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The Influence Of District Minimum Wage Gap, Length Of Service, And Education Level On Worker Welfare

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Abstract

This research is motivated by the gap between the Regency Minimum Wage and the actual wages of shop workers in Dendang District, East Tanjung Jabung Regency, which has the potential to affect worker welfare. This study aims to analyze the influence of the gap between the Regency Minimum Wage, length of service, and education level on worker welfare. The study used a quantitative approach with an associative method. The study population was shop workers in Dendang District, with a sample of 90 respondents selected using purposive sampling. Data were collected through observation and Likert-scale questionnaires, then analyzed using SEM-PLS with SmartPLS 4.0. The results show that the gap between the Regency Minimum Wage and length of service has a positive and significant effect on worker welfare, while education level has no significant effect. Education level has a positive and significant effect on length of service. In conclusion, worker welfare is more related to the suitability of wages and work experience than formal education.

Keywords: Education, Employment Tenure, Minimum Wage, Worker Welfare, Wage Gap

INTRODUCTION

Economic development aims to improve the welfare of society, including the workforce as the main actors in economic activity (Ritonga et al., 2025). Worker welfare is related to the fulfillment of basic needs such as food, clothing, shelter, education, and health (Yusdiansyah & Sumanto, 2022; Universitas Islam et al., 2023). Wages are the primary source of workers' income, so a fair and standardized wage system plays a crucial role in determining welfare (Penerapan Perlindungan et al., 2021). However, a gap remains between the minimum wage (UMK) and actual wages, particularly in the small and informal business sectors. Data shows that 38% of Indonesian workers receive

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wages of less than IDR 2 million per month, while the average national minimum wage in 2025 is around IDR 3.28 million (Cahyani & Rohman, 2022). This situation has the potential to reduce purchasing power and widen social inequality (Open Journal Systems, 2025).

This phenomenon is evident in Dendang District, East Tanjung Jabung Regency. The 2026 minimum wage (UMK) is Rp3,486,521, while preliminary data from 36 shops with 111 workers indicates wages ranging from only Rp500,000 to Rp1,700,000 per month. The majority of workers have a high school diploma, with varying lengths of service and education levels. This situation indicates a gap between the UMK and actual wages. The informal nature of small businesses also means that length of service and education are not fully used as a basis for wage determination, so this situation needs to be examined in relation to worker welfare.

The research problem relates not only to wage disparities but also to tenure and education. Theoretically, tenure reflects experience and skills, which should increase compensation. However, in small businesses, workers with longer tenure do not necessarily receive better welfare (Azhari & Ramadhanti, 2024). Education also plays a role in increasing productivity and income, but wage systems in small businesses often fail to account for differences in worker education (Seprianto, 2021).

This issue is also relevant from a sharia economic perspective, which places welfare within the concept of falah, namely material, spiritual, and moral well-being (Rahmania, 2022). Falah is supported by the principles of 'adl or justice in fulfilling workers' rights (Maulena et al., 2024), tawazun or balance between rights, obligations, work period, education, and rewards (Aulia et al., 2025), and maslahah, which prioritizes benefits and avoids harm (Ibrahim, 2025). The principle of justice is also emphasized in QS. Al-Anám: 152 (Shihab, 2002), including in the provision of fair wages as a worker's right (Shihab, 2002).

Another issue is evident in the differences in previous research results. Candra et al. (2024) demonstrated the influence of minimum wages and education on employment, while Rahmawati (2021) found a positive influence of wages and tenure on welfare. Pratama and Sari (2022) demonstrated the influence of education on welfare, while Hidayat (2020) found that education and tenure did not always have an impact on micro and small businesses. Lestari and Nugroho (2023) found a simultaneous influence of wages, education, and tenure. These differences in results indicate a research gap that requires further study on small businesses in rural areas by integrating a sharia economic perspective.

