



# SELINUS UNIVERSITY

## OF SCIENCES AND LITERATURE

### **Management Development and Decision-making of Managers concerning Strategic Issues in Malaysia**

A Study of Management Development and the Impact of Strategic  
decision-making on Industry Stability and the Complexity of Decision-  
Making Behaviour of Managers

by

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Presented to Selinus University of Science and Literature in fulfilment of the  
requirements for the degree of

**Doctor Philosophy in Business Administration and Strategic  
Management**

**Faculty of Business and Media**

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## **DECLARATION**

I do hereby attest that I am the sole author of this project/dissertation titled "MANAGEMENT DEVELOPMENT AND DECISION-MAKING OF MANAGERS CONCERNING STRATEGIC ISSUES IN MALAYSIA", submitted for the Award of Doctor of Philosophy (PhD) in Business Administration and Strategic Management to the Faculty of Business and Media, Silenus University of Science and Literature. The contents are only the result of the readings and basic fundamental research. The contents of the dissertation are the results of the research that I have done on the topic and my personal experience. I hereby declare that all the information in this research and study was obtained and presented following academic rules and ethical conduct. All the materials, various schools of thought and other academics consulted/ so quoted in these research work and dissertation are fully and duly acknowledged.

Date: \_\_\_\_\_, 2022

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## **DEDICATION**

This research and study are dedicated to the Almighty God, who blessed me with Knowledge and Wisdom. He has kept me all through and preparing me for greater heights. I dedicate the work to my lovely and wonderful wife, for bearing my absence due to work, study, and research and always encouraging me. I also dedicate this work to everyone that believes in me and has given me different platforms, opportunities and many more, all of which have contributed to my being who I am today, while I also commend all those that doubted me, those that didn't take chances on me or never believed, all of the doubts and pessimism were turned into positive energy that has also added to me being a better person. Most importantly, this work is dedicated to Me, Myself and I for never giving up and always striving to be better.

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# TABLE OF CONTENTS

## Contents

DECLARATION .....	1
DEDICATION .....	2
ACKNOWLEDGEMENT .....	2
TABLE OF CONTENTS.....	4
LIST OF ABBREVIATIONS .....	15
ABSTRACT .....	16
CHAPTER 1 .....	20
1.0 INTRODUCTION .....	20
1.1 BACKGROUND TO THE STUDY .....	28
1.2 PURPOSE OF STUDY .....	36
1.3 AIM AND STRUCTURE.....	38
1.4 SIGNIFICANCE OF THE PROJECT .....	39
1.5 TERMINOLOGY .....	43
1.5 SOURCES AND METHODS.....	45
CHAPTER 2.....	1
2.0 METHODOLOGY .....	1
CHAPTER 3.....	8
3.0 LITERATURE REVIEW .....	8
3.1 MANAGEMENT DEVELOPMENT .....	10
3.2 THE EVOLUTIONARY START OF MANAGEMENT DEVELOPMENT.....	12
3.4 DECISION-MAKING MODELS.....	18
3.4 ENVIRONMENTAL IMPACT ON INDIVIDUAL DECISION-MAKING .....	21
3.5 STRATEGIC DECISION-MAKING .....	26
3.6 EXECUTIVE DECISION-MAKING .....	28
3.6.1 THE TOUGH GUY, MACHO CULTURE .....	32
3.6.2 THE WORK HARD/PLAY HARD CULTURE.....	33
3.6.3 THE BET-YOUR-COMPANY CULTURE.....	34
3.6.4 THE PROCESS CULTURE.....	34
3.7 ENVIRONMENTAL IMPACT ON STRATEGIC DECISION-MAKING .....	36
3.7.1 THE VROOM-YETTON DECISION MODEL .....	40
3.7.2 SPECIFIC LEADERSHIP PROCESSES.....	42
3.8 MANAGERIAL FUNCTIONS.....	44
3.8.1 BEHAVIOURAL DECISION THEORY .....	44
3.8.2 STRATEGIC DECISION-MAKING.....	44
3.9 ORGANIZATION PERFORMANCE .....	47
3.10 STRATEGIC DECISION-MAKING PRACTICES .....	49

3.10.1 ENVIRONMENT FACTORS.....	49
3.10.2 INTERNAL FACTORS.....	50
3.10.3 DECISION APPROACH.....	50
3.10.4 LEADERSHIP BEHAVIOUR.....	51
3.10.5 ORGANIZATIONAL JUSTICE.....	53
3.10.6 INTUITION.....	54
3.10.7 DECISION SUPPORT SYSTEMS.....	55
3.10.8 ORGANIZATIONAL STRUCTURE.....	56
3.10.9 STRATEGIC REFERENCE POINTS.....	57
<b>CHAPTER 4.....</b>	<b>58</b>
<b>4.0 THE MEANING, APPLICABILITY AND IMPORTANCE OF DEVELOPMENT</b>	<b>58</b>
4.1 THE MANAGER.....	65
4.2 THE ORGANIZATION.....	66
4.3 THE ENVIRONMENT.....	69
4.4 THE INDIVIDUAL.....	72
4.5 EDUCATION AND TRAINING.....	73
4.6 PERSONALITY AND ENTERPRISE.....	74
4.7 ENTREPRENEURSHIP, PARTIAL MODERNIZATION, ECONOMIC.....	75
4.8 SOCIAL AND CULTURAL FACTORS.....	82
4.9 MANAGEMENT DEVELOPMENT.....	86
<b>Chapter 5.....</b>	<b>97</b>
<b>5.0 MALAYSIA'S HISTORICAL AND POLITICAL CONTEXT.....</b>	<b>97</b>
5.1 HISTORICAL BACKGROUND.....	97
5.2 CONTEMPORARY POLITICAL CONTEXT, CURRENT POLITICAL FRAMEWORK.....	110
5.3 INTERNAL PRIORITIES.....	112
5.4 RACIAL BALANCE.....	114
5.5 THE CREATION OF A MALAY ENTREPRENEURIAL CLASS.....	119
5.6 RACIAL BALANCE IN MANAGEMENT.....	123
5.7 GENDER BALANCE.....	126
5.8 PRIORITIZING GOVERNMENT ACTION FOR GENDER EQUALITY.....	127
5.9 THE BUSINESS CASE FOR GENDER EQUALITY.....	127
5.10 CULTURAL CHANGE TO BREAK GENDER GRIDLOCK.....	128
5.11 MALAY OWNERSHIP OF THE ECONOMY.....	131
<b>CHAPTER 6.....</b>	<b>137</b>
<b>6.0 MALAYSIA: THE SOCIAL CONTEXT.....</b>	<b>137</b>
6.1 SOCIAL DIMENSIONS.....	137
6.2 ETHNIC COMPOSITION.....	140
6.3 AGE STRUCTURE.....	143
6.4 POPULATION DISTRIBUTION.....	149
6.5 MALAYSIA'S LITERACY RATE.....	150
6.6 THE ORIGINS AND GROWTH OF MALAYSIA'S MULTIRACIAL SOCIETY.....	156
6.7 THE MALAYS.....	162
6.8 THE CHINESE.....	171
6.9 THE INDIANS.....	177
6.10 THE HISTORICAL DEVELOPMENT OF EDUCATION.....	180
6.10.1 PRE- BRITISH PERIOD – BEFORE 1824.....	180
6.10.2 PRE–WORLD WAR II – 1824 – 1941.....	181
6.10.3 THE PRE-INDEPENDENCE -1941 – 1957.....	181

6.10.4 THE POST-INDEPENDENCE – 1957 .....	183
6.10.5 MALAY EDUCATION - MALAY MEDIUM SCHOOLS.....	185
6.10.6 SECONDARY SCHOOL FOR MALAYS -ENGLISH MEDIUM SCHOOLS.....	190
6.10.7 CHINESE EDUCATION-CHINESE MEDIUM SCHOOLS.....	193
6.10.8 INDIAN EDUCATION-TAMIL MEDIUM SCHOOLS.....	195
6.11 CONTEMPORARY EDUCATIONAL DEVELOPMENT.....	197
6.12 HIGHER EDUCATION IN MALAYSIA .....	208
6.12.1 A SNAPSHOT OF HIGHER EDUCATION INSTITUTIONS IN MALAYSIA.....	208
6.12.2 THE DEPARTMENT OF HIGHER EDUCATION.....	213
6.12.2 DEPARTMENT OF POLYTECHNIC EDUCATION.....	214
6.12.3 DEPARTMENT OF COMMUNITY COLLEGE EDUCATION.....	214
6.12.4 HIGHER EDUCATION LEGISLATION .....	215
6.12.5 PROVIDERS OF HIGHER EDUCATION .....	218
6.12.6 HIGHER EDUCATION FUNDING.....	232
6.13 PLAN FOR MALAYSIAN HIGHER EDUCATION .....	235
6.13.1 "STRATEGIC PLAN FOR HIGHER EDUCATION: LAYING THE FOUNDATION BEYOND 2020".....	235
6.14 MALAYSIA'S SCHOOLS WIDEN ETHNIC DIVIDES .....	244
6.15 ESTIMATED MANPOWER REQUIREMENTS .....	249
<b>7.0 THE MALAYSIAN ECONOMY .....</b>	<b>253</b>
<b>7.1 REVIEW OF THE HISTORICAL DEVELOPMENT OF THE ECONOMY UP TO INDEPENDENCE.....</b>	<b>253</b>
7.1.1 TRADE.....	255
7.1.2 TIN.....	256
7.1.3 RUBBER.....	259
7.1.4 MANUFACTURING .....	263
7.1.5 PALM OIL.....	264
7.1.6 THE TRADITIONAL SECTOR.....	270
7.2 GOVERNMENT ECONOMIC POLICY SINCE INDEPENDENCE.....	273
7.21 BASIC DIMENSIONS OF THE ECONOMY.....	284
7.3 ASIAN FINANCIAL CRISIS AND MALAYSIA'S RESPONSES.....	287
7.3.1 MALAYSIA IN TURMOIL: GROWTH PROSPECTS & FUTURE COMPETITIVENESS .....	293
7.4 COMPOSITION OF THE ECONOMY .....	296
7.4.1 GDP - COMPOSITION, BY SECTOR OF ORIGIN 2017.....	297
7.4.2 AGRICULTURE.....	303
7.4.3 RUBBER.....	305
7.4.4 OIL PALM.....	307
7.4.5 TIN.....	310
7.4.6 MINING.....	313
7.6 TRADE AND COMMERCE .....	324
7.6.1 EXPORTS.....	324
7.6.2 INTERNAL TRADE.....	325
7.6.5 WOULD REFLATION WORK?.....	343
7.7 OWNERSHIP AND MANAGEMENT OF THE CORPORATE SECTOR .....	344
7.7.1 TIN MINING.....	346
7.7.2 AGRICULTURE.....	348
7.7.3 MANUFACTURING .....	349
7.7.4 HEAVY INDUSTRIES.....	350
7.7.5 STATE OWNERSHIP FROM THE RACE-BASED ECONOMIC POLICIES OF THE 1970 AND 1980.....	352
7.7.6 PRIVATIZATION IN 1990 .....	356
7.7.7 SERVICE INDUSTRIES.....	358
7.7.8 THE MODERN SERVICE SECTOR.....	360

<b>CHAPTER 8</b> .....	362
<b>8.0 MANAGEMENT DEVELOPMENT POLICIES AND PRACTICES</b> .....	362
<b>8.1 COMPANY SEGREGATION AND EMPLOYMENT</b> .....	365
<b>8.2 MARKET SNAPSHOT: 2020-2027 BASE YEAR: 2021</b> .....	373
<b>8.2.1 MANAGEMENT MARKET OVERVIEW</b> .....	373
<b>8.2.2 KEY MARKET TRENDS</b> .....	374
<b>8.2.3 COMPETITIVE LANDSCAPE</b> .....	376
<b>8.2.4 RECENT DEVELOPMENT</b> .....	377
<b>8.3 PRACTICES OF MANAGEMENT DEVELOPMENT: A MALAYSIAN CASE STUDY</b> .....	377
<b>8.3.1 RESULT AND DISCUSSIONS</b> .....	381
<b>8.3.2 THE COMPANY'S STRUCTURE AND SYSTEM OF HUMAN RESOURCE DEVELOPMENT</b> .....	384
<b>8.3.3 THE COMPANY'S MD INITIATIVES FOR STAFF</b> .....	387
<b>8.3.4 THEORETICAL REFLECTIONS</b> .....	391
<b>8.3.5 CONCLUSIONS AND IMPLICATIONS</b> .....	392
<b>8.4 METHODS OF MANAGEMENT DEVELOPMENT</b> .....	394
<b>8.5 APPROACHES TO MANAGEMENT DEVELOPMENT</b> .....	402
<b>8.6 MANAGEMENT STYLES IN SMALL AND MEDIUM-SIZED ENTERPRISES</b> 413	
<b>8.6.1 CHARACTERISTICS OF THE SAMPLE FIRMS</b> .....	417
<b>8.6.2 MANAGEMENT STYLES ADOPTED BY SMES</b> .....	419
<b>8.7 DEVELOPMENT OF NEXT-GENERATION LEADERSHIP IN MALAYSIA</b> .....	422
<b>8.7.1 LEADERSHIP CHALLENGES FOR MNCs IN MALAYSIA</b> .....	425
<b>8.7.2 THE VIEWS ON LEADERSHIP AND LEADERSHIP DEVELOPMENT</b> .....	426
<b>8.7.3 LEADERSHIP STYLES</b> .....	427
<b>8.7.4 TRADITIONAL LEADERSHIP STYLES IN MALAYSIA</b> .....	429
<b>8.7.5 LEADERSHIP SKILLS FOR EFFECTIVE LEADERS</b> .....	432
<b>8.7.6 IDENTIFICATION OF HIGH POTENTIAL LEADERS IN MALAYSIA</b> .....	435
<b>8.7.7 LEADER AND LEADERSHIP DEVELOPMENT TOOLS FOR MALAY MANAGERS</b> ....	437
<b>8.7.8 LEADERSHIP DEVELOPMENT IN MALAYSIA</b> .....	439
<b>8.7.9 FOSTERING COMMITMENT AT ALL LEVELS OF THE ORGANIZATION</b> .....	441
<b>8.7.10 HIGH POTENTIAL LEADERS FROM GENERATION Y ARE HUNGRY TO LEARN AND IMPATIENT TO SUCCEED</b> .....	446
<b>8.8 LEADERSHIP AND LEADERSHIP DEVELOPMENT</b> .....	450
<b>8.8.1 OLDER GENERATION LEADERS NEED TO ADAPT TO THE LEARNING DEMANDS OF HIGH POTENTIAL LEADERS' GENERATION IN ORDER TO NOT LOSE THEM TO OTHER FIRMS</b> .....	456
<b>8.8.2 SUCCESSION PLANNING AND PROMOTION</b> .....	467
<b>8.8.3 APPRAISAL</b> .....	468
<b>CHAPTER 9</b> .....	471
<b>9.0 MANAGEMENT TRAINING PRACTICES AND PREFERENCES</b> .....	471
<b>9.1 MANAGEMENT TRAINING PRACTICES ANALYSED BY SIZE GROUP</b> .....	474
<b>9.2 THE EUROPEAN BUSINESS COMMUNITY</b> .....	482
<b>9.2.3 THE MULTINATIONAL COMPANIES</b> .....	487
<b>9.3 THE USE OF TRAINING INSTITUTIONS IN MALAYSIA</b> .....	491
<b>9.3.1 MANAGEMENT TRAINING PREFERENCES</b> .....	495
<b>9.3.2 EXISTING PROGRAM</b> .....	496
<b>9.3.3 OVERSEAS TRAINING</b> .....	502
<b>9.3.4 SALIENT FEATURES OF TECHNICAL EDUCATION PROGRAM</b> .....	503
<b>9.3.5 MALAYSIA MANPOWER NEEDS</b> .....	504



9.3.6 EXPECTED MANPOWER SUPPLY .....	511
9.3.7 SUITABILITY OF TRAINING .....	511
9.3.8 INDUSTRY, TRAINING AND TECHNICAL INSTITUTIONS .....	512
9.3.9 MID-TERM APPRAISAL OF THE TECHNICAL EDUCATION SECTOR.....	516
9.3.10 PRACTICALITY AND RELEVANCE OF COURSES.....	517
<b>CHAPTER 10 .....</b>	<b>518</b>
<b>10.0 RACIAL BALANCE IN MANAGEMENT - THE CHALLENGE AND THE PROBLEMS .....</b>	<b>518</b>
10.1 MULTI-ETHNICITY IN THE MALAYSIAN WORKPLACE: .....	518
10.1.1 THE NEW ECONOMIC POLICY .....	540
10.1.2 RACIAL BALANCE IN MANAGEMENT EMPLOYMENT FOR DIFFERENT INCOME GROUPS .....	553
10.1.3 RACIAL BALANCE ETHNIC DIVERSITY IN MALAYSIA .....	555
10.1.4 ETHNIC DIVERSITY IN MALAYSIA.....	557
10.1.5 RACIAL BALANCE IN MALAYSIA (MANAGEMENT EMPLOYMENT).....	564
10.2 RECRUITMENT OF MALAYS .....	569
10.2.1 TRAINING OF MALAYS.....	575
10.2.2 PROFILE OF MALAY MANAGERS.....	579
<b>CHAPTER 11 .....</b>	<b>589</b>
<b>11.0 MANAGEMENT PRACTICES IN MALAYSIA .....</b>	<b>589</b>
11.1 MANAGEMENT PRACTICES AND PRODUCTIVITY .....	590
11.2 OVERVIEW OF MANAGEMENT PRACTICES .....	594
11.3 DRIVERS OF MANAGEMENT PRACTICES .....	597
<b>CHAPTER 12 .....</b>	<b>606</b>
<b>12.0 ISSUES AND CHALLENGES OF MANAGEMENT EDUCATION IN MALAYSIA .....</b>	<b>606</b>
12.1 MANAGEMENT EDUCATION .....	608
12.2 BENEFITS OF MANAGEMENT EDUCATION TO ORGANIZATIONS.....	612
12.3 ISSUES AND PROBLEMS IN MANAGEMENT EDUCATION IN MALAYSIA.....	614
12.4 HOW MANAGEMENT EDUCATION IN MALAYSIAN IHL CAN BE IMPROVED?.....	619
<b>CHAPTER 13 .....</b>	<b>622</b>
<b>13.0 APPLICABILITY AND IMPORTANCE OF DECISION-MAKING.....</b>	<b>622</b>
13.1 STRATEGIC PLANNING VS. STRATEGIC THINKING .....	625
13.2 STRATEGIC MANAGEMENT .....	626
<b>CHAPTER 14 .....</b>	<b>631</b>
<b>14.0 STRATEGIC MANAGEMENT AND DECISION-MAKING .....</b>	<b>631</b>
14.2 EXECUTIVE DECISION-MAKING.....	634
14.3 ENVIRONMENTAL IMPACT ON STRATEGIC DECISION-MAKING.....	637
14.4 THE MODEL .....	639
14.5 A CONCEPTUAL PERSPECTIVE OF MALAYSIAN ORGANIZATIONS.....	640
14.6 DECISION-MAKING MODEL AT THE LOCAL GOVERNMENT LEVEL.....	643
14.7 DECISION- MAKING PROCESS.....	650

14.8 TYPES OF EMPLOYEE PARTICIPATION IN DECISION-MAKING (PDM) AMONGST THE MIDDLE MANAGEMENT IN THE MALAYSIAN PUBLIC SECTOR .....	667
14.9 DECISION-MAKING IN THE PUBLIC SECTOR ENTITIES.....	670
14.10 DECISION-MAKING PROCESSES BY MALAYSIAN MANAGERS OF SMES.....	680
14.12 THE IMPACT OF LEADERSHIP STYLE ON ETHICAL DECISION-MAKING, THE MODERATING ROLE OF STRATEGIC THINKING.....	683
14.13 ETHICAL DECISION-MAKING.....	685
14.14 LEADERSHIP STYLE .....	686
14.15 STRATEGIC THINKING .....	688
14.16 LEADERSHIP STYLE AND ETHICAL DECISION- MAKING .....	689
14.17 LEADERSHIP STYLE AND ETHICAL-DECISION-MAKING, MODERATING ROLE OF STRATEGIC THINKING	690
<b>CHAPTER 15.....</b>	<b>695</b>
<b>15.0 THE COMPARISON .....</b>	<b>695</b>
15.1 CULTURE AND WORK VALUES .....	698
15.2 INDIVIDUALISM-COLLECTIVISM .....	704
<b>CHAPTER 16.....</b>	<b>714</b>
<b>16.0 CONCLUSION .....</b>	<b>714</b>
<b>BIBLIOGRAPHY.....</b>	<b>733</b>

