of labor market policies for rebalancing the match of labor supply and demand with local industrial development policies. The combination of these factors, in particular, enabled the PES to improve and strengthen its reputation in the labor market.

Focusing non-wage Interventions

Both wage and non-wage interventions are necessary to be considered because some labor force segments are more sensitive to the wage adjustment but some groups, particularly younger talents, non-wage factors are more important. Worker's wellbeing nowadays is more important than ever before, even more after the Covid-19 pandemic. This is especially important with the changing structure of the labor force, where the new generation of workers demand for better working environment. Therefore, having human resource planning is important for a sustainable development. By understanding the labor market needs and implementing strategies to develop and retain talented employees.

Moreover, establishing a good personal relationship with workers is an effective practice for worker retention and reducing turnover. For example, some industries have family-based bond between superior and workers that could help the employee to feel more belonging and if there are any suggestions from the workers the employer will respond to workers' opinion and suggestions. By doing so, management has won the trust of workers and built a good corporate image. Other than that, developing worker assistance plans such as career path progression, and consulting rooms could help employees to open up to the management and understand the work needed to be done and expectation to achieve a certain level in the company. Therefore, the productivity of the labor can be improved, and a stable workforce can be built.

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EU-ERA Policy Brief

EU-ERA Policy Brief offers a short note with combined analysis and policy recommendations in addressing developmental issues that are directly and indirectly affect the labor market in Malaysia. This policy brief aims to generate a forward-looking and proactive discussion among policymakers, researchers and stakeholders in identifying emerging trends, challenges, and opportunities in the economy. The orientation is toward the real-world policy challenges and opportunities, with an emphasis on providing practical recommendations that can help guide decision-making.

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Centre for Future Labour Market Studies (EU-ERA) is a state-of-the-art research centre in Malaysia that focuses on the labour market research and analytics. EU-ERA operates as a nucleus hub within The Future Studies Berhad (The Future). We are dedicated to conducting cutting-edge research and analysis on the rapidly changing economic and labor market landscapes, with the goal of informing policymakers, businesses, and the public about the implications of these changes.

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