This study aims to analyze the influence of the gap between the minimum wage and actual wages, length of service, and level of education on workers' welfare from a sharia economic perspective, both partially and simultaneously. The urgency of this

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research lies in the importance of obtaining empirical evidence regarding the wage conditions and welfare of small business workers (Tamara et al., nd). The novelty of this research lies in the integration of quantitative analysis with a sharia economic perspective through the principles of 'adl, tawazun, and maslahah, by testing all three variables simultaneously on shop workers in Dendang District based on the maqashid sharia welfare framework of M. Umer Chapra (Chapra, 1992).

METHOD

This study uses a quantitative approach with an associative research type to determine the effect of the gap in the District Minimum Wage (X1), length of service (X2), and education level (X3) on worker welfare (Y). The study was conducted in Dendang District, East Tanjung Jabung Regency, Jambi Province for approximately two months, from June to the end of July, which included preparation, data collection, data processing, and report preparation. Data analysis used Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with the help of SmartPLS version 4.0.

The study population was all workers in shops or trade businesses in Dendang District, East Tanjung Jabung Regency. The sample was determined using non-probability sampling with a purposive sampling technique based on the criteria of workers who work in shops, receive wages from the owner or manager of the business, have worked for at least one month, have diverse educational backgrounds, and are willing to be respondents (Sugiyono, 2019). The determination of the number of samples used the Slovin formula with a 5% error rate, resulting in 86.89 and rounded up to 90 respondents.

The research instruments, in the form of observations and questionnaires, were used to obtain data on the gap in the Regency Minimum Wage, length of service, education level, and worker welfare. The questionnaire was structured based on indicators for each variable and used a five-level Likert scale: 1 for Strongly Disagree, 2 for Disagree, 3 for Neutral, 4 for Agree, and 5 for Strongly Agree. Primary data was obtained directly from respondents through questionnaires and observations, while secondary data came from books, journals, previous research, and relevant documents (Auliya et al., nd; Sugiyono, 2019).

Data analysis was conducted using SEM-PLS with SmartPLS version 4.0 through the stages of descriptive statistics, outer model evaluation, inner model evaluation, and hypothesis testing. The outer model includes convergent validity through outer loading and AVE, discriminant validity through cross loading and Fornell-Larcker Criterion, and reliability through Cronbach's Alpha and Composite Reliability with criteria ≥ 0.70 (Hair et al., 2022). The inner model includes R-Square, Q-Square, and Effect Size (f^2), with R-Square criteria of 0.75 being strong, 0.50 being moderate, and 0.25 being weak, $Q^2 > 0$ indicating predictive ability, and f^2 of 0.02, 0.15, and 0.35 indicating small, medium, and

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large effects, respectively (Ghozali & Latan, 2020; Hair et al., 2022). Hypothesis testing was carried out through bootstrapping by looking at the Original Sample, T-Statistic, and P-Value, with the criteria of T-Statistic > 1.96 and P-Value < 0.05 (Ghozali & Latan, 2020).

The research procedure begins with identifying the problem regarding the gap between the Regency Minimum Wage and actual wages, length of service, and workers' education level. This is followed by determining the location, population, sample, and research instrument development. Data were then collected through observation and questionnaires from 90 respondents. The data were then processed using SmartPLS version 4.0 through descriptive statistical analysis, outer models, inner models, and hypothesis testing. The results of the analysis were then interpreted to determine the effect of the gap between the Regency Minimum Wage, length of service, and education level on workers' welfare from a sharia economic perspective, both partially and simultaneously.

RESULTS AND DISCUSSION

Respondent Characteristics Results

Table1 Respondent Characteristics Based on Age

No	Respondent Age	Number of people)	Percentage
1	< 17 Years	1	1.1%
2	17-25 Years	78	86.7%
3	26-35 Years	11	12.2%
4	> 35 Years	-	-

The majority of respondents were aged 17–25, 78 (86.7%), 11 (12.2%) were aged 26–35, and only one (1.1%) was under 17.

Table 2 Respondent Characteristics Based on Gender

No	Gender	Number of people)	Percentage
1	Man	33	36.7%
2	Woman	57	63.3%

Based on Table 2, it is known that the research respondents were dominated by women, namely 57 people (63.3%), while the number of male respondents was 33 people (36.3%).