## LIST OF FIGURES

Figure 1 Deal and Kennedy’s model of organisational culture, .....	32
Figure 2 The Vroom-Yetton Decision Mod .....	43
Figure 4 Malaysia Rural Population 1960-2022.....	116
Figure 5 Malaysia Literacy Rate - Historical Data 1980-2019 .....	117
Figure 7 Ownership of Share Capital (%) of Listed Companies, 1970-2008 .....	118
Figure 9 Malaysia Gender Gap Index (MGGI) score, 2018 - 2020.....	131
Figure 10 Total Population of Malaysia 1980, 1991, 2000, and 2021 .....	139
Figure 11 The Average Annual Growth Rate, Malaysia .....	139
Figure 12 Malaysia Population Statistics 2020-2022 .....	140
Figure 13 Percentage of the population by ethnic group .....	141
Figure 14 Distribution of population by ethnic group, 2020-2022.....	141
Figure 15 Urbanization, in Malaysia, in 1980, 1991, 2000 and 2010 .....	142
Figure 16 Population by age group, Malaysia 2020 and 2021 .....	145
Figure 17 Population by sex and age group, Malaysia, 2000 and 2010.....	145
Figure 18 Sex Ration, Men vs Women .....	146
Figure 19 Annual % growth rates and the impact of major events .....	146
Figure 20: Mid-year population estimates and annual growth rates.....	147
Figure 22 Malaysia Literacy Rate - Historical Data .....	151
Figure 23 Employed persons, employment-to-population ratio.....	154
Figure 24 Unemployed category and duration of unemployment.....	155
Figure 26 Populated Enumerated on Seagoing Ship, Malaya, 1921.....	160
Figure 27 Malay, Chinese & Indian population, 1911-1921, Malaya ('000) .....	160
Figure 28 Population by Birthplace in British Malaya, 1921 .....	161
Figure 30 Geographical Distributions of ethnic Malaysian Chinese .....	175
Figure 32 Malaysia Education Spending .....	198

Figure 33 Malaysia Teachers: Primary Schools from 1992-2018: .....	201
Figure 34 Malaysia Teachers: Secondary Schools, 2006-2016.....	202
Figure 35 Enrolment in upper secondary vocational and technical schools.....	206
Figure 46 Palm oil plantation area in Malaysia by year (1975-2012) .....	269
Figure 47 Palm oil plantation area in Malaysia by state (2016).....	270
Figure 48 Malaysia GDP in Billions 1960-2021 .....	284
Figure 49 Malaysia GDP per capital 1960-2021 .....	285
Figure 50 Malaysia GDP Growth 1960-2021.....	285
Figure 51 Share of Economic Sectors in The Gross Domestic Product.....	297
Figure 52 GDP – Composition, by Sector of Origin 2017 .....	297
Figure 53 GDP – Comparison, By Sector, 2017 vs 2021.....	298
Figure 54 Structure of production 1979 to 2021 .....	298
Figure 55 Share to GDP %-1970 to 2021 .....	299
Figure 56 Exports of goods and services (% of GDP) .....	300
Figure 57 Diversification of Exports, 1990 (% Of Total) .....	301
Figure 58 Diversification of Exports, 2020 (% Of Total) .....	301
Figure 59 Employment in agriculture (% of total employment) - Malaysia.....	302
Figure 60 GDP growth 1961-2021(annual %) – Malaysia.....	303
Figure 61 Agricultural Land use change in Malaysia from 1969-2005, % .....	304
Figure 62 Agricultural land use change in Malaysia from 1960 – 2005.....	305
Figure 63 Palm oil plantation area in Malaysia by year (1975-2012) .....	308
Figure 64 Palm oil plantation total areas vs plantation and smallholding .....	308
Figure 65 Palm Oil Production by Year .....	309
Figure 66 Malaysia’s Share of Global Tin Production.....	311
Figure 67 The Malaysia oil and Gas landscape.....	314
Figure 68 Employees and salaries, wages by category of worker .....	315
Figure 69 Employees by academic qualification, 2014.....	315

Figure 70 Employees by gender and academic qualification, 2014. ....	316
Figure 71 Employment in the industry (% of total employment).....	319
Figure 72 Sectoral composition of Total Employment, 1985-2016.....	319
Figure 73 Structural Composition of Malaysia GDP, 1960-2016.....	320
Figure 74 Structural Composition of Malaysia GDP, 1960-2016.....	321
Figure 75 Malaysia Exports 1960-2022.....	325
Figure 76 National GDP, 1960-2020 .....	328
Figure 77 Economic growth by state and economic activity, 2020.....	329
Figure 78 Chart 3: Economic structure by state and economic activity.....	331
Figure 80 Malaysia Foreign Direct Investment 1970-2022 .....	345
Figure 82 Employment and Annual % Change for 2016-2019.....	364
Figure 83 Employment and the directions of change, 1971—90. ....	366
Figure 84 Malaysia Unemployment Rate 1991-2022.....	366
Figure 85 Unemployment, total (% of the total labour force) – Malaysia.....	367
Figure 86 Employment Level Distribution. ....	372
Figure 87 Malaysia Facility Management Market 2021.....	376
Figure 95 The leadership skill requirements strata plex.....	433
Figure 96 Leader and leadership development with business strategy.....	438
Figure 97 Employed persons and the employment-to-population.....	458
Figure 102 Distribution of Active Management training Providers by State.....	492
Figure 103 Type of Training Types by Training Places.....	492
Figure 106 Malaysia Poverty Rate 1984-2022 .....	535
Figure 108 Population shares of ethnic groups in each per centile.....	554
Figure 109 Population share by ethnic group .....	554
Figure 110 Population shares of ethnic groups in the bottom 50 %.....	555
Figure 112 Percentage of Citizens populated by ethnic group, Malaysia, 2020 and 2021 .	558
Figure 124 Level of hierarchy in management .....	671

## LIST OF TABLES

Table 1 Poverty by state 1970-2016 % .....	115
Table 2 Ownership of Share Capital, Listed Companies, Malaysia.....	117
Table 3 Malaysia Gender Gap Index (MGGI) score .....	130
Table 4 Mid-year population estimates, Malaya, 1900, Peninsular 1957 .....	147
Table 5 Movement of Chinese and Indians into and out of Malaya.....	159
Table 6 Population size ('000) by ethnic group, Malaya, 1901–1957.....	161
Table 7 Ethnic Chinese Populations in Malaysia .....	175
Table 8 Public Universities of Malaysia .....	219
Table 9 Private Universities in Malaysia .....	221
Table 10 Private University-Colleges in Malaysia.....	225
Table 11 Foreign University Branch Campuses in Malaysia.....	227
Table 12 Private Colleges in Malaysia .....	228
Table 13 Higher Ed Qualification, Entry Requirements, Duration of Study .....	230
Table 14 Higher Education Qualifications, Levels & Minimum Number of Credits .....	231
Table 15 Number of employment and share of the employment .....	249
Table 16 Share of employment projected of the services sectors.....	249
Table 17 Production of Tin-in-Concentrates in Malaya.....	259
Table 18 GDP per capita (RM) by state, 2020.....	338
Table 19 Market Capitalization of the Top KLSE .....	353
Table 20 The profile of the respondents.....	416
Table 21 The characteristics of the sample firm .....	418
Table 22 Mean and standard deviation scores of autocratic management .....	419
Table 23 Mean and standard deviation scores of participative managements.....	420
Table 24 Mean and standard deviation scores of nurturance task management .....	420
Table 25 Mean and standard deviation scores of paternalistic management style .....	421
Table 26 Mean and standard deviation scores of laissez-faire management style .....	421

Table 27 Main Differences Between Training and Development .....	471
Table 28 Show average managers trained by company size.....	475
Table 29 Management Training Practices Analysed by Size Group .....	475
Table 30 Types of Management Training by Size Group.....	476
Table 31 Employment classification .....	507
Table 32 Manpower requirements as per the Ninth Malaysia Plan .....	507
Table 33 NEP Benchmarks over time .....	543
Table 34 Malaysia, population by ethnic group, 2000.....	557
Table 35 Ethnic classifications, selected censuses and regions.....	559
Table 36 Proportion of population by nationality, Straits Settlements .....	561
Table 37 Ethnic classifications, selected censuses and regions.....	562
Table 38, Malaysianized, Racial Balance in Management.....	565
Table 39 Racial breakdown of the managerial cadre.....	567
Table 40 Technical skills .....	611
Table 41 Managerial skills.....	611
Table 42 Entrepreneurial skills .....	612
Table 43 Personal maturity skills.....	612
Table 44 Differences between strategic thinking and strategic planning.....	624
Table 45 Categorization of Managers .....	635
Table 46 Descriptive statistics of participation in decision-making (PDM).....	675
Table 47 Employee PDM, consultative and delegative participation.....	677
Table 48 Descriptive statistics of non-participation in decision-making.....	678
Table 49 Descriptive statistics of non-participation in decision-making (n =429) .....	678
Table 50 Comparisons, rational decision-making and bounded rationality. ....	682
Table 51 Ten important values of Malays, Chinese and Indians and Australians .....	702
Table 52 Malay Value Preferences Vs Western Management Practices .....	702
Table 53 Values, beliefs, conflict.....	703

## LIST OF ABBREVIATIONS

MARA	Majlis Amanah Rakyat
PERNAS	Perbadanan Nasional
MGGI	Malaysia Gender Gap Index
LFPR	Labour Force Participation Rate
NEP	The New Economic Policy
TFR	Malaysia's Total Fertility Rate
MSBR	Malaysia Statistical Business Register
GDP	Gross domestic product
TMP	Tenth Malaysia Plan
DOSM	Department of Statistics, Malaysia
SME's	Small Medium Enterprises
FS	Financial Strength Groupings
CAGR	Compound Annual Growth Rate
RRIM	Rubber Research Institute of Malaysia
HRD-Corp	Human Resources Development Corp's
MRA	Manpower Requirements Approach
CEO	Chief Executive Officer
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HRDF	Human Resource Development Fund
ILMIA	Institute of Labour Market Information and Analysis
NER	National Economic Returns
OECD	Organization for Economic Co-operation and Development
RP-T	Residence Pass-Talent
SAR	Special Administrative Region
TFP	Total Factor Productivity
WMS	World Management Survey
BDT	Behavioural Decision Theory
MD	Management Development
LEW	Leadership Engine Workshop
FRL	Four Roles of Leadership
FFNFM	Finance for Non-Financial Manager
NOOT	Number One Organizer Training
FFM	Federation of Malaysian Manufacturers
MIM	Malaysian Institute of Management
NPC	National Productivity Centre
NITTCB	National Industrial Training and Trade Certification Board
PED	Program for Executive Development
NPFDB	National Population and Family Development Board



## **ABSTRACT**

Management Development and Decision-making of Managers concerning Strategic Issues in Malaysia: A Study of Management Development and the Impact of Strategic decision-making on Industry Stability and the Complexity of Decision-Making Behaviour of Managers

by

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During the past 50 years, much has been written about leadership, management and decision-making, but not much is directly related to Asia and developing regions. This study covers management development and decision-making of managers concerning strategic issues in Malaysia. During the colonization, the focus was on economic growth and very little on development and education. The British colonizer's development focus was very selective to obtain maximum profits and economic growth. Post-independence the country was engulfed in a new set of problems: affirmative action and racism. The new government was on a mission to undo what the colonizers established.

Malaysia's development transpired from civil rivalry pre-colonial era and has experienced multiple changes in history that had major impacts on the country's development. Much was written on management development; the research did only cover western countries. Very little was done for the development of emerging and non-developed Asian countries. The assumption was that all should follow the western methodology and that 'one shoe fits all. This assumption has created very complex

problems. Culture and religion in Asia and especially in Malaysia play a major role in the development and management of the country.

The development of Malaysia started with colonization and was based on greed and economic development. The last twenty years, however, have seen a strong research shift towards strategic business leadership and decision-making. Recent studies on the organizational level of strategy have concluded that environmental factors have a significant impact on the development and strategic decision processes of organizations and that the contingent nature of this relationship has implications for the performance of firms operating under various industry conditions. This study enhances the existing body of knowledge by providing new empirical evidence to fill the gaps in the literature that might exist in previous studies of employee PDM in organizations and contributes to the limited number of studies on employee PDM, especially at the middle management level in the Malaysian public sector.

For the most part, this research has been conducted to identify the external or environmental impacts on management development in developing countries like Malaysia. The study will take the reader through the development of Malaysia, her history from pre-colonial time to the post-colonial era, early independence years, the nineteenth, twentieth and twenty first century, the impact of government policies, cultural differences, racism and the economy. Malaysia had some turmoil years and was subject to an extensive influx of migration during the colonization period, both from the West and East. This has created cultural turmoil in the country.

On the one hand, you had the Western ideology and ideas and on the other the Sultanates and the Monarchs with their followers, and in between the migrants from China, India, Indonesia, Siam and the Philippines. The turmoil and colonization

of Malaysia were the foundation of management development after independence in Malaysia and followed by strategic decision-making after the tenth Malaysia plan. During the colonisation, it was a system of “divide and conquer”. The colonizers did not have much interest in development, the longer the people are being kept out of the mainstream the easier it was to control. It is also demonstrated in this study that western research on management development was 'extorted' to the developing economies of the world, mainly through Western educators. However, as far back as thirty years ago, the transferability of such ideas was challenged based on culturally differing values and beliefs giving rise to different behaviours.

Much has since been written about cultural diversity. Most of these studies have been comparative, with conclusions being drawn from cultures observed in isolation, rather than in the context of multicultural interaction. In this study, this phenomenon can be seen as a division of multicultural work groups. The findings of this study have critical implications for business leaders, who now increasingly find themselves operating and living beyond their domestic boundaries.

This thesis is therefore about the development post-colonial era and the development of management and strategic decision-making in Malaysia as an emerging developing country. The thesis will also evaluate a set of assumptions focused on the relationship between development training and the complexity of decision-making and economic performance of firms, and incorporated, as contingent variables, industry complexity and industry stability.

The results of the thesis can be used for training recommendations and suggest that there is a relationship between management development and the complexity of the decision-making behaviour of chief executives and the number of alternatives

generated to address a given strategic issue. Analysis of decision-making also indicated that the size of the organization may affect the chief executive's perception of the stability of the industry and also, some degree of "conservatism" may have been operating in the search for additional alternative solutions.

In conclusion, this study implies that depending on the development and attitude of the manager:

- (a) There are still underlining racial issues that haunt the development of Malaysia
- (b) The Malaysian government have not succeeded in achieving its goals as per the Malaysia Plan
- (c) There is a tendency for chief executives to use some type of simplifying process when addressing a complex strategic issue;
- (b) It is possible that, in some cases, the chief executive may not be selecting the best solution for the organization; and
- (d) Potential alternative solutions are not always actively searched out.

## CHAPTER 1

### 1.0 INTRODUCTION

Working in most parts of Asia, Malaysia was an obvious choice for this study. Most of the surrounding Asian countries have similar problems and some were also colonized. Malaysia was the only country with statistical data, however, some are a bit old and very difficult to obtain accurate fresh data. Data in Asia is not always accurate and depend much on the source and discrepancies between sources are very common.

Operating in Asia for over 30 years I have made use of multiple techniques to obtain data for this study. Most of the data is old but still relevant as Malaysia and its system have not changed much. Other than statistical data, interviews, and informal discussions the study will be a take on the reflection of the author's own opinion based on Asian experience and recommendations. Some of the major issues in Malaysia are the lack of homegrown management development, decision-making and accountability. Malaysia has tried to adopt western management ideology without considering the cultural and religious impact. There is also a clear difference between the Malay managers and their non-Malay peers. Behaviour, attitude accountability and decision-making were clear indications that there is an embedded difference between the two groups. Some of these observations have a clear impact on Malaysia's aspiration to become a developed country or if it wants to compete with their neighbour, Singapore. There are sufficient opportunities to develop and train, but the problem appears to be in history. I hear so many times 'we need to send the managers for training', but the matter of fact is they all had been sent and nothing changed. As the focus is on one aspect only and that is 'Manager Training', no consideration of skill

analysis to determine the needs. Every new western management concept that has been developed will be implemented and discarded within months looking for something else as the last one did not work. But the issue is not the program as such, the problem is internal and Malaysia needs to understand their own needs and capabilities first before they jump on the bandwagon. The Malaysia management development is a deep-rooted problem that they need to face first and stop making 'knee-jerk' decisions. The Malay population need to break away from their peasant mentality. There is also a need to abolish affirmative action, racism and gender inequity.

Industries focus to get the perfect manager, they tend to overlook the fact that the 'perfect manager' come from a pool of highly skilled workforce. The development of skills will also be covered in sections to build the foundation of the Malaysian situation. The lack of skilled workers has a major impact on manager development and the strategic decision-making behaviour and strategic management skills of managers. The government was so focused on economic growth, and affirmative action to put Malays in power that they overlooked the most critical and fundamental foundations of manager development. Government policies and procedures have stunted development and created racism. There is a very obvious and distinct difference between the Malay managers and their other race counterparts. The study will look mostly, at the dominant male managerial role. One observation is that the Malay managers prefer to take non-decision-making and accountability roles in comparison with their other race counterparts who were more aggressive in leadership, strategic decision-making and accountability. The Malay manager prefers roles in his comfort zones and will not push oneself to the limit. This observation is

fundamental to this study which I hope will lead to a better understanding why the obvious difference in behaviour and will lead to recommendations on the development of the managers in Malaysia.

To grasp and understand the complexity of Manager development and strategic decision-making in Malaysia, it is necessary to start from the beginning and cover all areas which had a past or historical influence or impact on this phenomenon. Some of the areas might not look relevant to the reader but they are all fundamentally critical to understand how this complex Malaysian system works. To understand Malaysian behaviour, development concepts, historical background of managers, trade, and decision-making, it is fundamental to have a clear understanding of Malaysian history, before one can understand the gaps and reserves in the system.

It is said that Malaya started from the Sultanate of Malacca which was around 1400 AD. But as a fact it starts long before that, as Pre-historical, the first sign of human life found in present-day Malaysia was a skull found in Sarawak in 1950, dating to 40,000 years ago. Anthropologists believe aboriginal Proto-Malays migrated from southwest China, eventually travelling to Indonesia, Sumatra and Borneo. Proto-Malays are ethnically related to people in Sumatra, Java and parts of the Philippines. In 300 BC the arrival of Deutero-Malays<sup>1</sup> descended partly from the Cham people of the Mekong Delta. They push the Proto-Malays into the north and become direct ancestors of today's ethnic Malays. Moving up on the calendar around 100 BC, the start of commerce begins with China and India, establishing ports in Malaya along essential trade routes and bringing foreign influence. Between 0-400 AD, Buddhism and Hinduism arrive from India and are adopted with Sanskrit, which becomes the

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<sup>1</sup> Neil Joseph Ryan (1976). A History of Malaysia and Singapore. London: Oxford University Press. pp. 4 & 5. ISBN 0-19-580302-7

writing system. During the period 600-1200, much of the Malay Peninsula was ruled by Maharajas of the trade-based Srivijaya empire, which enhances the area's vital role in regional trade<sup>2</sup>.

The change came in 1200-1300 when Islam is gradually introduced by Arab and Indian traders and is first adopted by the Malay elite. Early 1400 the Port of Malacca founded by renegade prince Iskandar Shah, who purported to be a descendent of Alexander the Great, and who soon converts to Islam. This was also the birth of a more modern Malaysia. At the time of its glory, the Sultanate Territories covered most of the East Coast of Peninsular Malaysia and Sumatra<sup>3</sup>. Malacca emerged as a glorious Government because of its strategic location which was the meeting point between East Asia and the Middle East. This situation allowed Malacca to emerge as a major trading centre for the spice trade, especially in Southeast Asia. Malacca was the starting point of entrepreneurship, management and decision-making. These concepts were not in the vocabulary of the time and came naturally from traders. At the time Islam was the main religion which emerged and became the main religion of the residents.