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Table 3 Characteristics of Respondents by Length of Service

No	Length of work	Number of people)	Percentage
1	1-5 Months	46	51.1%
2	5-12 Months	34	37.8%
3	1 year	5	5.6%
4	2 years	5	5.6%

Based on Table 3, it is known that the majority of respondents have worked for 1–5 months, namely 46 people (51.1%). Respondents with a work period of 5–12 months numbered 34 people (37.8%), while respondents who had worked for 1 year and 2 years each numbered 5 people (5.6%).

Table 4 Respondent Characteristics by Position/Occupation

No	Position/Job	Number of people)	percentage
1	Cashier	23	25.6%
2	Shopkeeper	55	61.1%
3	Warehouse	12	13.3%

Based on Table 4, it is known that the majority of respondents work as shop assistants, namely 55 people (61.1%). Furthermore, respondents who work as cashiers number 23 people (25.6%), while respondents who work in the warehouse number 12 people (13.3%).

Table 5 Respondent Characteristics Income/Per Month

No	Income/Per Month	Number of people)	Percentage
1	Rp. 500,000 – Rp. 1,000,000	42	46.7%
2	Rp. 1,000,000 - Rp. 1,500,000	38	42.2%
3	Rp. 1,500,000 - Rp. 2,000,000	10	11.1%

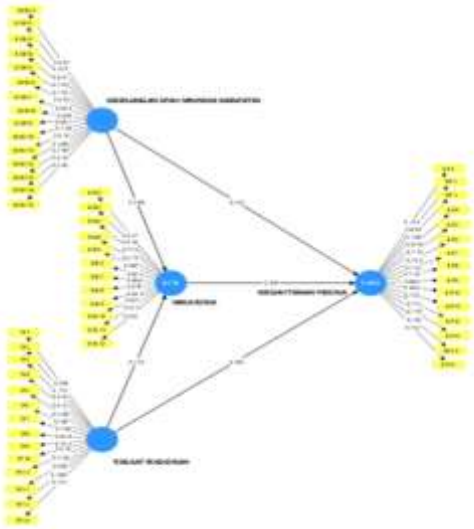
Based on Table 5, it is known that the majority of respondents have an income of Rp500,000–Rp1,000,000 per month, namely 42 people (46.7%). Furthermore,

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respondents with an income of Rp1,000,000–Rp1,500,000 numbered 38 people (42.2%), while respondents with an income of Rp1,500,000–Rp2,000,000 numbered 10 people (11.1%).

Measurement model test (outer model)



Picture1Results of the Measurement Model (Outer Model) Stage 1

Table 6 Outer Loading Results of Convergent Validity Test Stage 1

No	Worker Welfare	District Minimum Wage Gap	Years of service	Level of education	Note
KP1	0.701				**Valid**
KP2	0.800				Valid
KP3	0.768				Valid
KP4	0.839				Valid
KP5	0.711				Valid
KP6	0.730				Valid
KP7	0.725				Valid
KP8	0.776				Valid
KP9	0.803				Valid
KP10	0.825				Valid
KP11	0.702				Valid
KP12	0.772				Valid
KP13	0.797				Valid