In 1511, Malacca fell into the hands of the Portuguese and that was the beginning of the colonial era in Malaya. After that, Malaya fell into the hands of the Dutch in 1641 and the British in 1824 through the Anglo-Dutch Treaty. British colonization was the longest compared to others. The British had integrated all the Malayan administration which was previously managed by the Malay Rulers with the

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<sup>2</sup> ALJAZEERA, Timeline: Malaysia's history, 1 May 2013

<sup>3</sup> <https://www.malaysia.gov.my/portal/content/30120>, Source: MyGovernment, Malaysia 2016 (Department of Information)



help of state dignitaries. The British intervention aroused dissatisfaction among the local population.

During the 1920 and 1930, many residents of Malaya started to receive education, either from the Middle East or local education. This was the start of constructive development. This newly founded knowledge came with a price. The educated groups started to fight in the name of nationalism. It also sparked the birth of associations and eventually political parties. Groups such as the Kesatuan Melayu Muda (KMM) and Kesatuan Melayu Singapura (KMS) were aimed at driving away the invaders and forming their Government.

When the people were so eager to end the invasion, they were jolted by the Japanese landing at the end of 1941 which brought Malaya to another colonial era. Japan occupied Malaya until 1945 before surrendering as a result of the bombings of Hiroshima and Nagasaki. Japanese resignation has given space to the Communist Party of Malaya (PKM) to control Malaya. PKM has launched an attack on Malaya through violence. PKM did not succeed, and Malaya and the British returned powerfully. British Military Administration or BMA is between the end of World War II and the establishment of the Malayan Union. On 1st April 1946, The British established the Malayan Union. This turmoil had a major impact on the future development of Malaysian management which we will see later in the studies.

The emergence of Tunku Abdul Rahman had given a silver lining to the struggle of the Malayan nationalists when his action of forming the Alliance Party started to open the eyes of the British to allow the Malaysians to govern their own country<sup>4</sup>. The unity between the three major ethnic groups namely Malays, Chinese and Indians led

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<sup>4</sup> [http://dbook.penerangan.gov.my/dbook/dmdocuments/malaysia\\_2016\\_en/files/basic-html/page23.html](http://dbook.penerangan.gov.my/dbook/dmdocuments/malaysia_2016_en/files/basic-html/page23.html) Page 23  
- Malaysia 2016

to the London Agreement that was signed on 8 February 1956 and had given signs that Malaya will achieve independence on 31 August 1957<sup>5</sup>. Tunku Abdul Rahman Putra Alhaj has suggested the merger of five colonies namely Malaya, Singapore, Sabah, Sarawak and Brunei to form a new country.

In a modern concept, Malaysia is a divided country between the West and East. Racial unbalance, women inequity, poverty, social economic issues politics all influence the development and decision-making capabilities in Malaysia. The intervention of the British and colonial greed has caused most of the issues Malaysia is facing today. The managerial development of people is unbalanced throughout Malaysia. The country is plagued with corruption and racial issues that hamper equal development. It is very clear that if you travel through the country you come aware of this unbalance of development of Human Capital. Malaysia is one of the most open economies in the world with a trade-to-GDP ratio averaging over 130% since 2010. Openness to trade and investment has been instrumental in employment creation and income growth, with about 40% of jobs in Malaysia linked to export activities. After the Asian financial crisis of 1997-1998, Malaysia's economy has been on an upward trajectory, averaging growth of 5.4% since 2010, and is expected to achieve its transition from an upper middle-income economy to a high-income economy by 2024<sup>6</sup>.

This study will also evaluate a potential concern on the development of senior management considering Malaysia's economy, as it has been on an upward trajectory. To sustain this upward trajectory is fundamental to improve the standard of management and abolish affirmative action in the country through more effective equal management development, and strategic decision-making and so to further the

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<sup>5</sup> Treaty of London (1956)

<sup>6</sup> The Commonwealth, <https://www.cweic.org/countries/malaysia/>

economic development of the country. As mentioned before a distinct difference in management quality and development between West and East Malaysia as well as Malay and non-Malay managers. The main purpose of this study is to look at the development of Malay managers, how to improve and with comparisons with the non-Malay manager. A similar study was conducted by Professor N. C. Hunt of Edinburgh University in 1972 on management development needs in Kenya. The result of this study can be used as concrete recommendation to the respective government and management development agencies, regarding management development and decision-making needs in the private and public sector and the provision of management training facilities. This study will also make attempts to try and assess the degree and direction of change in management development practices.

While this study will reflect essentially on the practical orientation of the research it also goes considerably further than the previous studies ever done on this or similar studies. The research will try to interpret previous data, taking into consideration the conceptual issues involved in management development and strategic decision-making, taken in consideration the complexes of historical, racial, religious social, economic and political factors that make up the context in which it takes place and determines the managerial needs and constraints of management strategic decision-making experience on the one hand, and the human resources to be developed on the other. As the process of strategic management of a corporation falls under the purview of top management. An organization's strategy is generally defined as the organizational effort or direction that results from the match an

organization makes between its external environment and its internal structure and processes<sup>7</sup>.

Originally management was top-down and the top executives of an organization determine the strategic direction of the firm by dealing with strategic issues continually. Over time, how these strategic issues are resolved plays a part in determining the strategy of the organization. This is however a hurdle for the companies and executive management if the managers are not trained and equipped with the necessary knowledge. In both the field of general and strategic management, a great deal of attention has been devoted to prescribing how organizations should address strategic issues in the formulation of strategy<sup>8</sup>. Some of the most widely recognized of these techniques and processes are portfolio theory, "Policy Delphi", dialectical policy analysis, and the growth-share matrix<sup>9</sup>.

A policy Delphi seeks to generate the strongest possible opposing views on the potential resolutions of a policy issue<sup>10</sup>. In other words, the policy Delphi intends to do no more than provide a factual basis for an argument for or against an issue, policy or problem<sup>11</sup>. However, these techniques and processes are more applicable to the organizational level than the individual level. The literature in strategic management and development which pertains to the individual top executive decision maker, is, for the most part, normative and prescriptive. The descriptive work that exists in this area is generally of a case study nature with no additional studies to provide empirical backing.

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<sup>7</sup> Ansoff, 1979; Galbraith & Nathanson, 1978; Hodgetts & Wortman, 1980; Hofer & Schendel, 1978; Mintzberg, 1978; Pearce & Robinson, 1982; Uytterhoeven, Ackerman & Rosenblum, 1977

<sup>8</sup> Rowe, Mason, & Dickel, 1982; Schendel & Hofer, 1979

<sup>9</sup> Grant & King, 1982

<sup>10</sup> Turoff, 2002

<sup>11</sup> Turoff, 2002.

The empirical work on individual development and decision-making has originated in the disciplines which deal directly with cognitive decision processes. These studies typically are concerned with individual decision-making as a generally applicable phenomenon. In other words, the studies do not necessarily focus on any single type or classification of individual decision-makers such as the top executive. Failure to do this ignores the situational dynamics facing the individual which may play an important role in the development and decision process. Since top management is responsible for carrying out the strategic management of the organization, a better understanding of the manager's development and how these decisions are made under varying conditions in the external environment should lead to a more complete development regime and understanding of the strategic management process.

## **1.1 BACKGROUND TO THE STUDY**

The study is partially the product of the concern for not just the Malaysian government, but also for business owners, investors as well as several institutions associated with management training. The study will cover the concern of businesses, business owners' governments and institutions to understand the development of managers, strategic decision-making and the attitude of Malaysian managers compared to their other counterparts not just in Malaysia but also in other Asian countries. The study will also clearly indicate why the neighbouring countries is developing faster and why Singapore is considered a developed country and Malaysia is not. The study will also show where the problem originates and the efforts by the government to try and solve it. It will demonstrate how some of the policies and procedures have aggravated the problem and have obstructed Malaysia to be a developed country as per the Tenth Malaysia Plan.

The study will also cover strategic management development and decision-making and the impact it had on the economy. The outcome of this study will give a clear understanding of Malaysia's management development and its capability of strategic decision-making. The study will make efforts throughout to make recommendations on how to improve the standard of management in the country, through more effective management development, and so to further the economic development of the country.

Malaysia, the country chosen for this study, is a middle-income country that has only recently transformed from a mere producer of raw materials to a multi-sector economy, aspiring to reach a high-income status by 2024<sup>12</sup>. The country has emerged in the international business arena as a stable Islamic country in which the business practices have demonstrated an international outlook, yet the leadership is still guided by Asian values<sup>13</sup>. There is however no distinct leadership and management style that can be identified as Malaysian, and therefore there is certain openness and willingness to learn from the best practices both in East and West<sup>14</sup>.

This thesis will also address the leader and leadership development questions from the perspective of large multinational corporations (henceforth: MNCs). The MNC leaders in Malaysia leverage between implementing global standards in local conditions, and therefore need to find an optimal balance between the Western leadership practices and Asian cultural and economic context. In search for the optimum between the two, it is also necessary to consider

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<sup>12</sup> World bank PRESS RELEASE NO: 21MY01, MARCH 16, 2021

<sup>13</sup> Kennedy, 2002

<sup>14</sup> Ahmad, 2001

the differences between generations.

It is argued that the economic development over the past few decades has initiated a change in the traditional values of Malaysians, and the leaders of tomorrow are therefore likely to have different incentives compared to the leaders today. The challenges of current MNC leaders are how to provide the right opportunities to retain the leadership talents within the firms and how to develop their leadership capabilities. The leadership talents that this study focuses on are expected to enter an executive leadership level in the coming 5-10 years and are referred to as high-potential leaders. An executive leader refers to a member of the senior leadership team within an MNCs Malaysian subsidiary. The study grew from a personal interest as a senior executive manager in Malaysia and all over Asia.

It is also worth noting that these problems are spread over most of Asia. Some however have different influences and impacts. While this thesis reflects the essentially practical orientation of the research it also goes considerably further into the history, impacts and Malaysian economy. The data takes into consideration the conceptual issues involved in management development, and the complexity of the Malaysian historical, social, economic and political factors that make up the context, in which it takes place and determine the managerial needs and constraints of the companies on the one hand, and the human resources to be developed on the other.

Many years of research have been devoted in the west to develop models to help us understand management development and decision-making behaviour<sup>15</sup>. The major concern is these models as not adjusted or adapted to the

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<sup>15</sup> Payne, 1982

Asian environment and culture. These models can however be used as the foundations of management development and strategic decision-making. Perhaps the descriptive cornerstone was written by March and Simon in 1958. They developed the concept of bounded rationality, the basic premise of which states that there are limits on the amount of knowledge available concerning alternative courses of action. This "limited knowledge" due to a lack of training and development results in the decision maker selecting a satisfactory solution which might not be strategic in the development of the company. Thus, resulting in decision-making behaviour as being "satisficing" as opposed to "optimizing" in many instances. Before this work by March and Simon, decision-making had been viewed as a rational process in which an individual searched for an optimal solution to a given problem.

Subsequent research on development and decision-making has attempted to represent decision-making behaviour under various conditions. Several models of development and decision-making behaviour have grown out of this research. Manager development and decision-making go hand in hand and if one refers to development it is directly linked to a manager's ability to decide. To understand the models, it is fundamental to understand the definitions, especially the definition that is linked to and underscores "Management Development". Management development is inclusive of planning, and decision-making and that is also inclusive of strategic decision-making. It would be appropriate now to highlight the manager's development and decision-making do not make the manager a strategic decision-maker. The difference between strategic decision-making and other decision-making processes like administrative and operational is that strategic decision-



making is a long-term process that takes a lot of resources and has many uncertainties. Administrative decisions are short-term strategies.

Most writers on management think that management is a decision-making process. They argue that it is only through making decisions that an organization can accomplish its short-term and long-term goals. "A decision is an act of selection or choice of one action from several alternatives. To select from one or multiple choices available, the manager requires knowledge which can only be achieved through development, only then can decision-making be defined as the process of selecting a right and effective course of action from two or more alternatives to achieve the desired result the decision-making is the essence of management.

According to P. F. Drucker – "Whatever a manager does he does through making decisions." All matters relating to planning, organizing, direction, coordination and control are settled by the managers through decisions which are executed into practice by the operators of the enterprise. Objectives, goals, strategies, policies and organizational designs are all to be decided upon to regulate the performance of the business.

The entire managerial process is based on decisions. Decisions are needed both for tackling the problems as well as for taking maximum advantage of the opportunities available. Correct decisions reduce complexities, uncertainties and diversities of the organizational environments. The question then arises, "If a manager is not trained or does not have sufficient education, is he or she capable of making a strategic decision?".

George Terry defines decision-making "as the selection of one behaviour alternative from two or more possible alternatives." And then in the words of D. E.

McFarland: “A decision is an act of choice wherein an executive form a conclusion about what must be done in a given situation. A decision represents behaviour chosen from several alternatives.” Decision-making is a critical skill to be developed for effective management and leadership. Some people are just not suited to leadership roles because of their lack of ability to make decisions<sup>16</sup>.

It is also important to highlight some of the definitions and key principles of management development and interrelated implications that will be used in the study.

1. Developing managers' knowledge, skills and abilities
2. Management development as a personal process
3. Management development as a time investment
4. Importance of management development
5. More effective communication:
6. Motivated employees:
7. Cost-efficient leadership:
8. Wide knowledge of company policies:
9. Long-term management availability:

The definition of decision-making has three different but interrelated implications.

1. When managers make decisions, they exercise choice. They decide what to do based on conscious and deliberate logic or judgement.
2. When deciding the managers are faced with alternatives. An organization does not take a wise manager to reach a decision when there are no other possible choices. It

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<sup>16</sup> <https://www.clarionledger.com/story/news/2017/12/09/develop-decision-making-skills/934228001/> Develop decision-making skills, Becky Vaughn-FurlowCareers, published December 9, 2017

does require wisdom and experience to evaluate several alternatives and select the best one.

3. When taking a decision, the managers have a purpose. They propose and analyse the alternative courses of action and finally make a choice that is likely to move the organization in the direction of its goals.

Training and decision-making play a vital role in management development. Decision-making is perhaps the most important component of a manager's development and activities. The ability to make good decisions is the key to successful managerial performance. The managers of most profit-seeking firms are always required to take a wide range of important decisions in the areas of pricing, product choice, cost control, advertising, capital investments, dividend policy, personnel matters, etc. Similarly, the managers of non-profit seeking concerns and public enterprises also face the challenge of taking vital decisions on many important matters. Decision-making is also a criterion to determine whether a person is in management or not. If he participates in decision-making, he is regarded as belonging to the management staff. In the words of George Terry: "If there is one universal mark of a manager, it is decision-making." And According to P. F. Drucker: "Whatever a manager does, he does through making decisions."

Understanding the definitions of management development and decision-making, these models may be subsumed under one of two categories: alternative-based or attribute-based. In alternative-based decision behaviour, the total alternatives are used as the basis for making the choice. These models are similar to the optimizing behaviour discussed by March and Simon since an attempt is made to examine and evaluate all aspects of the alternatives in finding the best solution. The

attribute-based decision models focus on specific attributes or some standard criterion measures as the basis for making the decision. These models are reflective of satisficing decision behaviour because only selected attributes of the alternatives are evaluated. The focus is on finding a satisfactory solution rather than the best one. Empirical studies on decision-making behaviour have shown that as the problem becomes more complex, individuals tend to utilize a less cognitively demanding decision process (attribute-based) as a means of resolution. Alternatively, with a less complex decision task, individuals have been more likely to use an alternative-based decision process. In summary, the decision process which is used is contingent upon the nature of the decision task at hand.

In the strategic management literature, the topic of decision-making as a contingent phenomenon has been addressed at the organizational level. Anderson and Paine (1975), Fredrickson (1983), Fredrickson and Mitchell (1984), Mintzberg (1973), and Nutt (1976) reached similar conclusions on corporate decision processes concerning the external environment surrounding the company. Specifically, they have pointed out that decision processes based on a rational model (i. e. complex, comprehensive) are appropriate for organizations in stable environments, but are not appropriate for organizations in unstable environments. On the one hand, in a stable environment, the information needed to make comprehensive decisions is readily available and it is relatively easy to integrate individual decisions into a total strategy or plan. On the other hand, unstable environments do not lend themselves to comprehensive decision-making and integration because of their uncertain and complex nature<sup>17</sup>. Fredrickson (1983) found that a firm's performance will be affected

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<sup>17</sup> (Mintzberg, 1973)

if the comprehensiveness of its strategic decision process is not consistent with the nature of its environment.

The high-performing firms in stable environments tended to have a comprehensive strategic decision process and the high-performing firms in unstable environments tended to have a noncomprehensive strategic decision process. Based upon this background information and upon the concept that strategic management of the organization is the responsibility of top management, the dynamics of the environment surrounding the corporation will probably have an impact on how chief executive officers and presidents of companies address the strategic issues which they face.

## **1.2 PURPOSE OF STUDY**

It is important to highlight and explain the purpose of this study and how is it relevant to management development in the bigger context of management development and strategic decision-making. The purpose is to obtain a better understanding of Malaysian management development. The main focus of the study is to look at the development of the Malay manager. During the study and working through the literature, it was clear that if the focus is only on the Malay manager it will be biased. The purpose has not changed but has included more aspects that are directly related to the issue. It is important to understand the entire picture and how everything fits into each other.

This study will attempt to clarify the issues and give the reader a better understanding of Malaysia and the development of managers. The study will also do comparisons on various literature to draw some conclusions on management development as well as how it is relevant to today's modern manager. It is fundamental

to understand this and the purpose of this study will hopefully be able clear it up. The study will try to integrate cognitive development and decision-making literature with the strategic management literature; (b) conduct an empirical study of the complexity of training development and decision-making behaviour of executives responsible for making strategic decisions; and (c) discover what relationships, if any, exist between the interaction of developed chief executive decision-making and the stability and, or complexity, of the industry and organizational performance. Some specific questions to be investigated by this study are:

- a) What was the impact of colonization?
- b) The impact of affirmative action on the development of Malay managers and the development of the country.
- c) The impact of formal management development against traditional development.
- d) The impact of western management ideology and did it work?
- e) Are there differences in the decision-making behaviour of under-developed top executives and highly skilled developed executives of manufacturing firms when dealing with strategic issues?
- f) What is the influence of education?
- g) Is practical experience more relevant than formal education in management development?
- h) If so, can a relationship be drawn between these differences and the stability and, or complexity, of the industry in which the top executive operates?

- i) Finally, is there a relationship between economic performance, management skill and decision-making behaviour, of developed and none developed executives?

### **1.3 AIM AND STRUCTURE**

The aim is to examine the practice of management development and decision-making in a developing country, in this case, both West and East Malaysia with a focus on Peninsular Malaysia. The study will make efforts to gain an understanding of the specific problems it poses. The research will start by looking at what is meant by management development, what the process involves and the assumptions upon which it is based. The research will also look into the development and actual strategic decision-making processes.

The basic point this thesis seeks to illustrate is that one cannot fully understand the problems companies face in developing their managerial staff without an appreciation of all the factors that impinge upon the situation. For this reason, special attention will be paid to the historical, political, social and economic context of management development in West and East Malaysia. The study will examine how companies are developing their managerial staff, both in management and strategic decision-making while coping with the special needs and constraints in the East/West Malaysian situation. The study will also refer to the impacts the government regulation had on the development of Malaysian managers and the impact it had on the development of the country and the economy. Finally, it will endeavour to conclude the practice of management and decision-making development in Malaysia and the principal areas where it may be improved.

## 1.4 SIGNIFICANCE OF THE PROJECT

Since "management" is considered to be the operational level of decision and top management is considered to be the organizational level at which strategic management is exercised, studies of the development and strategic management process should focus on all these levels and these individuals<sup>18</sup>. In trying to understand not just how a manager was developed it is also fundamental to understand how executives make decisions and what influences these decisions. However, rather than resulting in a consistent theory or description of the development and decision-making process of executives, what has emerged are various conceptualizations of executive decision-making. No empirical studies have been done to test the assumptions based on these conceptualizations.

At this point, these questions emerge:

- a) Why study executive management development and strategic decision-making?
- b) Why not confine research on middle management development and operational decision processes to organizations?
- c) Why not confine research on strategic development and strategic decision processes to organizations?

Essentially, there are multiple reasons, and the first is, it is individuals who make the operational or strategic decisions, not organizations. Moreover, since the top executives are charged with the responsibility for the strategic management of the organization, they are the ones who make the final decision. Thus, more reason to identify the development process of the executive manager second, Lang, Dittrich,

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<sup>18</sup> (Hodgetts & Wortman, 1980, p. 47)



and White (1978) have shown that there is considerable similarity in the conceptual models representing the individual, group, and organisation (i. e. involving more than a single group) problem-solving models. Subsequent studies on organizational decision-making have shown, depending on the level of development and the situation, one manager's type of strategic decision process is more appropriate than another<sup>19</sup>. By examining individual decision-making, this study may indicate whether or not the conceptual similarities are accurate and will reflect on the development and training of the manager.

For practitioners of management, it will provide some understanding of how chief executives which are developed deal with strategic issues, and perhaps provide a basis for evaluating the decision-making of the executive in light of the nature of the environment (i.e. stable versus unstable and complex versus simple) in which the decision is made. This could have significant implications for the evaluation, training, and selection of top-level executives. That is, if decision-making were a contingent phenomenon, then perhaps executives could be trained to make decisions in a manner that is consistent with the nature of the industry. Going forward the research will be focused on the different aspects of management development and strategic planning the fourth coming chapters.

As the development of managers in Malaysia starts from the colonial era covering the origins of Malaysia, starting from the beginning will create a clear understanding of management development and strategic decision in Malaysia. This study will develop an understanding of how managers develop and what was the impact of colonial colonization, religion, politics and race had on the development of

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<sup>19</sup> Fredrickson, 1983, 1984; Fredrickson & Mitchell, 1984

the managers and the strategic impact on businesses and the economy. The study will also cover basic areas of financial growth by race, education and social-political issues.

As I mentioned Malaysia started from the Sultanate of Malacca which was around 1400 AD. This situation allowed Malacca to emerge as a major trading centre, especially in Southeast Asia. Malacca was the obvious starting point for management and entrepreneurs in Malaysia. In 1511, Malacca fell into the hands of the Portuguese and that was the beginning of the colonial era in Malaya. After that, Malaya fell into the hands of the Dutch in 1641 and the British in 1824 through the Anglo-Dutch Treaty. British colonization was the longest compared to others. The British had integrated all the Malayan administration which was previously managed by the Malay Rulers with the help of state dignitaries. The British intervention had a major impact on how Malaysia developed. This impact can still be observed today. During 1920 and 1930, many residents of Malaya started to receive an education. This was then also the start of managerial development. The newly founded knowledge also came with a price and civil unrest started in the name of nationalism.

Malaysia as we know it today is a country divided into West and East Malaysia. The development of the two areas is unbalanced, not just in Infrastructure, but also in Management and Human Capital. Racial friction is still very visible and still has a major impact on managerial development and strategic decision-making. The goal of the research is to look into both the initial development and training of a manager and how they develop strategic management skills. The research will also look into the effect of Organizational strategic development of Management and decision-making methods and practices on their and the company's performance. Dealing with one

country but two concepts and levels of development. Recent studies on the organizational level of strategy have concluded that environmental, political, religious and racial factors have a significant impact on the development and strategic decision processes of organizations and that the contingent nature of this relationship has implications for the performance of firms operating under various industry conditions. In addition, studies covering human capital and Management development as well as individual decision-making have shown that characteristics of the decision task affect the type of decision-making behaviour utilized by the individual. This study will also integrate multiple bodies of literature in examining the development of managerial human capital development and the evolution of the decision-making behaviour of chief executives concerning the strategic issues which face their organizations.

Primary data was mostly obtained from historical literature, previous studies of modern and past literature, and especially literature from the 1900. The study will also make use of surveys and some informal discussions and interviews. In conjunction, secondary data were gathered on the local firms and industries in which they operated. Comparisons are also made between locally managed, foreign and hybrid-managed companies. Sets of assumptions and questions were formulated. Some dealt with the development of the management and with a comparison between west and east Malaysia and the impact on the industry, stability of the industry, and several alternatives generated upon the complexity of the decision-making behaviour of the manager and chief executive. Other sets of assumptions focused on the relationship between the complexity of decision-making and the economic performance of the firm, and incorporated, as contingent variables, industry complexity and industry stability.

The author will make assumptions and comparisons on the impact of race, religion and politics. The results suggest that there is a relationship between the development, and complexity of the decision-making behaviour of chief executives and the number of alternatives generated to address a given strategic issue. Subsequent analysis indicated that the location, the size of the organization, the education, and exposure may affect the chief executive's perception of the stability of the industry and also, some degree of "conservatism" may have been operating in the search for additional alternative solutions. In conclusion, this study implies that:

(a) there is a tendency for chief executives who did not receive proper training, or who were exposed to high-performing or international companies to use some type of simplifying process when addressing a complex strategic issue

(b) it is possible that, in some cases, the chief executive may not be selecting the best solution for the organization

(c) potential alternative solutions are not always actively searched out.

## **1.5 TERMINOLOGY**

The term manager, management development and strategic decision-making will be discussed in the next chapters, however, at this point some clarification is necessary. The word manager is being used to refer to the individual male or female, who is responsible for the day-to-day running of a business enterprise as well as planning for the future and initiating new ventures. That is the word manager is not being used as synonymous with the entrepreneur rather the entrepreneurial role is one of the possible components of the managerial role. This implies a measure of specialization of function, inclusive of strategic decision-making and Management development is, therefore, considered largely in the context of the company with

several managers on its staff. The studies will be inclusive of large, medium and some very small companies. However, in the case of these companies, management development and strategic decision-making need to be interpreted in its broader sense and the approach modified to suit their particular needs and constraints.

Some clarification of Malaysian terminology is also necessary. Several terms are used to refer to the territory of West and East Malaysia, or Peninsular Malaysia, for West Malaysia and Sarawak or Borneo for East Malaysia. Historically, it was referred to as the Malay Peninsula and came to be known as British Malaya and east Malaysia was also known as Brunei Sultanate. The states with which Britain had the closest relationship (and were the focus of economic development in the peninsula) were the Federated Malay States (FMS); the others were termed the Unfederated Malay States (UFMS).

Federation of Malaya, and then in 1963 this territory combined with Singapore, Sarawak and Sabah to form the federation of Malaysia. In 1965, Singapore was ejected and became a separate republic. The country now consists of East Malaysia — Sarawak and Sabah — and Peninsular, or West, Malaysia. All these various terms for the peninsula will be used according to the historical period. It has to be noted that the different races and ethnic groups played a major role in management and management development as well as strategic decision-making. These groupings are very important in the Malaysian scene. Frequent reference will be made to the three main races of Malaysia-the Malays, the Chinese and the Indians. The Malays are considered to be the indigenous race and are frequently referred to as 'bumiputras' meaning sons of the soil'. The term 'bumiputra also applies to the other indigenous communities of Malaysia - the small tribes of the interior of the peninsula and the tribes

of Sarawak and Sabah. However, since the Malays are the most numerous of these groups, the term 'bumiputra' tends to be used as synonymous with 'Malay'.

The currency of Malaysia is the 'Ringgit' or Malaysian dollar. Malaysian Ringgit is the currency that will be used throughout and the symbol, RM, should be taken to mean Malaysian ringgit/dollar unless otherwise indicated. Before I move on I would like to highlight some and also have a final word about abbreviations. Abbreviations for such things as the Third Malaysia Plan, TMP, and Government bodies such as the Federal Industrial Development Agency, FIDA, are very commonly used in Malaysia and accordingly these shortened forms have been adopted in this thesis. The full title will always be given the first time it is mentioned and thereafter the abbreviation will be used.

## **1.5 SOURCES AND METHODS**

This study is about Malaysia, Manager development but due to the complexity of management development it was decided to break it into two focus areas of Management Development and Strategic decision-making. The two are very dependent on each other and the study will not be complete if one of the items is removed. It is also worth mentioning in modern management to focus on "strategic decision" and not so much on "operational decision" making however crucial for the day-to-day operations. In the course of conducting the research, several factors had been put into consideration to ensure that the study attains the desired outcome. These factors include the research questions, sample groups, sample sizes, methods, procedures, data analysis and most importantly the research variables. Research variables are important quantities in the course of this research study. Through their manipulation, I was able to study and observe changes that have assisted in drawing

up conclusions about the phenomenon that was studied. Throughout the study, there will be descriptions and explanations and will clarify opinions, definitions, measures, personal assumptions, comparisons, samples, procedures, questions, and interviews and will include the data analysis used in this study. It is worth noting that each of the criteria has a direct impact on the other.

## CHAPTER 2

### 2.0 METHODOLOGY

This chapter will be dedicated to an explanation of the methodology used in the study, I consider it appropriate to spend some time on the detailed explanation and this study is not just about management development, it goes much deeper and explores, education, culture, government behaviour, policies, economy, and the sub-areas of strategic decision-making and the impact it has on the economy. This is a paper based on knowledge obtained throughout my years in Asia, inputs from informal discussions with several management educators, management consultants, management students and managers, which had taken place at several meetings, seminars and conferences over the last few years and also some review of literature in the field of management education. The study will dig into the history, past and present. As this study will look into two very complicated parts of the country's progress and development of human capital, I consider it appropriate to discuss them in different individual chapters. Mixing them will dilute the impact of the study. The two however overlap as strategic decision-making is a direct result of management development.

This chapter, however, is also dedicated to exploring what is meant by management development and what assumptions are the basis. The intention is to bring management development in Malaysia into the context of a general theory of management development and decision-making. The chapter will also look more in-depth, at the role of the private sector and a comparison between the private sector and government-owned companies and the financial and growth impact on the companies.



The study is an evaluation based on the development of Malaysia and its human capital and management, taking into consideration the time before and during the colonial era as well as the post-colonial era or independence era. It is fundamental to understand the history and then put it in context with the private sector and government agencies of Peninsular Malaysia and Sarawak in general. There was no isolation of any industry and the study was inclusive of government institutions, agencies, large, medium and small companies covering a variety of business types, which is inclusive of manufacturing and services. Efforts were also made to include multinational companies to draw some comparisons. The study was in a sense restricted to Peninsular Malaysia considering this is the part of Malaysia that has experienced management development and the greatest commercial and industrial development.

Malaysia is a tropical country which comprises at present Peninsular Malaysia (consisting of eleven states and the federal territory of Kuala Lumpur), Sabah (including the federal territory of Labuan), and Sarawak, and 79% of the population is located in Peninsular Malaysia. According to the World Bank, Malaysia is an upper-middle-income country<sup>20</sup>. It was decided to cover the West in detail regarding the East when relevant, especially when it comes to Timber and Petrochemical. Note the fact that Peninsular Malaysia contains 79% of the population and accounts for 95% of manufacturing output.

In choosing the methodology for the study it was decided that this will not be a pure and complete statistical survey of the private sector nor an in-depth study of a very few companies, although both methods had their advantages. It was also decided

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<sup>20</sup> <https://www.fao.org/3/x6900e/x6900e0h.htm> Chapter 14

to do a generalized study which will evaluate literature, make comparisons, look at history, pre and post-colonial era, into economic growth, recession and finally the impact of the pandemic and how did it influence strategic decision-making etc. The study, while providing important factual data will also obtain personal opinions and assumptions from experience in Asia, proven and unproven assumptions, as well as sections about manager recruitment training practices and will touch on the most vital element of all - the attitude and thinking of senior management in the companies towards management development and strategic decision-making.

The study will not include multiple detailed case study approaches, but rather a general overview to provide valuable insights into the development and thinking of management, how management development was implemented, and the particular problems of the Malaysian context in decision-making, as well as the literature evaluation approach. It was therefore decided to try and combine all approaches, to draw a representative sample of not just managers but also companies to give an accurate picture of the business community. The survey will touch on both some statistical data and literature evaluation, random interviews of chief executives as well as middle management of the selective companies. A note is to be taken that in some cases no reference will be made to any of the companies by name and interviewees will also not be named due to data protection and confidentiality.

One of the first tasks in the study was to choose a satisfactory basis from which literature to use and to draw the relevant data. After careful consideration, it was decided to choose a mixed variety but most literature used was from the 19<sup>th</sup> century and 20<sup>th</sup> century as this literature was considered complete and obtained data and comparison against available 21<sup>st</sup> century literature. The study also made use of the

Financial Survey of Limited Companies. As well as the Survey of Manufacturing Industries which covered manufacturing, plantations, construction and mining and to some extent the service industries<sup>21</sup>.

Secondly, it is related to establishments, rather than companies, and it is at the company level that policy about management development would tend to be decided. The Financial Survey, on the other hand, did relate to companies and was broken down according to size, in terms of annual turnover, ownership and industry. Given the relevance of all factors to the level of management development, this was very useful. However, it did not cover banks, insurance companies, nominee companies, shipping and airline companies and non—profit making organizations. The Financial Survey is conducted annually, the latest figures available in 2021/2 and the reference used was from 1969 until 2022 when available, this will cover most of the newer companies as well as the impact of the COVID-19 Pandemic<sup>22</sup>.

The study will try to cover in particular the parastatal companies which have appeared on the Malaysian industrial scene. While the Financial Survey excluded individual proprietorships and partnerships, the incorporated sector that was included accounted for 84% of gross sales, 79% of wages and 72% of employment. These companies all needed managers that could make decisions. In the course of this study, it was also decided to group plantations and mines under their respective managing agencies. Although this could not be justified in terms of legal relationship it was considered that, since the managing agency was effectively responsible for the

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<sup>21</sup> The Survey of Manufacturing Industries uses the U.N. definition of establishment: "ideally an economic unit which engages, under a single ownership or control i.e. under a single entity, in one or predominantly one kind of economic activity at a single physical location. "

<sup>22</sup> Malaysia, Department of Statistics, Report on the Financial Survey. [www.dosm.gov.my](http://www.dosm.gov.my)

recruitment and development of managers for its clients, for this study it could be treated in the same way as a parent company with subsidiaries.

Given the importance of the racial balance issue in Malaysia, it was desirable to pay special attention to the development of management skills among Malays and the impact it had on other races and ethnic groups. The data for some of the samples were collected in multiple ways. The chief executive, and where applicable the middle manager, human resources manager and the training manager, were interviewed to gain a picture of the overall practice of management development and to get an impression of the company in general and their attitude towards it. To collect basic info the companies were asked to complete questionnaires giving concrete figures related to race, employment, recruitment, training, and future training requirements. While training is in no way equivalent to manager development, it was assumed that there was likely to be a relationship between the two and that the surveys would provide much of the missing data.

The interviews or rather a discussion varied greatly in length, according to the size and complexity of the company. A clear framework was used for the interview discussions while leaving it sufficiently open-ended for respondents to move freely to those areas which concerned them most. The field study was intended to yield information about the overall approach of the company to management development. Special regard was given to planning and how far there was a conscious policy for development.

Career and succession planning were also considered. Because management development is largely achieved on the job rather than by formal training, attention was paid to whether firms were setting clear objectives against which managers'

performance could be assessed, weaknesses corrected, and training needs identified. Companies were also asked how they decided to give a man a particular kind of training and how, if at all, it was evaluated. Time was spent discussing the firm's experience with various training methods - on-the-job training, in-company courses, external courses, etc. - and the strengths and weaknesses of the several training institutions were discussed.

At the end of each discussion, respondents were asked what they thought the priorities were for improving management training facilities in their firms and Malaysia, paying particular attention to racial balance. Information of a quantitative nature about the size of staff, number of managers, and their ethnic group, source of recruitment of managerial personnel and the numbers of managers trained by different methods was also collected. The discussions also include a definition of a manager as an executive above the grade of foreman or supervisor who contributes to the decision-making process, exercises some control over the use of resources and in some way directs the activity of others.

A brief word should be said here about bias and the subjective nature of the study. Most companies were on their guard and it was very difficult to obtain data, especially from non-Malay companies. An interview inevitably involves interpersonal relations and the fact that I am a European, made it more complicated. Non-Malay company owners do not open up as the Malaysian government does get foreigners to do "surveys" to collect data on companies that do not comply with the rules on Malay ownership. At international companies for the most part European executives were courteous and friendly and as the interview progressed in some cases relaxed enough to discuss their views and anxieties in a very frank and open way. Some of the older

established European companies were fairly conservative and rather sceptical of such a survey. Most of the Chinese companies were highly suspicious. The interviews were all conducted in English, however, in a few cases the chief executive in a Chinese firm did not speak English, and in these cases, the chief clerk or a trusted friend was brought in to provide the translation. Nonetheless, communication was not always complete. In prominent Malay companies, I had the advantage to be able to speak “Bahasa Malaysia”

Many senior executives, of all sizes of the company, gave up a considerable amount of their time to discuss. The more successful data collection was from the several informal discussion meetings with groups of businessmen, Malay, Chinese and European, were also held at which useful insights were gained into the problems under consideration. As part of the study, some main pre- and post-experience training institutions were visited and discussions were held with the head of the institution or in the case of the universities the head of the Department of Economics and Business Administration. The purpose of these discussions was to find out what facilities were available, what problems they faced and how they saw the direction of their future development.

## CHAPTER 3

### 3.0 LITERATURE REVIEW

This chapter began with a discussion of the literature on individual development and decision-making as the study will not be complete without some references and a literature review. Management development, Strategic management and Strategic decision-making are topics that were researched extensively and there is a large variety of opinions and assumptions and one sometimes gets the feeling that there is no consensus. The review of this literature is centred around the descriptive studies which were developed based on the concepts of training development strategic decision-making, optimizing and satisficing. From this beginning, the more widely accepted models of management development were presented as well as individual decision-making behaviour was presented and arranged from cognitively simple to cognitively complex as follows: (a) lexicographic or elimination-by-aspects; (b) conjunctive; (c) attribute dominance; (d) additive difference; (e) additive; and (f) cost/benefit. In addition to placement on the continuum, the models were also classified as being either attribute-based or alternative-based.

In this review, the environmental impact on individual decision-making was noted. The dimensions of uncertainty and complexity were specifically addressed. The major conclusion was that as the situation became more uncertain or more complex, there was a tendency on the part of the decision-maker to use a less cognitively demanding decision process.

The next section dealt with a basic review of the literature on Management development and decision-making. The nexus between management development and decision-making is of interest to several stakeholders in society as man's

productive activities and decision-making is a function of management. This part of the study examined the relationship between the management functions of planning, leading and controlling and decision-making in Malaysia. In pursuance of the study objective, I reviewed available literature on the concepts of management, and decision-making in a quest to emphasize the meaning of management, management functions and decision-making. The review was also carried out to establish a functional relationship between management and decision-making within the national context. The study, therefore, concludes that development does not just happen; instead, it thrives on the platform of adequate management embedded in planning, leading and controlling. The paper recommends the enforcement and promotion of good management practices to accelerate development at the different levels of government.

The next major section dealt with a review of the literature on strategic decision-making. The strategic decision-making of organizations was discussed showing that there are two general schools of thought regarding strategic decision processes in organizations. One says that strategies are developed in a rational, purposeful manner and the other contends that strategy formulation is an incremental, less-purposeful process. In addition to the organizational concepts, the literature on executive decision-making was also considered. Attention was focused on: (a) the roles of executives; (b) decision-making styles; and (c) some prescriptive /descriptive work on how executives make decisions.

In a subsequent section, the environmental impacts on strategic decision-making were given. This section reviewed the contributions of organization theorists and business strategists to the examination of the fit between the external environment



and the organization as a determinant of organizational success. Merging the two major areas of literature resulted in the third and final division in this chapter, that is, the development of the conceptual model. The model will be discussed in light of the literature and the interrelationships of the two areas given.

This review of the literature is divided into three parts. First, descriptive literature on Management development. Second descriptive literature on individual decision-making strategies is discussed. Third, literature on decision-making from the strategic management field is presented. In addition, as a subset of these two sections, the environmental effects on decision-making are reviewed. Lastly, a conceptual model representing the integration of these two bodies of literature is provided and discussed. This model provides the basis for the development of the hypothetical statements to be tested in this study.

### **3.1 MANAGEMENT DEVELOPMENT**

The concepts of management and development have received attention from various scholars and researchers. I think it appropriate to start this off with the early thinkers and philosophers, the search to improve manufacturing methods to produce a superior product or increase profits is as old as time. It can be argued that Adam Smith (1723 – 1790) pioneered the concept of labour management by advocating -- making work efficient by employing specialization. He proposed breaking the work down into simple tasks and argued that division of labour will result in the development of skills, saving of time and the possibility of using specialized tools. Smith's--“An Inquiry into the Nature and Causes of the Wealth of Nations” (1776), advocated the following viewpoints: (i) each individual strives to become wealthy; (ii) productivity will increase with the division of labour; (iii) the free market provides the best environment

for wealth accumulation, and (iv) property rights are vital to the concept of the free market. David Ricardo (1772 – 1823) in his letter to T. R. Malthus, on October 9, 1820” (Collected Works, Vol. VIII: p. 278-9) observed that “Political Economy--should be called an enquiry into the laws which determine the division of the produce of industry amongst the classes that concur in its formation.