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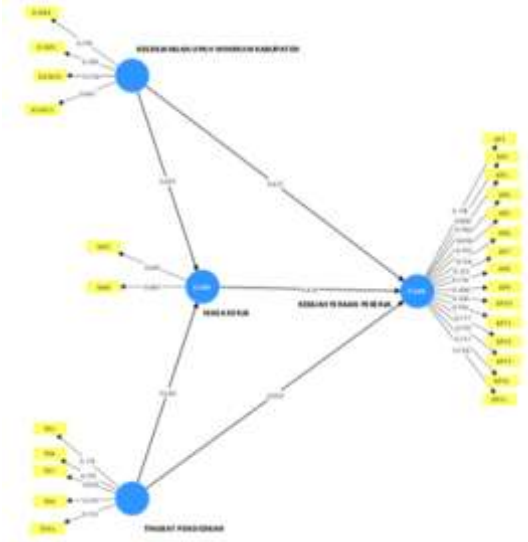
KP14	0.716				Valid
KP15	0.732				Valid
KUM1		0.697			Invalid
KUM2		0.673			Invalid
KUM3		0.457			Invalid
KUM4		0.703			Valid
KUM5		0.752			Valid
KUM6		0.693			Invalid
KUM7		0.641			Invalid
KUM8		0.628			Invalid
KUM9		0.687			Invalid
KUM10		0.728			Valid
KUM11		0.612			Invalid
KUM12		0.649			Invalid
KUM13		0.799			Valid
KUM14		0.655			Invalid
KUM15		0.545			Invalid
MK1			0.637		Invalid
MK2			0.616		Invalid
MK3			0.776		Valid
MK4			0.673		Invalid
MK5			0.580		Invalid
MK6			0.825		Valid
MK7			0.464		Invalid
MK8			0.678		Invalid
MK9			0.431		Invalid
MK10			0.657		Invalid
MK11			0.573		Invalid
MK12			0.552		Invalid
TP1				0.544	Invalid
TP2				0.717	Valid
TP3				0.652	Invalid
TP4				0.637	Invalid
TP5				0.538	Invalid
TP6				0.740	Valid
TP7				0.786	Valid
TP8				0.659	Invalid

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TP9				0.765	Valid
TP10				0.635	Invalid
TP11				0.534	Invalid
TP12				0.638	Invalid
TP13				0.590	Invalid
TP14				0.731	Valid

Based on Table 6, the results of the first-stage outer loading test indicate that all worker welfare indicators have values ≥ 0.70, thus being declared valid. However, several indicators in the district minimum wage gap, length of service, and education level variables had values < 0.70 and were therefore eliminated. Indicators that met the criteria were retained for further analysis.



Picture 2Results of the Measurement Model (Outer Model) Phase II

Table 7 Results of the Measurement Model (Outer Model) Stage 2

No	Worker Welfare	District Minimum Wage Gap	Years of service	Level of education	Note
KP1	0.705				Valid
KP2	0.800				Valid
KP3	0.768				Valid
KP4	0.836				Valid
KP5	0.702				Valid
KP6	0.724				Valid

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KP7	0.723				Valid
KP8	0.776				Valid
KP9	0.806				Valid
KP10	0.829				Valid
KP11	0.704				Valid
KP12	0.777				Valid
KP13	0.797				Valid
KP14	0.717				Valid
KP15	0.726				Valid
KUM4		0.756			Valid
KUM5		0.789			Valid
KUM10		0.756			Valid
KUM13		0.843			Valid
MK3			0.895		Valid
MK6			0.907		Valid
TP2				0.751	Valid
TP6				0.791	Valid
TP7				0.856	Valid
TP9				0.797	Valid
TP14				0.733	Valid

Based on Table 7, the results of the second stage of outer model testing show that all indicators have outer loading values above 0.70, so that all indicators are declared valid and meet the convergent validity criteria.

Table 8 AVE Results of Convergent Validity Test

Variables	Average variance extracted	Information
Worker welfare	0.579	Valid
District Minimum Wage Gap	0.634	Valid
Years of service	0.812	Valid
Level of education	0.619	Valid

Based on Table 8, all variables have an Average Variance Extracted (AVE) value > 0.50, namely Worker Welfare (0.579), District Minimum Wage Gap (0.634), Length of Service (0.812), and Education Level (0.619).