No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions.” Jeremy Bentham (1748 – 1832) wrote in his “Introduction to the Principles of Morals” (1789) that (i) a law is good or bad depending upon whether or not it increased the general happiness of the population; (ii) the wealthier a person is, the greater the happiness he can attain; (iii) actions are to be judged strictly based on how their outcomes affect general utility; (iv) individuals are the best judges of their happiness; and (v) whether the unhindered pursuit of individual happiness could be reconciled with morality. Unlike Smith and Bentham who had a strong belief in the capitalistic principle of the individual pursuit of wealth and happiness, Karl Marx (1818 – 1883) argued that--the economic breakdown of capitalism was inevitable, which would be replaced by the doctrine of socialism where the individual’s interests will give way to the state’s interests, and the free market system will yield to the controlled market system for the benefit of the society as a whole.

In 1832, Charles Babbage, an engineer, philosopher and researcher, examined the division of labour in his book “On the Economy of Machinery and Manufacturers” and raised important questions about production, organizations and economics. He advocated breaking down jobs into elements and costing each element individually. In this way, potential savings from investments in training, process and methods could

be quantified. Henry R. Towne (1844 – 1924), also an engineer, proposed the concept of “shop management” and “shop accounting” to the American Society of Mechanical Engineers.

### **3.2 THE EVOLUTIONARY START OF MANAGEMENT DEVELOPMENT.**

Both Babbage and Towne paved the way for the development of scientific management theories that flourished during the industrial revolution. Management is the process of working with people and resources to accomplish organizational goals<sup>23</sup>. Koontz and Weihrich (2007) defined management as “the process of designing and maintaining an environment through which people work together to accomplish selected aims.” Newman, Summer and Warren (1972) see management as “a social process comprising of a series of actions that involve relations between people with the thrust of accomplishing the set goals and objectives”.

Management according to Robbins and Coulter (2013) “involves coordination and overseeing the work activities of others so that their activities are completed efficiently and effectively.” Weihrich, Cannice and Koontz (2010) defined management as “the process of designing and maintaining an environment in which individuals, working together in groups, effectively and efficiently, accomplish selected aims.” In these definitions, the underlining consensus is that management is a process, geared towards the attainment of goals effectively and efficiently. Also, Dimovski and Penger (2002) define management as “creative solving of problems, which occur in the planning, organizing, leading and controlling of resources. ‘The processes of management are mostly planning, organizing, coordination, directing and controlling<sup>24</sup>. Hill and McShane (2008) and McDonald (2010) identified planning, organizing, leading

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<sup>23</sup> Bateman and Snell, 2005; Bateman and Snell, 2009

<sup>24</sup> Archie & Kurah, 2015; Bateman & Snell, 2005; Bateman & Snell, 2009

and controlling as the typical functions of management. These functions are crucial to management, and hence we adopt the categorization of planning, organizing, leading and controlling.

Onwuemele (2013) summed up planning as “deciding what actions to be taken in the future to achieve organizational goals, it involves thinking ahead, initiating and taking a predetermined course of action and deciding in advance what should be done, how, when and by whom”. Planning according to Hill and McShane (2008) is a process of selecting goals, identifying actions to attain the goals, and allocating responsibility for implementing actions to specific individuals as well as measuring the success of actions against the goals.

These definitions indicate that planning is a series of related activities that set and charts a specific direction and the means to an end. Hence, Sebele (2013) concluded that planning is an important aspect that defines the functionality of an organization. Hill and McShane (2008) defined leading as “the process of motivating, influencing, and directing others in the organization to work productively in pursuit of organizational goals.” Also, Hill and McShane (2008) described controlling as “the process of monitoring performance against goals, intervening when goals are not met, and taking corrective action.” Kombate (2017) described control as a management tool for finding violations, and the identification and prevention of failures and anomalies.

Management is an integral part of life and society. Everyone is involved in management at one level or another, whether working alone or in an organization or just managing one's own time (Oosthuizen & Lategan, 2015). Management is fundamental to the success of individuals, organizations, institutions and nations

because management is all about getting things done as well as doing them orderly and efficiently. Inegbenebor's (2005) position that "... the primary objective of management is to achieve selected aims by efficiently utilizing the resources available" describes the tenets of management. When things are done correctly and orderly, it fosters a change of state, progress, improvement and improved standard of living.

These output conditions are indicators of development revealed by some definitions<sup>25</sup>. Successful organizations apply management functions (Raduški, 2016), by extension, prosperous nations apply management. The planning, leading and control functions of management are the thrust of this study. "Planning defines the strategies, tactics and methods for achieving project objectives, while monitoring and control provide the required checks and balances for ensuring that plans and overall project objectives are achieved" <sup>26</sup> Planning is one of the fundamental principles of management and the most critical of its functions since it permeates all others (Kenyaite, 2009). In addition, planning is the most critical management function<sup>27</sup>.

### **3.3 INDIVIDUAL DECISION-MAKING**

As Huber (1980) noted, research on decision-making has come from many different disciplines. However, for this study, an applicable differentiation in the literature is the "prescriptive-descriptive" dichotomy<sup>28</sup>. Prescriptive studies focus on developing normative techniques for making decisions which will aid in improving the quality of the decision, whereas descriptive studies emphasize understanding how decisions are made. Since this is an empirical investigation of the decision-making behaviour of managers and top executives, the literature review deals with descriptive

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<sup>25</sup> Chinsman, 1998; Ribeiro, 2005

<sup>26</sup> Idoro, 2012

<sup>27</sup> Olusanya, Awotungase, & Ohadebere, 2012

<sup>28</sup> Huber, 1980; Koziellecki, 1981

studies. It is not the purpose of this literature review to examine the entire realm of the descriptive decision-making literature, but rather to deal specifically with the development of decision-making models, or strategies, that have grown out of the descriptive literature.

In the nineteen-fifties, psychologists began to examine the decision process as well as its determinants. This work was inspired by investigations done in the fields of statistics and economics (Kozielecki, 1981). Before this time, the emphasis had been on expected utility (EU) and how this utility could be maximized<sup>29</sup>. This was a prescriptive concept in the sense that the focus was on describing how decisions could be made so that the choice would lead to the highest payoff; which assumed a rational "economic man" position and described the ideal rather than the existing state. The maximizing mode involved a clear set of alternative courses of action and a thorough understanding of the desired level of attainment. The alternative which comes the closest to the desired level is the one that is selected after all attributes, or factors, have been considered (McCrimmon & Taylor, 1976). The process of maximizing utility, therefore, yields the best possible solution and hence is the decision process which theoretically should be used.

Unfortunately, as Simon (1957) observed, people, do not have the "wits to maximize"<sup>30</sup>. In a realistic sense, there are always limitations of knowledge concerning alternative courses of action, time available to go through the decision-making process, and cognitive abilities of the individual. This was best summed up by a quote from Miller and Starr (1967), "Contemporary developments in economics have

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<sup>29</sup> Huber, 1980; Janis & Mann, 1977; MacCrimmon & Taylor, 1976

<sup>30</sup> cited in Janis & Mann, 1977, pp. 2

emphasized the lack of realism of the assumption that individuals act to maximize their utility”.

There has not been an attack on the proposition that individuals should act to achieve a maximization of their utility. Rather, there has been sufficient evidence and supporting reasons to show that they do not act in this way. Among the reasons suggested have been the following: the inability of the individual to duplicate the rather recondite mathematics which economists have used to solve the problem of maximization of utility; the existence of other values (the higher values originally excluded by Adam Smith which though not readily quantifiable, do cause divergences from the maximization of utility in the marketplace; the effect of habit; the influence of social emulation; the effect of social institutions.

The work of psychologists would certainly tend to confirm the assertion that human beings have a variety of diverse motivations which do not lend themselves to maximization of utility. . .at least so long as utility is defined in terms of the ‘satisfaction’, resulting from marketplace phenomena . . . Similarly, sociologists have accumulated considerable evidence to demonstrate the enormous influence of social institutions, habit, and tradition on the choices and decisions made by individuals. The effect of these psychological and sociological factors leads individuals to make decisions and to take actions without recourse to maximization of utility in the classical economic sense. Alternatively, phrased, it can be said that these factors cause people to act irrationally--but it should be noted that this is simply a matter of definition, rationality having been defined as the maximization of economic utility.

In elaborating upon the concept of satisficing, March and Simon (1958) addressed the nature of uncertainty in the decision problem (the degree of which

indicates whether an individual decision maker is likely to satisfice or optimize). The cause of this uncertainty came from several sources. As Simon (1976) pointed out, these can be categorized as either personal limitations or external constraints. The personal constraints will be dealt with here while external considerations will appear in a subsequent section.

The major personal constraint is the inability of the decision maker to process the vast amount of information necessary to determine all the potentially favourable and unfavourable consequences of all the feasible courses of action. An attempt to do so would result in "information inundation" (Janis & Mann, 1977). Miller (1956) noted that the number of pieces of information that an individual can process is seven, plus or minus two. Seeking out and evaluating all the information necessary to decide would exceed this limit in most cases. Other personal limitations are psychological aspects of the thought process and personality determinants. Some of the psychological aspects are global thinking, a tendency to separate, cognitive near-sightedness, and oversimplified attribution of causation. Any of these thought process factors can cause the individual to make decisions on a less-than-optimal basis<sup>31</sup>.

Personality determinants also play a role in decision-making. If an executive were power-driven (as opposed to having an ideological orientation), his or her decision could be governed by self-interest. This may have detrimental effects on the quality of the decision. Another determinant involves emotion rather than objectivity. In addition, some individuals are more creative than others. Depending on the nature of the situation, a more creative or more common-sense approach may be

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<sup>31</sup> March & Simon, 1958



appropriate. In summary, the preceding factors may have a direct impact on how the problem is analysed and how choices are made.

In other words, when an individual confronts many of the problems which he or she must deal with, attempts are made to reduce or simplify the dimensions of the problem and the alternative courses of action. In reviewing the work of March and Simon, Katz and Kahn (1978) noted: The simplifications have several characteristic features: (1) Optimizing is replaced by satisficing, the requirement that satisfactory levels of the criterion variables be attained. (2) Alternatives of action and consequences of action are discovered sequentially through search processes. (3) Repertories of action programs are developed by organizations and individuals, and these serve as the alternatives of choice in recurrent situations. (4) Each specific action program deals with a restricted range of consequences. (5) Each action program is capable of being executed semi-independently of the others--they are only loosely coupled together. Based on March and Simon's conclusions, many attempts have been made to understand and model individual decision-making strategies by decision scientists. The following is a review of some of the more widely accepted models or processes.

### **3.4 DECISION-MAKING MODELS.**

It's appropriate in this section to highlight some literature reviews that deal with management decision-making models without diverting from the main focus.

The first would be the Lexicographic or Elimination-by-Aspects Model. As Tversky (1972) noted, each alternative is viewed as a set of aspects or attributes. At each stage in the decision-making process, a particular attribute is selected. The process continues until only one alternative remains, and that remaining item is

assumed to be the one chosen by the consumer (Tversky 1972). Although more difficult to calibrate and apply than Luce's Choice Axiom model for choices, it does avoid the independence from the irrelevant alternatives property of the latter model, which is often seen as an appealing feature of the EBA model. It has led to the development of other hierarchical and sequential choice models, including the Hierarchical Elimination Model<sup>32</sup> and the Generalized Elimination Model.<sup>33</sup>

The second is the Conjunctive Model. The selection of a particular alternative depends upon all the relevant attributes of the alternative surpassing some established standards or set of criteria<sup>34</sup>. That is, an alternative must have a certain minimum value of all the relevant attributes to be selected. This model is similar to the lexicographic model in that the basis for evaluation and choice is the attributes rather than the total alternatives. Unlike the lexicographic model, it requires the establishment of standards on all relevant dimensions at the beginning rather than evaluating attributes of the alternatives sequentially; therefore, it makes this process somewhat more cognitively demanding.

The Attribute Dominance Model makes pairwise comparisons between alternatives, but only on several attributes. Preference for one alternative over another is based on the fact that the alternative with the greatest number of dominant attributes is selected<sup>35</sup>. Once again, the basis for comparison is the attributes of the alternatives. However, this process necessitates the comparison of alternatives against each other on these dimensions, making this process more cognitively demanding than the two previous models.

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<sup>32</sup> Tversky and Sattath 1979

<sup>33</sup> Hauser 1986

<sup>34</sup> Coombs, 1964; Olshavsky, 1979; Payne, 1976

<sup>35</sup> Payne, 1976; Olshavsky, 1979

Alternative-Based Decision Models are another grouping of models that may be classified as alternative-based decision processes, in which total alternatives are used as the basis for making the choice, that is, total alternatives are compared against one another. These cognitively complex models are representative of optimizing behaviour since an attempt is made to examine and evaluate all aspects of the problem in finding the best solution. There are three alternative-based models.

The Additive Difference Model involves pairwise comparisons of alternatives followed by a summation of the differences<sup>36</sup>. The alternatives are compared directly on each dimension, making this an alternative-based process (Payne, 1976). Since the basis for comparison is the total alternative, by definition, this decision-making strategy is more cognitively complex than the attribute-based processes.

Additive Model is when each alternative in a set of alternatives is evaluated separately. A value for each dimension or attribute is determined and then all are summed to arrive at an overall value for each alternative. The alternative with the greatest overall value is the one chosen<sup>37</sup>. This model is more cognitively complex than the additive difference model because it requires the evaluation and comparison of all alternatives essentially at the same time rather than making a series of pairwise comparisons. Rather than being based on a difference, the selection is based on an index value or score which is separately determined for each alternative.

The Cost Benefit Model might be one of the more preferred models. The costs and benefits (positive and negative aspects) of alternatives are evaluated against each other. Final values are determined and the alternative with the highest positive value is selected. As noted by Christensen-Szalanski (1978), the combination of benefits

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<sup>36</sup> Rappoport & Wallstein, 1972; Tversky, 1969

<sup>37</sup> Coombs, 1964; Olshavsky, 1979; Rappoport & Wallstein, 1974

and costs follows an additive rule. This model most closely approximates the ideal normative process of maximizing expected utility (Huber, 1980). It may be viewed as a special case of the additive model in that it specifically addresses the concept of positive and negative attributes associated with each alternative.

In summary, the six models or processes can be classified into two groups and may also be placed on a continuum from cognitively simple to cognitively complex in terms of the difficulty of evaluating and selecting an alternative from a group of alternatives. This leads to a discussion of determining under which conditions the different models are likely to be used in management development and decision-making. The following section examines the effect of environmental factors on individual decision-making.

### **3.4 ENVIRONMENTAL IMPACT ON INDIVIDUAL DECISION-MAKING**

Reitman (1964) conceptualized a decision problem as consisting of three components: (a) an initial state of affairs; (b) a desired terminal state; and (c) various "transformers" or alternative strategies for moving from the initial to a terminal state. MacCrimmon and Taylor (1976) noted that Reitman's conceptualization presented necessary, but not sufficient conditions for a decision problem to exist. A decision problem only exists if the decision maker perceives that the initial state is different from some desired terminal state and is motivated to reduce this difference. Otherwise, there is no decision to be made.

MacCrimmon and Taylor (1976) also discussed two types of problems or decision environments: well-structured and ill-structured. Well-structured situations are denoted by fairly complete information concerning the initial state, the end state, and the alternative capable of reaching the desired state. Under these conditions,

individuals can usually make optimal decisions. In ill-structured situations, decision environments are characterized by a high degree of uncertainty and complexity. In these cases, a decision-maker is likely to have incomplete information about all three elements of the problem. Under these circumstances, people frequently make less-than-optimal decisions<sup>38</sup>.

In the literature on environmental effects on decision-making, the three major factors which have been addressed are uncertainty, complexity, and conflict<sup>39</sup>. This study addresses two of these: uncertainty (i.e. stability) and complexity. Since this study deals only with the decision-making of the top executive and senior management in the organization, the impact of conflict on decision-making is not considered.

As MacCrimmon and Taylor (1976) noted, uncertainty, by definition, exists to some extent in decision situations involving only partial knowledge of the variables. Many business situations fall under this category since many of them are characterized by uncertainty. Complexity is also an element which faces individual decision-makers. This is certainly true in business environments. The impact of these two factors on individual decision-making behaviour is reflected in the strategy which is used for the development of alternative solutions and the actual selection from among those alternatives.

Uncertainty and the effect of uncertainty on decision-making behaviour can take several forms. How individuals deal with uncertainty has been studied and reviewed by MacCrimmon and Taylor (1976). Specifically, the decision maker may: (a) reduce the uncertainty to certainty; (b) delay; (c) ignore or avoid the uncertainty, or (d) absorb the uncertainty.

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<sup>38</sup> Katz & Kahn, 1978

<sup>39</sup> MacCrimmon & Taylor, 1976

In reducing the uncertainty to certainty, what the decision maker does is behave as if uncertain events are more certain than they are. In addition, after choosing a course of action in which uncertainty is a factor, a decision-maker may tend to convince himself or herself that "the event leading to more favourable outcomes for his (or her) chosen action will occur"<sup>40</sup>. Delaying actions in response to uncertainty sometimes occurs. However, while this may be wise for individual cases (since more information may come to light with more time), it is very rare in important business decisions by the time they have reached the chief executive.

Avoiding or ignoring uncertainty may also take place. Studies which examine this phenomenon have typically focused on ignoring or avoiding uncertainty after an alternative course of action has been determined.

Absorbing uncertainty pertains specifically to information being passed along through decision-making units in the organization. As information is passed from person to person, there is a tendency for the information to be perceived as becoming less uncertain and more precise<sup>41</sup>. This phenomenon has implications since the chief executives of organizations make decisions based on information presented to them by people or units at lower levels in the organization. Therefore, the chief executive may perceive the external environment as being more certain (i.e. stable) than it is.

Simon's satisficing approach best fits the limited information processing of individuals. A man's limited ability to foresee future consequences and to obtain information about the variety of available alternatives inclines him to settle for a barely 'acceptable' course of action that is 'better than the way things are now'<sup>42</sup>. In following

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<sup>40</sup> MacCrimmon & Taylor, 1965, p.1403

<sup>41</sup> MacCrimmon & Taylor, 1976; Woods, 1966

<sup>42</sup> Janis & Mann, 1977, p. 26

this line of reasoning, Slavic (1971) concluded based on his experiments, that business decision-making suggests that executives avoid uncertainty and the necessity of going through complex decision-making processes whenever possible. In conclusion, as a situation becomes more uncertain, the individual decision-maker uses a less cognitively complex decision-making process. This description is a direct mirror reflection of the Malay manager.

Complexity and the effect of complexity on decision-making behaviour have been well documented. Research in organizations has demonstrated the tendency of decision-makers to resort to simplistic strategies<sup>43</sup>. Early studies on this topic discussed the notion of "conservatism"<sup>44</sup>. Conservatism is the reluctance of individuals to extract as much information from data as is theoretically implied by an optimal decision process (i.e. making the decision problem more complex). In essence, these empirical studies found that, as subjects were presented with more information, it was not used effectively when compared to an optimal decision process--which in this case was the Bayesian theory of probability by Edwards & Phillips, in 1964. This implies that the additional information was not used to evaluate alternatives or to develop new alternatives. The remainder of this section is devoted to two recent works whose conclusions bear directly upon this study.

Payne (1976) choose four of the most widely accepted models of the decision-making process (additive, additive difference, conjunctive, and elimination-by-aspects) as the basis for his study. In the literature review, Payne observed that studies of multi-alternative choice had been "entirely lacking". Most of the prior research had focused on how people choose between two alternatives. In addition, he cited studies which

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<sup>43</sup> MacCrimmon & Taylor, 1976

<sup>44</sup> Peterson, Schneider, & Miller, 1965; Phillips & Edwards, 1966

investigated the effects of additional information from Einhorn, 1971, Hayes, 1964, Hendrick, Mills & Kiesler, 1968 as well as Jacoby, Speller & Kahn, 1974. These studies demonstrated that adding information causes the decision maker too (a) increase the variability of responses; (b) increase the confidence of the decision maker in his or her judgment, and (c) decrease the quality of the choices<sup>45</sup>.

A subsequent study by Olshavsky (1979) replicated the work of Payne. An additional factor which he addressed was the differentiation of the attributes within each alternative as simple or complex. The decision processes, or strategies, used by Olshavsky were additive, additive difference, attribute dominance, conjunctive, and lexicographic (or elimination-by-aspects) models.

In general, Olshavsky's study supported earlier work by Lussier and Olshavsky (1974) and Payne (1976). In conclusion, Payne and Olshavsky's works on contingent processing in decision-making found that, as the complexity of the task increased, there was a tendency to move from a one-stage to a multi-stage decision process. For example, when faced with a two-alternative choice problem, the subjects in Payne's (1976) study tended to use alternative-based decision strategies. When faced with a larger number of alternatives, subjects used the less cognitively demanding attribute-based decision models as a way of simplifying the decision task, and then returned to an alternative-based model to deal with the few remaining alternatives. Olshavsky, (1979) findings were consistent with these conclusions. The second portion of this addresses the literature on decision-making in the field of strategic management along with the environmental impact on strategic decision-making.

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<sup>45</sup> Slovic & Lichtenstein, 1971



### 3.5 STRATEGIC DECISION-MAKING

This section is devoted to a discussion of strategic decision-making. The first part briefly reviews some of the conclusions regarding strategic processes in organizations. Next, executive decision-making research is discussed. This review addresses research on: (a) the roles of executives; (b) decision-making styles; and (c) prescriptive/descriptive work. Finally, the environmental impact on strategic decision-making is considered.

Strategic Decision-making of Organizations In the strategic management literature, much attention has been devoted to prescribing how organizations should address strategic issues in the formulation of strategy<sup>46</sup>. Many different techniques and processes for the formulation of corporate strategy have been enumerated. Some of the most widely recognized methods are portfolio theory, policy Delphi, the business planning matrix, dialectical policy analysis, and the growth-share matrix<sup>47</sup>. These models are characteristic of the dominant school of thought regarding strategic decision-making.

Fredrickson (1983) referred to the above-mentioned group as comprehensive models, which emphasize a rational process in dealing with strategic issues.

An organization's performance will be increased if the process of strategy formulation is carried out in this manner<sup>48</sup>. The second group of strategic decision-making models is the incremental process group. Lindblom (1959) referred to the process as "muddling through." Implicit in both classes is some concept of decision-making<sup>49</sup>. The synoptic decision process centres on the development, evaluation and selection of

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<sup>46</sup> Rowe, Mason, & Dickel, 1982; Schendel & Hofer, 1979

<sup>47</sup> Grant & King, 1982

<sup>48</sup> Paine & Anderson, 1983; Schendel & Hofer, 1978

<sup>49</sup> Fahey, 1981; Leontiades, 1982

strategic alternatives after the goals have been established, the internal resources have been assessed, and the external environment has been evaluated<sup>50</sup>. Ansoff (1980) referred to this as the process of strategic issue management in which an organization attempts to identify and quickly resolve important trends and events inside or outside the firm. The synoptic process is exhaustive in its attempt to be comprehensive in the generation and evaluation of alternatives.

Consequently, an attempt to optimize is indicated<sup>51</sup>. In contrast, the incremental decision process focuses only on a few alternatives to the status quo and does not attempt to be exhaustive in the evaluation of consequences; thereby suggesting a satisficing approach. While the synoptic and incremental decision processes typify the current beliefs about how organizations make strategic decisions. When making individual decisions the process attempts to be exhaustive in the identification and selection of goals and the generation and evaluation of alternatives.

Consciousness attempts are made to integrate the decisions that compose the overall strategy to ensure that they reinforce one another. The strategy is viewed as a conceiving modification of the current state. The process is "remedial." The remedial change outcome is considered at the same time the means for achieving it is analysed. The processes are intertwined and simultaneous.

The final choice of an alternative is made by combining the alternatives (means) and their possible consequences (ends) and simultaneously selecting the one that yields the most desired outcome. Decision quality is judged by the agreement achieved in choosing an alternative (the means to the end). When making individual decisions the strategy considers only a few alternatives to the status quo as alternative

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<sup>50</sup> Glueck, 1980; Grant & King, 1982; Hofer & Schendel, 1978

<sup>51</sup> March & Simon, 1958

actions and only a restricted range of consequences in their evaluation. All possible factors are not considered. Little attempts are made to integrate, consciously, the individual decisions. That could affect one another. The strategy is viewed as a loosely linked group of decisions that are seriously developed, integrated whole, and handled individually.

### **3.6 EXECUTIVE DECISION-MAKING**

It is the responsibility of executives to carry out the purpose or mission of the organization. They are the ones who attempt to provide solutions to problems emanating from the internal and external environments<sup>52</sup>. In short, the executives of an organization are the ultimate decision-makers for that organization and are charged with the responsibility for its eventual success or failure. Therefore, it is unfortunate that there is so little research available on how executives make decisions. What is available is a great deal of information on the roles of executives<sup>53</sup> decision-making styles of executives<sup>54</sup>, and prescriptive/ descriptive work on how decisions are or should be made<sup>55</sup>. A brief review of the major contributions to the literature on strategic decision-making follows.

First, four studies which address the roles of executives are reviewed. Barnard (1938) identified three essential executive functions: (a) providing a system of communication; (b) securing essential services from individuals within the organization, and (c) formulating the purpose and objectives of the organization.

Barnard did not explicitly address decision-making as an essential executive function, it is implicit in the processes mentioned. On executive decision-making, he

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<sup>52</sup> Hodgetts & Wortman, 1980, p. 44

<sup>53</sup> Barnard, 1938; Carlson, 1951; Hemphill, 1959; Mintzberg, 1973, 1975

<sup>54</sup> Guth & Taguiri, 1965; Maccoby, 1976; Miller, 1975

<sup>55</sup> Lindblom, 1959; Wrapp 1967; Harvey, 1982

noted that individual decisions may involve non-logical processes, but the acts of organizations are governed by organizational, not personal, goals. Consequently, after the goals of an organization have been determined and adopted, the ". . . coordination of acts as means to these ends is itself an essentially logical process".

Carlson (1951) studied the work of nine Swedish managing directors (comparable to the CEO in the United States) and concluded the working time, communication patterns, and work content of their position which included fields of activity, questions of development and current operations, and questions of policy and application.

Lindblom (1959) discussed decision-making as an explicit function of the executive, but it differed from the conventionally held belief that executive decision-making was purposeful and rational. He concluded that the rational-comprehensive procedures were better used for small-scale problem solving where the number of variables is small and value problems are restricted. As an alternative method which is more representative of the way policy formulation is done, Lindblom proposed "successive limited comparisons".

Mintzberg also studied managerial work and determined that the manager's job could be described in terms of "roles" or organized sets of behaviours identified with a position. These ten roles were grouped into three major categories: interpersonal, informational, and decisional. In discussing decisional roles, he made several observations which are relevant to this study. First, the manager typically authorizes the important decisions in his or her unit before they are implemented to insure a consistent and unidirectional strategy. Second, many important authorization decisions were made on an ad hoc basis with little time devoted to quantitative

decision methods. Third, the decisional roles have been implicitly acknowledged in many instances, but have not been explicitly studied.

In an early review of studies which deal with decision-making styles, Guth and Taguiri (1965) did some ground-breaking work in this area by studying six primary value orientations (theoretical, economic, aesthetic, social, political, and religious). The business managers in their sample were strongest on the economic, theoretical; and political scales; and weakest in aesthetic and social areas. The results on the religious dimension were inconclusive. Unfortunately, what Guth and Taguiri do not address is how these values are reflected in their decisions (Higgins 1983).

In 1976, Maccoby categorized managers into four groups; the craftsman, the jungle fighter, the company man, and the gamesman. In his discussion, he implied that various types of managers respond differently to the same situations.

### **Craftsperson**

- Team manager takes pride in his/her craft and is often subject matter experts
- This type of team manager leads by issuing commands and expects staff to abide by them without a question.
- She/he is individualistic with added qualities such as being inventive, self-contained and sincere. In most cases, she/he does not care for her/his career growth or promotion.
- She/he may come across as stubborn and suspicious. She/he derives emotional satisfaction from being good at her/his niche expertise

### **Jungle fighter**

- A tough, bold and competitive team manager who thrives on power with a strong desire to win and will fight to protect his/her team.

- She/he maybe be ego-driven, paternalistic, aggressive and authoritarian.
- She/he is gifted with political agility. She/he may use people for his/her gain and may upset the team sometimes with his/her attitude.

### **Company person.**

- A loyal, hardworking and eager-to-please team manager who thrives on creating order and discipline.
- She/he exists to do the will of the company and may take any position for the betterment of the company
- She/he is submissive and can do whatever it takes to not get fired. She/he may be too conservative to lead a team where innovation and risk-taking are needed

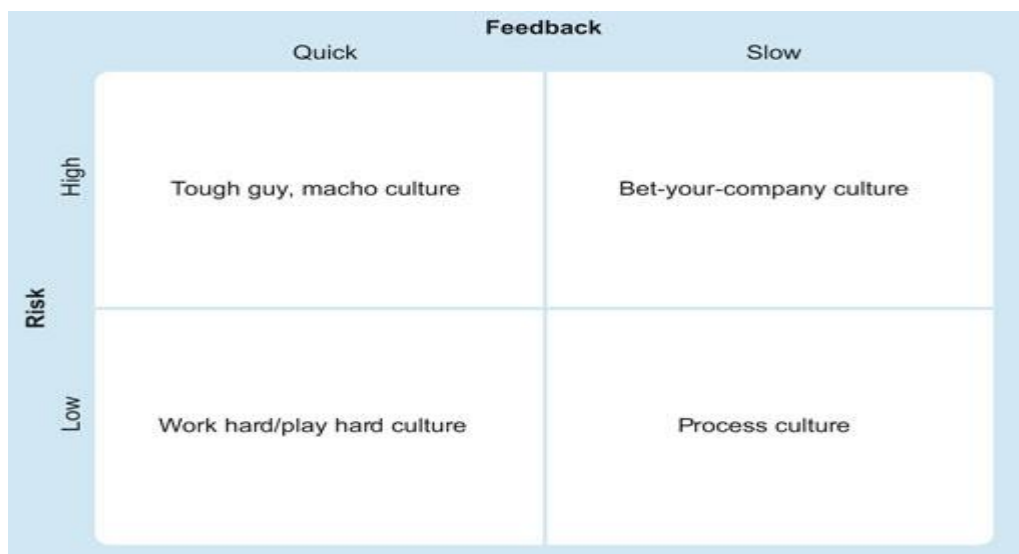
### **Games person**

- This team manager is fascinated by new ideas, techniques and innovation.
- She/he loves to solve problems. She/he thrives on competition and generates enthusiasm within teams.
- She/he believes that the corporate environment is a game to 'win' and money is not the result unless it is the goal.
- She/he may appear detached, lack passion and may risk alienating people because she/he is very success driven. This team manager may be mistaken to be cold.

Deal and Kennedy (1982) addressed types of organizational cultures. Deal and Kennedy's (1982) model, based on two dimensions, suggested that the biggest single influence on a company's culture was the business environment in which it operated. They called this 'corporate culture', which they asserted embodied what was required to succeed in that environment. The two key dimensions were the degree

of risk associated with the company's activities, and the speed at which companies – and their employees – get feedback on whether decisions or strategies are successful.

By 'feedback' Deal and Kennedy do not mean just bonuses, promotions and pats on the back. They use the term much more broadly to refer to knowledge of results. In this sense, a goalkeeper gets instant feedback from making a great save, but a surgeon may not know for several days whether an operation is successful, and it may take months or even years to discover whether a decision about a new product is correct. Deal and Kennedy distinguish between quick and slow feedback. Also, by splitting each dimension into high and low they came up with four 'generic' cultures, as shown in Figure 1.



Source: Open University  
*Figure 1 Deal and Kennedy's model of organisational culture,*

### 3.6.1 THE TOUGH GUY, MACHO CULTURE

A world of individualists who regularly take high risks and get quick feedback on whether their actions were right or wrong<sup>56</sup>. This type of culture is commonly

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<sup>56</sup> Deal and Kennedy, 1982, p. 107

thought to be prevalent in organisations in which feedback comes in the form of financial rewards. Managers in this type of culture need to be able to make decisions quickly and accept risk. To survive when things go wrong, they need to be resilient. These cultures are characterised by aggressive internal competition.

Employees in such organisations believe that to get on they must be as tough as the 'movers and shakers' at the top. These activities tend to produce a lot of internal politics and conflict. In addition, these cultures tend to nurture short-term views, and here you might recall some of the reasons that are believed to have led to the fall of organisations such as Enron (auditing failures in picking up billions in debt from failed deals and projects) and Lehman Brothers Bank (bad debts led to its eventual collapse). Despite the label, 'tough guy', Deal and Kennedy suggest that this culture is the least discriminatory of the four because it is, in their view, a meritocracy in which success is what is acknowledged and rewarded.

### **3.6.2 THE WORK HARD/PLAY HARD CULTURE**

Fun and action are the rules here, and employees take few risks, all with quick feedback; to succeed, the culture encourages them to maintain a high level of relatively low-risk activity<sup>57</sup>. This type of culture is characterised by high levels of activity, and each employee has to take a few risks. Instead, success is measured by persistence. Typically, the primary cultural value is to supply customers with a quality product or service. These cultures spawn meetings, conventions, teamworking, office parties, jargon, buzzwords and so on. They are typical of large organisations such as the motor industry, IT and telecoms because in smaller organisations there are often increased levels of risk as 'every decision is a big one. The high levels of energy create

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<sup>57</sup> Deal and Kennedy, 1982, p. 108



two main problems for a manager: ensuring that the energy is being directed at the right tasks, and ensuring that quality accompanies the high levels of activity. For these reasons, IBM put up 'Think' signs all around the company.

### **3.6.3 THE BET-YOUR-COMPANY CULTURE**

Cultures with big-stakes decisions, where years pass before employees know whether decisions have paid off. A high-risk, slow-feedback environment<sup>58</sup>.

This type of culture is found in organisations involved in projects that consume large amounts of resources and take a long time to be realised. For very risky projects the organisation does everything it can to ensure it makes the right decisions initially. Meetings become very important and experts are drawn in to give their opinions.

### **3.6.4 THE PROCESS CULTURE**

A world of little or no feedback where employees find it hard to measure what they do; instead they concentrate on how it's done. We have another name for this culture when the processes get out of control – bureaucracy! Process cultures get bad press from nearly all quarters. They are the bureaucracies, awash with red tape and memos. Their low-risk, slow feedback environment means that employees become more concerned with how work is done – the process – than with what the work is. There is a danger that artificial environments develop, detached from the real world. Employees in these cultures may be very defensive. They fear and assume that they will be attacked when they have done things incorrectly. To protect themselves they engage in behaviour such as circulating emails copied to everyone remotely concerned with the issue.

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<sup>58</sup> Deal and Kennedy, 1982, p. 108

Deal and Kennedy admit that this four-culture model is simplistic, but it can be a useful starting point for looking at your organisation and management. A mix of all four cultures may be found within a single organisation. Furthermore, they suggest that companies with very strong cultures will skilfully blend the best elements of all four types in a way that allows them to remain responsive to a changing environment. Although these cultures have been criticised, for example, because customers fear the high-risk attitudes of those in a tough guy culture or the thoughtless energy of those in a work hard/play hard culture, they exist because they bring order to organisations and ensure that certain procedures are followed. Yet few organisations fall neatly into one of these four types, and it is very hard to relate these types to psychological personalities.

Analysing personality traits, Miller (1975) suggested that top management traits such as arbitrary risk-taking and conservatism were significant in determining the success of the firm and its management. According to Higgins (1983), this study implies " that the human variable may be an important predictor of strategic success and that therefore strategic success may be contingent upon this variable".

Finally, there are prescriptive and descriptive studies on decision-making. In 1967, Wrapp addressed the descriptive area: Many of the articles about successful executives, picture them as great thinkers who sit at their desks drafting master blueprints for their companies. The successful top executives I have seen at work do not operate this way. Rather than produce a full-grown decision tree, they start with a twig, help it grow, and ease themselves out on the limbs only after they have tested to see how much weight the limbs can stand.

In his study, the general manager tested each proposal against at least three major criteria: (a) Will the proposal move the organization closer to the objectives they have in mind? (b) How will the proposal be received by various groups and subgroups in the organization? (c) How does the proposal relate to programs already in process or currently proposed? He implied that the decision-making process of an executive is less than rational, but that he or she does have an ulterior set of objectives against which to evaluate various issues.

In contrast, Harvey (1982) discussed the work of several authors and concluded that ". . . decision-making is essentially a rational process, but as we have noted, there are limits to how orderly the strategic process is". The prescriptive techniques such as portfolio theory, policy Delphi, the business planning matrix, dialectical policy analysis, and the growth share matrix have been offered as bases for executive decision-making, but these methods have had little testing at the individual executive level, other than some classification studies.

In conclusion, there is a paucity of empirical research which addresses exactly how executives make decisions on strategic issues and alternatives. What does exist are conceptual and descriptive pieces on the nature of work which executives perform and their role in the organization. The remainder of this section is devoted to looking at the environmental impact on strategic decision-making.

### **3.7 ENVIRONMENTAL IMPACT ON STRATEGIC DECISION-MAKING**

The effect of the external environment on strategy formulation is a subject that has been well covered in the field of strategic management. This work was preceded by the impact of the environment on the organization and its structure. This section will first examine some of the major conclusions from this literature (mostly based on

the work by organizational theorists) and then move on to those dealing with the relationship between environment and strategic decision-making.

The impact of the external environment has been a subject dealt with in the management literature since the middle of the nineteen sixties. The emphasis has been on viewing organizations as open systems which were impacted by and had an impact on, the external environment. Emery and Trist (1965) were among the first to examine this relationship. They suggested that the change in the environment, particularly the increasing complexity of the environment, was a necessary area of study if organizational theorists were to continue to advance their understanding of organizational change. They discussed four ideal types of environment: (a) placid; (b) randomized; (c) disturbed-reactive; and (d) turbulent. One major conclusion was that a better understanding of the external environment will lead to a better understanding of the exchanges that take place between an organization and its environment since the causal texture of the external environment is often a governing factor in these exchanges.

Continuing the open systems research stream, Lawrence and Lersch (1969) conducted an empirical study of ten firms in three different kinds of environments. Their major focus was on the concepts of differentiation and integration. They examined the degree of differentiation and integration in three industries (plastics, containers, and food packaging). High-performing and low-performing firms within these industries were evaluated to discover how organizations address the demands of their respective environments.

They concluded that ineffective high-performing firms, the degree of differentiation and integration were contingent on the nature of the external

environment. Lorsch and Allen (1973) provided additional support for this point in a subsequent empirical study. They concluded that management of the total firm is "most effectively facilitated when top management chooses a set of organizational devices which are congruent with the particular constellation of environmental factors faced by the firm".

A later study by Tung (1972) looked at the relationship between environmental complexity, environmental change rate, and environmental routineness correlated with the organizational variables of perceived environmental uncertainty, structure, time perspective taken in planning, and frequency of changes in plans. Using a sample of twenty-one firms in Vancouver, Canada, Tung found that her results were consistent with other researchers of organization-environment interaction<sup>59</sup>. The environmental characteristics under study "were shown to be significant predictors of variations in perceived environmental uncertainty, departmental structure, time perspective taken in planning, and frequency of changes to plans"<sup>60</sup>.

More specifically, if the degree of perceived environmental uncertainty is low, a more rigid or mechanistic structure is appropriate. In contrast, organizational units operating in a highly unstable and uncertain environment were forced to resort to shorter-range strategies with more frequent modifications. Even though the study did not explicitly examine the impact of the fit between environmental characteristics and organizational variables in light of the effectiveness of the organization, this concept was implicitly addressed since all firms selected for the study were high performers in terms of return on investment<sup>61</sup>.

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<sup>59</sup> Lawrence & Lorsch, 1967; Duncan, 1972

<sup>60</sup> Tung, 1979, p. 691

<sup>61</sup> Tung, 1979, p. 691

A more recent empirical study by Lenz (1980) of savings and loan associations did explicitly address the notion of organizational performance. He hypothesized that the performance of an organization varied according to a firm's combination of environment, strategy, and organizational structure. The factors which represented these variables were the socio-economic development of the area, financial services mix, and configuration of the administrative hierarchy, respectively. The single performance measure used in the study was returned on average assets. Using a stepwise discriminant function analysis, Lenz found that the high-performing firms differed from the low-performing firms in their environment-strategy-organization structure combinations, although none of the variables individually was sufficient to explain differences in performance.