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Table 9 Cross Loading Results of Discriminant Validity Test Stage 1

Indicator	Worker Welfare	District Minimum Wage Gap	Years of service	Level of education	Note
KP1	**0.705**	0.489	0.608	0.535	**Valid**
KP2	**0.800**	0.525	0.570	0.517	**Valid**
KP3	**0.768**	0.523	0.462	0.361	**Valid**
KP4	**0.836**	0.584	0.510	0.359	**Valid**
KP5	**0.702**	0.408	0.377	0.311	**Valid**
KP6	**0.724**	0.424	0.391	0.240	**Valid**
KP7	**0.723**	0.498	0.509	0.404	**Valid**
KP8	**0.776**	0.566	0.591	0.466	**Valid**
KP9	**0.806**	0.603	0.723	0.609	**Valid**
KP10	**0.829**	0.648	0.647	0.602	**Valid**
KP11	**0.704**	0.574	0.587	0.607	**Valid**
KP12	**0.777**	0.591	0.675	0.558	**Valid**
KP13	**0.797**	0.556	0.559	0.364	**Valid**
KP14	**0.717**	0.492	0.457	0.338	**Valid**
KP15	**0.726**	0.504	0.412	0.307	**Valid**
KUM4	0.524	**0.795**	0.371	0.351	**Valid**
KUM5	0.609	**0.789**	0.399	0.310	**Valid**
KUM10	0.530	**0.756**	0.491	0.475	**Valid**
KUM13	0.590	**0.843**	0.593	0.538	**Valid**
MK3	0.623	0.547	**0.895**	0.637	**Valid**
MK6	0.682	0.518	**0.907**	0.677	**Valid**
TP2	0.431	0.363	0.583	**0.751**	**Valid**
TP6	0.512	0.443	0.591	**0.791**	**Valid**
TP7	0.505	0.473	0.626	**0.856**	**Valid**
TP9	0.449	0.408	0.529	**0.797**	**Valid**
TP14	0.440	0.402	0.536	**0.733**	**Valid**

Based on Table 9, the cross-loading test results show that all indicators have the highest loading values on the variables they measure compared to other variables. This indicates that all constructs have met discriminant validity, meaning each indicator accurately measures its variable and differentiates it from other constructs. Therefore, the measurement model is declared valid and can proceed to the reliability testing and structural model analysis (inner model).

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Table 10 Fornell-Larcker

Variables	Worker Welfare	District Minimum Wage Gap	Years of service	Level of education	Note
Worker Welfare	**0.761**				Valid
District Minimum Wage Gap	0.709	**0.797**			Valid
Years of service	0.725	0.590	**0.901**		Valid
Level of education	0.596	0.533	0.730	**0.787**	Valid

Based on Table 10, all variables have Fornell-Larcker values greater than the correlation values with other constructs, namely worker welfare (0.761), district minimum wage gap (0.797), length of service (0.901), and education level (0.787). This indicates that all constructs have met discriminant validity, so the measurement model is declared valid and can proceed to the reliability and structural model (inner model) testing stages.

Table 11 Cronbach's Alpha Value

Variables	Cronbach's alpha	Information
Worker welfare	0.984	Reliable
District Minimum Wage Gap	0.808	Reliable
Years of service	0.769	Reliable
Level of education	0.845	Reliable

All variables are above or equal to 0.70. This means each variable meets the constraint requirements. In other words, all statements in each variable are sufficient.

Table 12 Composite reliability values

Variables	Composite reliability	Information
Worker Welfare	0.954	Reliable
District Minimum Wage Gap	0.874	Reliable
Years of service	0.896	Reliable

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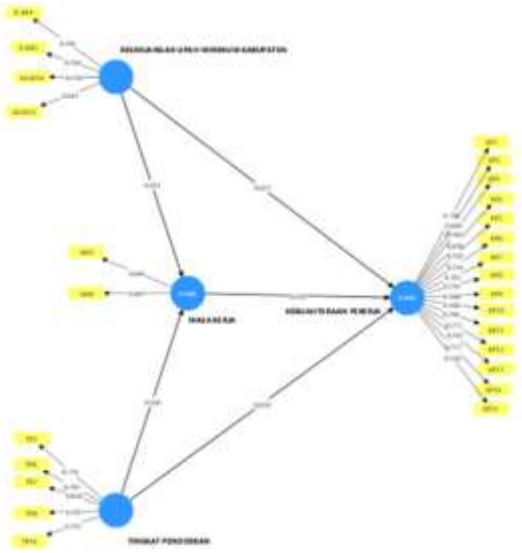
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Level of education	0.890	Reliable