In a study dealing directly with strategic decision processes, Fredrickson and Mitchell (1984) examined an unstable industry. . .the forests products industry (Dess, 1980) . . .in looking at the relationship between the comprehensiveness of the strategic decision process and the performance of the firm. Based on the conclusions of previous authors (Aldrich, 1979; Bourgeois, 1980; Nutt, 1976; Thompson, 1967), several points were made : (a) the environment often appears as a hypothesized contingency in the strategy process literature; (b ) it is easier to identify critical variables in a stable environment thereby making it possible to develop a rational, comprehensive theory regarding the relationship between those variables and the organization at a level of certainty that cannot be obtained in unstable environments; and (c) a firm that uses a noncomprehensive strategic decision process is better equipped to deal with an unstable environment than a firm which uses a comprehensive strategic decision process. Based on the preceding points, it was

hypothesized that: There will be a negative relationship between the comprehensiveness of strategic decision processes and performance in an unstable environment. A positive relationship would be expected in a stable environment.

Comprehensiveness, as defined here, is the degree of integration of individual decisions into an overall strategy. Two financial measures of firm performance were used to reflect effectiveness and efficiency. Respectively, they were a per cent change in gross sales and average after-tax return on assets. Controlling for organizational size, the hypothesis was tested using partial correlations. Both changes in gross sales and average after-tax return on assets were significantly correlated with the composite measure of comprehensiveness, indicating that comprehensive strategic decision processes (those based on rational models) may not be appropriate for organizations operating in an unstable environment.

In conclusion, research in the fields of organization theory and business strategy has demonstrated that the nature of the external environment affects the strategy and operation of the organization. In addition, preliminary research indicates that the fit between organizational strategy and environment can be correlated with the performance of the firm. In the following section of this chapter, these two areas of literature are integrated into a conceptual model which serves as the basis for this study.

### **3.7.1 THE VROOM-YETTON DECISION MODEL**

Before I move away from the literature review it is fundamental to highlight at least one decision-making which is would recommend for Malaysian managers as well as other Asian countries considering that all Asian managers have difficulty in making decisions and taking accountability. There are lots of different ways to decide, and

choosing your approach can be just as difficult as making the decision itself. Sometimes you have to take charge and decide what to do on your own, but you don't want to appear autocratic to your team (particularly in situations where you need their input). At other times it's better to decide based on the group consensus, but this can use up precious time and resources.

Every manager needs to be able to make good decisions. A systematic approach to decision-making, such as the Vroom-Yetton Decision Model, allows you to bring consistency and order to a process that might otherwise feel idiosyncratic and instinctive. It can also help managers to determine the most effective means of reaching a decision.

The Vroom-Yetton model is designed to help managers to identify the best decision-making approach and leadership style to take, based on their current situation. It was originally developed by Victor Vroom and Philip Yetton in their 1973 book, "Leadership and Decision-making." No single decision-making process fits every scenario. Instead, Vroom-Yetton offers several different processes and directs the manager toward the best one for his situation.

For example, if speed and decisiveness are required then it will likely point you toward an autocratic process. If collaboration is what's needed, then it will nudge you toward a more democratic process. Researchers have found that managers are more effective, and their teams are more productive and satisfied when they follow the model. The simplicity of Vroom-Yetton also means that anyone – from the boardroom to the factory floor – can use it.

Although a little long-winded at times, it can be particularly helpful in new or unusual situations. Managers who practice using it will quickly get a feel for the right



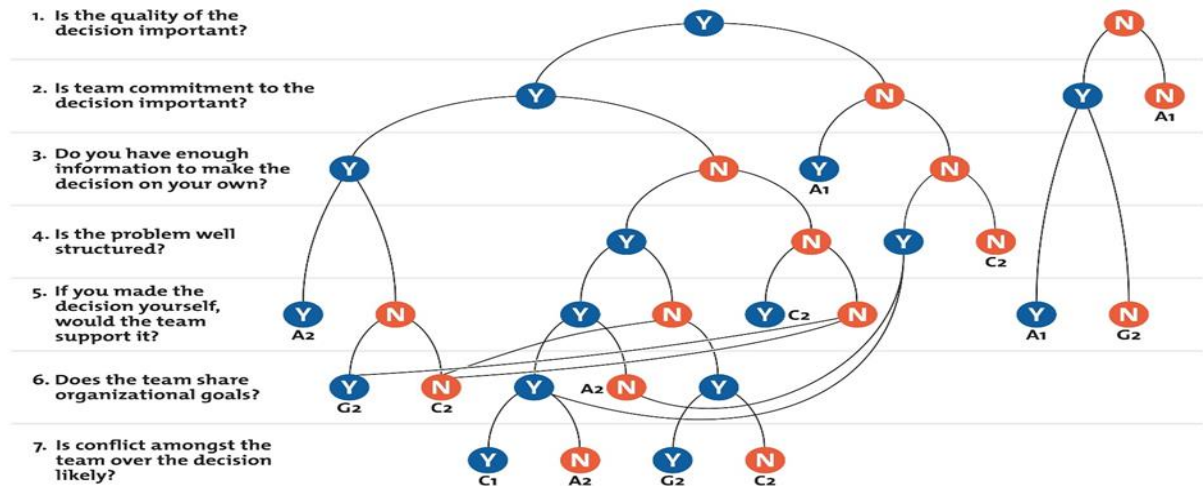
approach to take, whether they decide about a day-to-day issue, or deal with a more complex problem.

It would however for the manager to consider the following three factors:

- Decision quality – Sometimes, making the "right" decision is critical, and you'll need to use a large number of resources (people, time, information, and so on) to ensure that the action you take has been well thought through and is of high quality.
- Team commitment – Some of your decisions will have a major impact on your team, while others will go unnoticed. When a decision will likely impact your team, it's best to use a collaborative process. This will improve the quality of the decision, and you'll likely deliver a successful result faster.
- Time constraints – When the issue at hand isn't time-sensitive, you have more "space" to research your options and to include others, which will help to boost the quality of your decision. If your time is limited, however, it may not be feasible to include others or to undertake thorough research.

### **3.7.2 SPECIFIC LEADERSHIP PROCESSES**

Figure 2, below, shows the Vroom-Yetton model. The framework poses seven "yes/no" questions, which the manager needs to answer to find the best decision-making process for his or her situation. As they answer each of the questions, they work their way through a decision tree until they arrive at a code (A1, A2, C1, C2, or G2). This code identifies the best decision-making process for the manager and his or her team.



Source: The Vroom-Yetton Decision Tree: Adapted from Leadership and Decision-making by Victor H. Vroom and Philip W. Yetton by permission of the University of Pittsburgh Press. Copyright © 1973 University of Pittsburgh Press.

Figure 2 The Vroom-Yetton Decision Mod

The following codes represent the five decision-making processes that are described by the model:

- Autocratic (A1): You use the information that you already have to make the decision, without requiring any further input from your team.
- Autocratic (A2): You consult your team to obtain specific information that you need, and then you make the final decision.
- Consultative (C1): You inform your team of the situation and ask for members' opinions individually, but you don't bring the group together for a discussion. You make the final decision.
- Consultative (C2): You get your team together for a group discussion about the issue and seek their suggestions, but you still make the final decision by yourself.
- Collaborative (G2): You work with your team to reach a group consensus. Your role is mostly facilitative, and you help team members to reach a decision that they all agree on.

### **3.8 MANAGERIAL FUNCTIONS**

Based on Henry Fayol's definition, managerial functions are identified by planning, organizing, commanding, coordinating, and controlling<sup>62</sup>. Thus, strategic decision-making is involved in managers during the operations of an organization. Managers have to make thousands of strategic decisions to keep their organization at the pace of business. Due to the globalization era, managers have to think and act fast to capture all business opportunities. Meanwhile, they also have to eliminate, and if not mitigate, the level of threats toward their organization. Thus, managers' strategic decision-making is crucial to the survival of the organization. Robbins and Coulter (2005) stated that decision is part of managerial functions. Further, decision-making is important in a manager's job.

#### **3.8.1 BEHAVIOURAL DECISION THEORY**

Nutt (1976) stated that behavioural decision theory (BDT) has faced validity of satisficing and serial search does seem to portray the behaviour of decision-makers. Moreover, Wildavsky (1966)—in Nutt, 1976, stated that decision-makers do not know what they want because they do not know what they can get. Nutt, (1976) found that decision-making, as practised in organizations is a serial process and that satisficing is used as a decision rule. Conrath (1970), in Nutt, (1976), stated that the decision maker is also influenced by uncertainty; as uncertainty increases, so does search time, care of evaluations, and resources allocated to the search process. Finally, the BDT model seems to describe what skilful decision-makers often try to do when grappling with complex decisions.

#### **3.8.2 STRATEGIC DECISION-MAKING**

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<sup>62</sup> Robbins and Coulter, 2005

By definition, decision-making is the process through which managers identify organizational problems and attempt to resolve them<sup>63</sup>. Crook, Ketchen, and Snow (2003) stated that the purpose of strategic management research is to help find ways to improve performance. Further, strategic decision-making is those that determine the overall direction of an enterprise and its ultimate viability in light of the predictable, unpredictable, and unknowable changes that may occur in its most important surrounding environments. They ultimately shape the true goals of the enterprise<sup>64</sup>.

Pearce and Robinson (1997) underlined the characteristics of strategic decision-making as corporate-level decisions (greater risk, cost, profit potential; the greater need for flexibility, and longer time horizons), functional-level decisions (implement the overall strategy formulated at the corporate and business levels), action-oriented operational issues; short range and low risk. Modest cost; dependent on available resources, and business level decisions (bridge decisions at the corporate and functional levels; which is less risky, costly, and potentially profitable than corporate-level decisions, but more risky, costly, and potentially profitable than functional level decisions).

Tatum and others (2003) stated that managers make day-to-day decisions, or resolve immediate problems. They also elaborated that managers have different decision styles due to the amount of information, number of alternatives, and attempt to integrate and coordinate multiple sources of input. Vroom (2003) in his study quoted Nutt (2002) on a study of 400 decisions that had been made by the manager in medium to large organizations in the USA, Canada and Europe. Surprisingly, half of the decisions failed, either never implemented or subsequently unravelled during the two-

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<sup>63</sup> Bartol & Martin, 1994

<sup>64</sup> Mintzberg & Quian, 1991

year observation period. Nutt (2002), stated that effective decision-making is not merely a matter of decision quality but also of ensuring that the decision will have the necessary support and commitment for its effective implementation<sup>65</sup>. Nevertheless, all strategic decision-making must go through the decision-making process for managers to come up with a good decision.

### **3.8.3 DECISION-MAKING PROCESS**

Decision-makers and managers need to allow themselves to be in the process of decision-making. This decision-making process will give the opportunity to decision makers and managers to come up with alternatives, evaluate each alternative, and select the best alternative or solution to the problem.

The Decision-making process comprises the steps the decision-maker has to arrive at his choice. The process a manager uses to make decisions has a significant impact on the quality of those decisions (Certo, 2003). Moreover, Provan (1989) stated that people who participate in the strategic decision-making process are at a high level in their organization, are competent, and are reasonably intelligent and articulate. The strategic decision-making process can be influenced by those major groups in the organization that are most powerful and a rational consideration of external environmental factors may have little direct impact on how strategies are formulated and implemented.

Basi (1988) stated that the type of decision is a function of the administrative level, and the style is a function of organizational culture. The administrative level is classified as the institutional or executive or upper level, organizational or managerial

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<sup>65</sup> Vroom, 2003

or middle level, and technical or lower level. Meanwhile, organizational culture is known as paternalistic, bureaucratic, and synergistic.

Meanwhile, Nutt (1976) indicated in his study on the decision-making models. He discussed 6 models of decision-making bureaucratic model, normative decision theory, behavioural decision theory, group decision-making, equilibrium-conflict resolution, and open system decision-making. Nutt (1976) also discussed the limits and ways to select the appropriate model for decision-making for an organization. As such organizations performed unique functions; the levels identified were technological or primary level, managerial level, and institutional level. Thus, factors which characterize the decision-making environment will stipulate the appropriate model that can be optimally used (Nutt, 1976).

### **3.9 ORGANIZATION PERFORMANCE**

The question is, what has the organizational performance to with management development? The performance of a company is one of the best indicators to determine the capabilities of a manager. The Performance of an organization is measured at the end of an accounting period. This is the point where the organization, especially the decision-makers and managers, will know whether the organization is making a profit or loss during that accounting period. Moreover, no organization is willing to accept the notion that they are in a bad shape and losing. Thus, an organization with the help of decision-makers and managers need to make a profit at the end of its accounting period. This profit will be reflected and distributed to their stakeholders. In the meantime, decision-makers and managers are accountable for the performance of the organization as they decide collectively.

Most studies indicated organizational performance indicators as the organization's financial indicators. Literature spelt out specifically profitability, return on investment (ROI), return on equity (ROE), growth of net assets, capital structure or leverage, and export sales<sup>66</sup>. Moreover, Burke and Steensma (1998) stated that financial indicators derived from archival sources could be used in measuring firm performance. Mahmood and Mann (1993) selected six measures representing the strategic and economic performance of a firm, namely return on investment, return on sales, growth in revenue, sales by total assets, sales by employee, and market-to-book value (in Lee and Bose, 2002).

Jurkiewicz and Giacalone (2004) stipulated that organizational culture will lead to firm performance. Thus, workplace spirituality such as benevolence, generativity, humanism, integrity, justice, mutuality, receptivity, respect, responsibility, and trust will give an impact on individual workers; and will lead to higher productivity and will improve firm performance.

Lloyd (1990), in Jurkiewicz and Giacalone, (2004) stated that organizations high in workplace spirituality outperform those without by 86%. Further, such organizations reportedly grow faster, increase efficiencies, and produce higher returns on investments. This can be triangulated by three areas as such, motivation, commitment, and adaptability<sup>67</sup>.

McNamara, Luce, and Tompson (2002) explored the relationship between the complexity of the cognitive strategic group knowledge structures constructed by TMTs and the performance of their firms. On the other hand, Kang and Sorensen (1999) studied ownership organization and firm performance. They discovered that

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<sup>66</sup> Tsekouras et al., 2002; Kotey, 2005; Kannan and Tan, 2003; Skaggs and Youndt, 2004

<sup>67</sup> Jurkiewicz and Giacalone, 2004

ownership organization by large-block shareholders and institutional investors affected firm performance.

Lee and Bose (2002) conducted an exploratory examination of the relationship between IT investment and a firm economic performance. They used accounting-based performance and market-based performance in measuring a firm's economic performance. Measurements employed to measure account-based performance are (1) return on assets (ROAA), (2) return on average equity (ROAE), and (3) return on average sales (ROAS). On the other hand, market-based performance will be based on Tobin's, market value and market rate of return.

### **3.10 STRATEGIC DECISION-MAKING PRACTICES**

This section will elaborate a bit on decision-making practices and will use a theoretical framework which will be based on the Behavioural Decision Theory (BDT) model. Managers' behaviour in strategic decision-making will be evaluated based on the factors of the external environment, department power, decision approach, leadership behaviour, organizational justice, and intuition. These factors will be the antecedents of organisational performance. Moreover, the catalyst for this relationship will be decision support systems, organizational structure, and strategic preference points.

#### **3.10.1 ENVIRONMENT FACTORS**

Environment or external factors influenced strategic decision-making, and subsequently affected the organization's performance. Managers made strategic decisions . . . based on the external factors that affect their decisions. As such, Porter (1979), in Pearce & Robinson 1997, in his famous Five Forces explained the environmental factors that affect managers' strategic decision-making.



Moreover, in Crook et al., (2003) stated that their strategic decision-making concept of the competitive edge model needs to evaluate industry analysis, competitor analysis, country analysis, stakeholder analysis, legal and regulatory analysis, and company analysis. Provan (1989) stated that the organization must deal with an environment that is determined by the strategic decisions of top management. Apart from that, Provan (1989) also listed external environmental factors that have an impact on decision-making such as Porter's "five forces," regulatory pressures, emergent technologies, and economic conditions.

### **3.10.2 INTERNAL FACTORS**

Provan (1989) stated that internal organizational factors are important in influencing the strategy formulation process but focus primarily on an objective, rational consideration of internal strengths and weaknesses. Company analysis needs to be considered in the process of strategic decision-making (Crook et al., 2003). Further, they stated that company analysis involves internal factors such as resources, capabilities, and performance. Meanwhile, Berman, Wicks, Kotha, and Jones (1999) stated that employee and product safety/quality can help improve a firm financial performance.

### **3.10.3 DECISION APPROACH**

The decision-making style of managers can be classified based on their approach toward the problem that they tried to be solved. Barton and Martin (1994) stated that various models of decision style are being adopted such as the rational model, nonrational model, satisficing model, incremental model, and garbage-can model. These models are based on the individual manager's perspective toward decision-making. First, the rational model suggested that managers engage in

completely rational decision processes, ultimately make an optimal decision, and possess and understand all information relevant to their decisions at the time they make them. Second, the nonrational model suggested that information-gathering and processing limitations make it difficult for managers to make optimal decisions. Third, the satisficing model suggested that managers seek alternatives only until they find one that looks satisfactory, rather than seeking the optimal decision. Fourth, the incremental model stated that managers make the smallest response possible that will reduce the problem to at least a tolerable level. Finally, the garbage-can model stated that managers behave in virtually a random pattern in making non-program decisions. Basi (1988) identified that decision style is influenced by organizational culture; which will lead to decision-making.

#### **3.10.4 LEADERSHIP BEHAVIOUR**

A famous study on leader behaviour by Blake and Mouton (1985), in Barton & Martin, 1994, of Managerial Grid classified that leaders were grouped based on their degree of concern for people and production (i.e. work). The study identified manager's leadership behaviour as:

1. Impoverish management – exertion of minimum effort to get required work done is appropriate to sustain organization membership,
2. Country club management – thoughtful attention to the needs of people for satisfying relationships leads to a comfortable friendly organisational atmosphere and work tempo,
3. Authority-obedience – efficiency in operations results from arranging conditions of work in such a way that human elements interfere to a minimum degree,

4. Organization man management – adequate organization performance is possible by balancing the necessity to get out work with maintaining the morale of people at a satisfactory level, and
5. Team management – work accomplishment is from committed people; interdependence through a common stake in the organization's purpose leads to relationships of trust and respect.

Meanwhile, Burke and Steensma (1998) indicated that executive career experiences had a relationship with firm performance. Further, their career experiences will affect their leadership behaviour. This happened as an executive tenure will determine the way he or she will think and be further involved in strategic decision-making.

On the other hand, Winter-Ebmer and Zweimuller (1999) in their study discovered that firm's pay structure is an important determinant of firm performance. They also stated that wage dispersion or compression may become an important decision variable for a firm once employees engage in social comparison. Thus, this wage dispersion factor may affect the manager's behaviour; and later will affect the firm performance.

Smith (2003) indicated that differences in decision-makers' cognitive styles, cognitive abilities and personalities are important factors in decision-making and performance. Further, the Myers-Briggs type indicator (MBTI)<sup>68</sup> is used to determine cognitive styles along two basic dimensions, perception (information acquisition), and judgment (data processing and evaluation). MBTI categorizes individuals as sensors or intuitions in the perception dimension, and MBTI classifies individuals as thinking or feeling types in the judgment dimension.

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<sup>68</sup> Myers and McCaulley, 1985 in So and Smith, 2003

Rausch (2003) indicated that managers' leadership roles need to consider eight suggested questions as they develop a plan, solve a problem, meet a challenge, or seek to exploit an opportunity. The questions to be considered are goals (outcome), communications, participation, competence, satisfaction, cooperation, norms, and reviews.

Nicholls (1994) stated that strategic leadership stat is a powerful, visual and conceptual guide to strategic behaviour. It focuses the organization on the delivery of value to the customer and highlights the key areas where effort must be continuously directed. Thus, the management of an organization would simultaneously be performing their strategic leadership role and ensuring competitive success.

### **3.10.5 ORGANIZATIONAL JUSTICE**

Organizational justice in the organization has been researched extensively indicating that organizational justice is the just and ethical treatment of individuals within an organization, and is intimately tied to leadership and decision process<sup>69</sup>. Thus, leaders in an organization are expected to create organizational systems that members perceived as fair, caring, and open.<sup>70</sup>

Greenberg (1993) categorized organizational justice as structural and social justice; where structural justice refers to the structural elements of the organization that allow employees involved in decision-making and provide for the fair distribution of incomes. Meanwhile, social justice refers to the employee's perceptions that the organization openly shares information with them and cares about their well-being<sup>71</sup>.