Table 13 Results of the R Square (R^2) Test

Dependent Variant	R-square	R-square adjusted
Worker Welfare	0.648	0.635
Years of service	0.590	0.580

Based on Table 13, the R-Square value for worker welfare of 0.648 indicates that the gap in district minimum wages, length of service, and education level together explain 64.8% of the variation in worker welfare, while 35.2% is explained by other variables outside the model. According to Hair et al. (2022), this value indicates moderate to strong explanatory power of the model.



Picture3PLS SEM Algorithm model output

Table 14 Path Coefficient Results Bootstrapping Direct effect

Path Coefficient	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics	P values	Note
District Minimum Wage Gap → Worker Welfare	0.423	0453	0.142	2,983	0.001	Proven

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District Minimum Wage Gap →	0.281	0.293	0.095	2,956	0.002	Proven
Working period → Employee Welfare	0.438	0.401	0.126	3,471	0.000	Proven
Education Level → Worker Welfare	0.050	0.070	0.128	0.393	0.347	Not proven
Education Level → Work Period	0.580	0.572	0.092	6,291	0.000	Proven

I. The Impact of District Minimum Wage Disparities on Worker Welfare

The bootstrapping test results show that the district minimum wage gap has a positive and significant effect on worker welfare, with a coefficient of 0.423, a T-statistic of 2.983 > 1.96, and a P-value of 0.001 < 0.05. Thus, the hypothesis is accepted and the district minimum wage gap is one of the factors contributing to worker welfare.

II. The Influence of Education Level on Worker Welfare

The bootstrapping test results show that education level does not significantly influence worker welfare, with a coefficient of 0.050, a T-statistic of 0.393 < 1.96, and a P-value of 0.347 > 0.05. Therefore, the hypothesis is rejected. This suggests that worker welfare is more influenced by other factors, such as wage levels, length of service, or company policies.

Table 15 Bootstrapping results of indirect effects

Path Coefficient	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics	P values	Note
Education Level → Worker Welfare → Work Period	0.254	0.233	0.090	2,830	0.002	Proven
District Minimum	0.123	0.115	0.046	2,681	0.004	Proven

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Wage Gap →						

Table 16Effect size (f²) test results

Variables	Worker Welfare	District Minimum Wage Gap	Years of service	Level of education
Worker Welfare				
District Minimum Wage Gap	0.319		0.138	
Years of service	0.224			
Level of education	0.003		0.587	

Based on Table 16, the district minimum wage gap on worker welfare has a moderate effect ($f^2 = 0.319$), while its effect on tenure is relatively small ($f^2 = 0.138$). Tenure on worker welfare also has a moderate effect ($f^2 = 0.224$). Education level on worker welfare has a very small or negligible effect ($f^2 = 0.003$), while the effect of education level on tenure is relatively large ($f^2 = 0.587$).

DISCUSSION

1. The Impact of District Minimum Wage Disparities on Worker Welfare

The results of the hypothesis testing indicate that the district minimum wage gap has a positive and significant effect on worker welfare. This is evidenced by the path coefficient (Original Sample) of 0.423, the T-statistic of 2.983 (>1.96), and the P-value of 0.001 (<0.05). Thus, the first hypothesis (H1) is accepted (Hair et al., 2022).

A positive coefficient of 0.423 indicates that the better the wages workers receive, or the smaller the perceived minimum wage gap, the higher their welfare will be. Conversely, if the wage gap widens, resulting in workers receiving wages that are not in line with their standard of living, their welfare will tend to decline.

The results of this study align with the efficiency wage theory, which explains that providing a decent wage can improve worker well-being, productivity, and company loyalty. Furthermore, welfare theory also states that increased income will improve individual well-being.

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In an Islamic economic perspective, providing fair wages is the employer's obligation. Allah SWT says in QS. An-Nahl verse 90 orders humans to act fairly in every aspect of life, including in providing wages to workers.

2. The Impact of District Minimum Wage Gap on Working Period

The test results indicate that the district minimum wage gap has a positive and significant effect on tenure. This is evidenced by a coefficient value of 0.281, a t-statistic of 2.956 (>1.96), and a p-value of 0.002 (<0.05). Thus, the second hypothesis (H2) is accepted (Hair et al., 2022).

These results indicate that the more workers' wages align with minimum wage standards, the more likely they are to retain their jobs for a longer period. A decent wage provides a sense of security and job satisfaction, leading to greater employee loyalty to the company (Milkovich et al., 2020).

According to job satisfaction theory, compensation is a key factor influencing employee loyalty and desire to remain with a company. Employees who receive compensation that meets their expectations tend to have higher levels of commitment.

From an Islamic perspective, the relationship between employees and employers should be based on the principles of justice, mutual benefit, and non-disadvantage. Therefore, providing appropriate wages is one way to fulfill workers' rights and thus increase employee loyalty (Chapra, 1992).

3. The Effect of Work Period on Worker Welfare

Based on the analysis, tenure has a positive and significant effect on worker well-being. This is evidenced by a coefficient value of 0.438, a T-statistic of 3.471 (>1.96), and a P-value of 0.000 (<0.05). Thus, the third hypothesis (H3) is accepted (Hair et al., 2022).

A positive coefficient indicates that the longer a person works, the greater their welfare. This is because workers with longer tenure generally gain more experience, opportunities for income growth, and a higher level of trust from business owners.

Human Capital Theory explains that work experience is a form of investment in human resources that will increase productivity and individual well-being. In Islamic economics, a person's experience and expertise are a form of trust that must be utilized optimally to benefit both oneself and others (Chapra, 1992).

4. The Influence of Education Level on Worker Welfare

The results of the study indicate that education level does not significantly influence worker welfare. This is evidenced by a coefficient value of 0.050, a T-statistic of 0.393 (<1.96), and a P-value of 0.347 (>0.05). Therefore, the fourth hypothesis (H4) is rejected (Hair et al., 2022).

The results of this study indicate that the level of worker welfare in Dendang District is more influenced by other factors, such as work experience, length of service, and

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wages received, than by their level of formal education. This condition indicates that in the world of work in Dendang District, formal education is not yet a primary factor in determining the level of worker welfare. Instead, work experience and ability to perform the job are more important considerations in improving worker welfare (Becker, 1993; Chapra, 1992).

5. The Effect of Education Level on Work Period

The analysis results show that education level has a positive and significant effect on tenure. This is evidenced by a coefficient value of 0.580, a T-statistic of 6.291 (>1.96), and a P-value of 0.000 (<0.05). Thus, the fifth hypothesis (H5) is accepted (Hair et al., 2022).

A positive coefficient indicates that the higher a worker's education level, the greater their chances of remaining in their job. Education provides thinking skills, skills, and knowledge that help workers adapt to the work environment and thus retain their jobs for a longer period (Becker, 1993).

CONCLUSION

Based on the research results, the Regency Minimum Wage gap has a positive and significant effect on worker welfare and tenure, with coefficients of 0.423 and 0.281, respectively. Tenure also has a positive and significant effect on worker welfare of 0.438, while education level does not significantly affect worker welfare of 0.050. However, education level has a positive and significant effect on tenure of 0.580. The R-Square value of 0.648 indicates that the three variables are able to explain 64.8% of the variation in worker welfare. This finding confirms the importance of matching wages and tenure in improving worker welfare.

This study was limited to 90 shop workers in Dendang District, so the results cannot be generalized to other sectors and regions. Future research is recommended to expand the sample, regions, and employment sectors, and include other variables such as work environment, productivity, social security, and job satisfaction. Practically, business actors and policymakers need to improve the implementation of a decent, fair, and transparent wage system, while also taking into account workers' length of service and experience, in accordance with Islamic economic principles.

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