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<sup>69</sup> Cropanzano, 1993; Greenberg, 1993; Colquitt, 2001; Colquitt et al., 2001; and Tatum et al., 2003). Further, Tatum et al. (2003, in Cropanzano, 1993

<sup>70</sup> Tatum et al., 2003

<sup>71</sup> Greenberg, 1993

### **3.10.6 INTUITION.**

An intuitive way of decision-making has been realized by various researchers in the decision-making process. They realized that various decision-makings were made based on managerial intuitions. Managers are still using their parapsychology of intuition in deciding, although they were provided with ample information. An article by Emerald Group Publishing Limited (EGPL, 2005) stated that good judgment based on knowledge, and decision-making based on what is known, is a talent which people charged with running organizations have in common and in which they all participate with widely varying levels of success.

Behling and Eckel (1991) in their research indicated that executives should rely more on intuition and less on systematic analysis long considered to be good management practice. They indicated four tenable conceptualizations suggest optimistic conclusions in two of three aspects of decision-making. The conceptualizations are personality traits, unconscious processes, set of behaviours, and distilled experiences which will lead to intuition. Personality traits, set of actions, and distilled experience maintain that intuitive decision-making requires a relatively small amount of information. The unconscious process category suggests otherwise, implying that analytical and intuitive decision-making are parallel processes using roughly the same amount of information.

Further, Basi (1998) purported that significant decisions are likely to be intuitive at the executive level. Meanwhile, Majchrzak and Gasser (2000) stated that senior managers made difficult strategic decisions that affect their entire organization; thus, they often must rely on management experience and intuition.

Robbins and Coulter (2005) stated that managers make decisions based on intuition. They will be deciding based on experience, feelings, and accumulated judgment.

### **3.10.7 DECISION SUPPORT SYSTEMS**

Smith (2003) stated that a major component of any information system is the individuals that supply, manipulate, access and rely on the system. Individuals' information needs and requirements for decision-making are the reasons information systems exist.

Bounds, Dobbins, & Fowler (1995) defined decision support systems (DSS) as information systems that use decision rules, decision models, a comprehensive database, and the decision maker's insights in an interactive computer-based process to assist in making specific decisions.

Pourvakhshouri and Mansor (2003) stated DSS is a well-established area of information system applications, which assists decision-makers to derive an in-time, efficient solution. A DSS may also be defined as an integrated, interactive and flexible computer system that supports all phases of decision-making with a user-friendly interface, data and expert knowledge (Fabbri, 1998 in Pourvakhshouri & Mansor, 2003).

Ulvila and Brown (1991) stated that decision tree analysis is the oldest and most widely used form of decision analysis. Managers have used it in making business decisions. On the other hand, Heenan and Addleman (1991) proposed that managers use multivariate analysis (MVA), the quantitative method can help to evaluate the complex and intangible factors that influence consumers. Moreover, MVA had been

used for application to business problems in the consumer-packaged goods and services sector.

### **3.10.8 ORGANIZATIONAL STRUCTURE**

By definition, the organizational structure is referred to as the specific working relationship among people and their jobs to efficiently and effectively achieve that purpose. Further, the structure is important as it helps people to understand their position and role in the organization's processes, whom they work with, and who works with them, to do the company's work (Bounds, Dobbins, & Fowler, 1995).

Based on Kang and Sorensen (1999), stated that ownership organization is an important variable from the perspective of sociology and organisation. The ownership organization will have an impact on the firm performance as the managers go through strategic decision-making.

Burt, Gabbay, Holt, and Moran (1994) studied corporate culture and firm performance. They viewed culture as a control mechanism. To do this, a firm needs to have a strong corporate culture that can clarify a firm's goals and practices. They discovered that economic performance can be enhanced by a strong corporate culture, economic success results in a strong corporate culture, culture and performance are determined by each other, and the correlation between performance and culture strength is spurious.

Montanari (1978) stated that organization size, technology, or environment was proposed as the single most important determinant of organization structure. Meanwhile, Michailova and Husted (2004) conducted a study on Russian organizations. They discovered that Russian organizations practice highly centralized decision-making.

### **3.10.9 STRATEGIC REFERENCE POINTS**

Bamberger and Fiegenbaum (1996) studied strategic reference points (SRP) or benchmarks to guide strategic decision-making about human resource (HR) issues, and how these benchmarks can affect the performance-based consequences of such decisions. They discovered that in the context of SRP theory, benchmarking in the HR system may thus be seen as much more than a new managerial tool. Further, managers at the organizational level are continuously comparing themselves against specific internal, external, and time-based targets (Bamberger and Feigenbaum, 1996).

Moreover, Fiegenbaum et al., (1996) stated that the configuration of selected benchmarks or reference points will have important implications for both strategic choice behaviour and firm performance.



## CHAPTER 4

### 4.0 THE MEANING, APPLICABILITY AND IMPORTANCE OF DEVELOPMENT

This chapter aims to explore the meaning of management development and the assumptions upon which it is based. This analysis is intended to put subsequent chapters on the background to, and practice of, management development in Malaysia into the context of general theory and thought on the subject.

Start the chapter, I consider it appropriate to define some of the terms that will be used throughout this study. In the first instance, the term “management” refers to the activities of Senior executives, Middle management, entrepreneurship and business administration which include general decision-making, strategic decision-making, planning and last but not least behaviours and attitude. The 'manager' carries out these sets of tasks.

There is sometimes a misunderstanding between the word's management and manager. Vineet Nayar defines it as “Management consists of controlling a group or a set of entities to accomplish a goal. Leadership refers to an individual's ability to influence, motivate, and enable others to contribute toward organizational success. Influence and inspiration separate leaders from managers, not power and control”<sup>72</sup>.

The study covers the level of the executive as well as mid-level management. With the diverse activities of a manager, the study will also touch on the items that make and define a manager, such as forecasting, planning, organizing, coordinating and controlling administration. The study will also demonstrate the risk as well as other essential activities of management. In later stages, we will look into the decision-making process aimed at the optimum utilization of available resources and strategic

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<sup>72</sup> Harvard Business review, Vineet Nayar is the founder of the Sampark Foundation based in Delhi, and the former CEO of HCL Technologies. He is the author of Employees First, Customers Second.

management decisions. The 'manager' in this case carries out both these sets of tasks. In a very large organization, it may be primarily those of business administration, whereas in a smaller organization the innovative role would be a very important part of his activities. The larger the organization the more likely the manager is to specialize in very few functions, whereas in a very small organization and in developing States, such as in Sarawak there may be only one manager who performs all these functions.

Management development then refers to the totality of various processes that go into developing a person's capacity as a manager and providing the managerial needs of the firm both now and in the future. It is the process whereby an individual with good background education and ability is developed into a successful manager. It aims to maximize his potential as a manager and to enable him to realize that potential to the fullest. Therefore, it is concerned with all levels of management from the most junior to the most senior. It subsumes 'management education which involves the study of the theoretical concepts behind the various subjects that make up the field of management economics industrial relations, organizational behaviour, and so on; and management training' which is the practical, job-related part of developing managers.

Management education is characteristically provided by institutions of higher education universities, business schools and polytechnics; management training may occur on the job, at in-company training courses or external training centres. Management development implies an approach to the development of managerial staff based on the belief that good managers can be developed and must be developed to meet the growing needs of the organization. It is an approach that is believed to respond part early to the needs of large dynamic organizations but has

appeared to be a logical application to companies no matter what their size, industry or geographic location. It reflects a scientific approach to management that characterizes much of recent thinking. As Drucker puts it “the manager can improve his performance in all areas of management including the managing of a business, through the systematic study of principles, the acquisition of organized knowledge and the systematic analysis of his performance in all areas of his work and job and on all levels of management<sup>73</sup>.

The use of sophisticated technology in mass production has emphasized the need for an analytical approach: Mass production requires management trained in analytical thinking, scheduling and planning. New style mass production as well as process production requires management trained in seeing a business as a whole in conceptual synthesis and decision-making. Since this analytical approach is related to a technology that has been suggested is universal, it is argued that the need for such an approach is universal: Technology - like the language of mathematics — is universal. By obeying laws of reason and science, men of varying cultural and ideological positions presumably can agree on the best machine design or most desirable production system.

For the most part, this technology is Western. The hardware of Europe is spreading over the globe so that the machine tended by the worker may be more modern but is not fundamentally different from that of the Indian worker where industrialization is just taking place. Demands for attention, response and care exerted by the machines and their human operators are essentially identical. Given that most modern technological developments originated in the West, and it is this that has

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<sup>73</sup> P.E. Drucker, *The Practice of Management*. p. 21.

engendered the current emphasis on an analytical approach to management, this concept has tended to be influenced by Western cultural assumptions. Nonetheless, there is considerable support for the universal applicability of this approach.

Evaluating the European way and influence, it is very obvious that developing countries like Malaysia are lacking skill and development. The development attitude in Malaysia by business owners and companies is the concept of “self-development, and “work your way up” this strategy is very much linked to the so-called “cost saving” and “I know best” attitude. This argument is also based on two main planks. The first is that western management thought that practice is too advanced and not relevant it is also perceived as costly. In reality, due to the high level of specialization, it can therefore provide a model for other countries which will assist them to manage their businesses more effectively and so attain faster growth.

The spread of technology around the world, it is suggested, demands a specific approach by those who use it. This is fundamental that developing countries adopt some of the western management development practices and technologies. Technology in this case may be said to refer not just to industrial hardware but to the systems of modern management, commerce and industry as well. Because of the educational and attitudinal requirements of modern industry, people around the world are gradually casting aside traditional ways and are acquiring an increasingly similar set of values and attitudes. This is termed the convergence theory<sup>74</sup>. One of the major instruments of convergence is the multinational company which carries a philosophy and practice of management developed in the West throughout the developing world.

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<sup>74</sup> R. A. Webber, "Convergence or Divergence?" Culture and Management. T. D. Weinshall, ed. p. 41.

Within the business community in which they operate. Brooke and Remmers write: "National differences as such are becoming less significant. It is the fact of international operations that is important rather than particular local differences. Many fast-developing countries are now following the Western model of development, particularly through industrialization, importing Western technology, expertise and management". If one takes Malaysia, not only are there several European companies dating from colonial times but the Government has made a very clear choice of industrial development along Western lines and of attracting foreign investment to do this.

However, whether convergence is taking place or not, at present there is a great deal of divergence between the business environment in a developing country and that in a Western country, a divergence that is immediately evident to the observer. Based on their research Winston Oberg states: "My own experience in international management leads me to believe that cultural differences from one country to another are more significant than many writers now appear to recognize. For example, the skills that lead to managerial success in the U.S. may not be the skills that lead to managerial success in Asia or Brazil"<sup>75</sup>.

Gonzalez and McMillan have come to a similar conclusion; they write, "this unique American (management) philosophy is a special case, limited in applicability to economies and cultures comparable to that of the United States." Not only are present cultural differences real and significant but Oberg's research sheds doubt on the validity of the convergence theory itself. If the skills required for successful

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<sup>75</sup> Winston Oberg, "Cross-Cultural Perspectives on Management Principles, *Journal of the Academy of Management*, IV, 2, (June 1963), pp. 129-30.

management in a developing country are different from those in the West, this suggests that cultural and contextual differences play a more important role in determining the type of management required than technology. Management consists of both the management of work and the management of people; while the former may revolve around a technology which may be said to be neutral, the latter is complex and culture-bound.

The key importance of this human element in economic development has been given increasing recognition<sup>76</sup>. At the same time, Frederick Harbison states: . . . human resources, not capital, nor income, nor material resources constitute the ultimate basis for the wealth of nations. Capital and natural resources are passive factors of production, human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations, and carry forward national development. A country which is unable to develop the skills and knowledge of its people and to utilize them effectively in the national economy will be unable to develop anything else<sup>77</sup>. Walter Elkan expresses a similar view when he refers to human capital "as this is the most important part of a country's capital stock"<sup>78</sup>.

However, human capital alone is not enough; it is the quality of human capital that is the most relevant factor, that is, in this case, its suitability to the requirements of a modern economy. Education is the principal way of improving the quality of human capital and the relationship between economic growth and education in general, has frequently been explored. Harbison and Myers concluded that "there is a high

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<sup>76</sup> Michael Z. Brooke and H.L. Remmers, *The Strategy of the Multinational Enterprise*. p. 292.

<sup>77</sup> Richard F. Gonzalez and Claude McMillan, Jr., "The Universality of American Management Philosophy, *Journal of the Academy of Management*, (April 1961), p. 33.

<sup>78</sup> W. Elkan, *An Introduction to Development Economics*. p. 21. see F.H. Harbison and C.A. Myers, *Education, Manpower and Economic Growth*. pp. 13-14.

correlation and presumably some capital relation between enrolments in education (and hence investment in education) and a country's level of economic development as expressed by GNP per capita.<sup>79</sup> They found that the relationship between education and economic growth appeared to be one of the investments in education that certainly contribute to economic growth, but it is also obvious that economic growth makes it possible for nations to invest in educational development. Education, therefore, is both the seed and the flower of economic development<sup>80</sup>. The same relationship appears to apply with management to development: it costs time and money, and therefore a firm must be doing well to implement it, yet it is also a factor contributing to a firm's continuing growth and success. Nonetheless, in the context of a developing country striving to modernize and industrialize, the development of dynamic management is a necessity. Throughout most of the developing world, there is a shortage of managers equipped to handle the new forms of commerce and industry that are springing up. Some means of developing new managers are thus essential

What then are the elements involved in management development? There is the end product, the competent manager, although since it is a continual process, it would perhaps be better to identify the end product as the maximization of the managerial potential of the individual. Then there is the organization within which he works and which defines the particular combination of skills he will require. Third, there is the environment in which that organization functions - its constraints, demands, and opportunities. Fourth, there is the individual, the man or woman who is going to be developed as a manager, the person with all his potentialities, his attitudes and values.

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<sup>79</sup> F.H. Harbison and C.A. Myers, *Education, Manpower and Economic Growth*. p. 185.

<sup>80</sup> F.H. Harbison, and C.A. Myers, *Manpower and Education*. pp.-xi.

And finally, there is the actual process of management development itself, the process whereby the recruit is developed into the appetent manager.

#### **4.1 THE MANAGER**

The skills required of a manager can be categorized into three main groups, entrepreneurial skills, administrative skills, and technical skills. Entrepreneurial skills involve innovation and risk-taking, 'It is the carrying out of new combinations that constitute the entrepreneur.'<sup>81</sup> Elaborating a little, Schumpeter brings in such characteristics as initiative, authority and foresight. On the other hand, Schumpeter entirely rejects risk-taking as part of the entrepreneurial function. This is because he defines risk-taking narrowly as the taking of financial risk, and it is the role of the capitalist to take those risks<sup>82</sup>. However, it is now common to give a wider definition to risk-taking and to attribute to the entrepreneur the taking of risks on behalf of his shareholders. Entrepreneurial skills form the dynamic, thrusting, innovative end of a manager's activities. They are not demanded equally of all managers, indeed in very large corporations, it is often administrative and technical skills that are the most crucial.

Likewise, they are required more in certain functions than in others: more in sales and marketing for instance, than in, say, accounting or the technical side of a company's activities. The administrative skills required of a manager are related to the day-to-day running of the company's activities. They may involve the planning, organizing, coordinating and controlling of activities - the operation of the system of management, and the consequent management of the people involved. McClelland

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<sup>81</sup> Joseph A. Schumpeter, *The Theory of Economic Development*. p. 75.

<sup>82</sup> It may be that the entrepreneur is at the same time the capitalist but these are two separate roles and it is as capitalist alone that he takes risks.



has found no experimental evidence that a person with entrepreneurial skills has superior administrative skills<sup>83</sup>. They appear to be completely separate. Finally, there are the technical skills required of a manager and here technology is being used in a very broad sense. These vary tremendously according to industry and function and change over time as the field changes.

## **4.2 THE ORGANIZATION**

The type of organization and the part of that organization into which a manager fits will determine the skills he is required to use. It will also determine the degree to which his potential can be realized, and the feasibility of certain types of management training. Some of the factors that may influence a firm's management requirements and its approach to management development are the level of technology, the level of capital intensity, the industry, its size, the growth rate, whether it is a new or old company, whether it is a local company or a multinational, whether family-owned or a public company and the management philosophy or climate.

A number of these factors are closely interconnected, the level of technology, for instance, with capital intensiveness. In a high-technology industry where there is constant updating as the technology becomes more sophisticated a high degree of training is demanded of its managers. Such a level of technology also affects the design of the organization and the management climate. Likewise, a labour-intensive industry will have a completely different structure and the skills required will emphasize the management of labour rather than of sophisticated machinery. There are obvious differences in the managerial requirements of different industries. Managers in sales

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<sup>83</sup> D.C. McClelland, *The Achieving Society*. p. 238

and marketing have been shown to have the highest achievement motivation, therefore one might conclude that this is a requirement for managers in this sector<sup>84</sup>.

The size of a firm will influence the range of skills any single manager is required to have and the degree of responsibility - the trend is toward increasing specialization in the larger firms and decentralization of managerial decision-making. It will also influence the feasibility of different types of training. The age and rate of growth of a company will also have a powerful influence on its management climate and the opportunities for the growth and development of its managers. The subsidiary of a multinational company in a developing country not only brings with it the management philosophy and style of its parent company, and has the resources of its parent in terms of technical and management knowledge and training, but tends to operate according to a system laid down by and controlled by its parent. Brooke and Remmers found in the case of multinational companies, that a decentralizing ideology masks centralizing reality<sup>85</sup>. The factors which create this situation include an increasing integration of multinational operations, an increasing speed of technological change, and the rapid development of global techniques, strategies and information collection.<sup>86</sup>

It may be argued, as Negandhi does that the parent companies are in touch with the best possible management practices and that by imparting them to their subsidiaries they ensure their maximum effectiveness. In his research he found that of 126 industrial firms in seven countries, 70 per cent of the U.S. subsidiaries, as compared to 33% of local firms were undertaking comprehensive planning and that,

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<sup>84</sup> D.C. McClelland, *op. cit.*, p. 267.

<sup>85</sup> M.Z. Brooke and H. L. Remmers, *op. cit.*, p. 285.

<sup>86</sup> A.R. Negandhi, *op. cit.*, p. 786 and p. 790.

"a greater number of U.S. subsidiaries have paid considerable attention to the selection, promotion, training and development aspect of their employees". In comparing American and local companies in Mexico Toyne found that the company had a strong influence on managers' attitudes which varied about such things as leadership, the sharing of information and participation according to whether they were employed by a Mexican company or a subsidiary of an American company operating in Mexico<sup>87</sup>. Toyne concluded that "management beliefs and needs are potentially transferable, and MNCs can act as transfer agents. However, the ' 'success" of this transfer process is dependent on a certain industry and company characteristics, and here he cites capital intensity, research and development intensity, marketing intensity and company size measured in annual sales<sup>88</sup>.

Locally owned companies reflect the culture in which they function and, in many cases, a specific subculture. This is particularly true in the Malaysian context where there has been a tendency for particular clans or dialect groups to specialize in a particular trade or industry. In this case, the style and manner of management tend to be entertained by the subculture of the group. Within the locally-owned group, there is also a marked difference between the private and public companies. Private companies tend to be family-owned and run along patrimonial lines. Harbison and Myers describe patrimonial management as, business management in which ownership, major policy-making decisions, and a significant proportion of other jobs in the hierarchy are held by members of an extended family. The effective decision-making authority is centred on the family, and the goals of the enterprise are oriented

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<sup>87</sup> Brian Toyne, "Host Country Managers of Multinational Firms: An Evaluation of Variables Affecting their Managerial Thinking Patterns, *Journal of International Business Studies*, 1, (1976), pp. 39-55.

<sup>88</sup> B. Toyne, op. cit., pp. 42-43.

towards the interests and aspirations of the family<sup>89</sup>. They go on to say, "Patrimonial management may be especially effective in the early stages of industrial development . . . If the key members of the family dynasty are competent, well-educated and clan head, patrimonial management may be quite dynamic".

Not only does such a system put a great deal of responsibility in the hands of a very few, and therefore the quality of their management skills is vital, but the natural constraints of such a system are such that is only really well suited to "small and relatively simple organizations such as retail and wholesale trade, craft industries, and small or medium-sized industrial plants", the company reaches a point where a change in the management structure is essential. One thinks of Henry Ford who tried to run the giant Ford Motor Company in a centralized paternal way and in so doing, brought it to the brink of collapse<sup>90</sup>. By going public a company accepts a change from this family-based pattern to professional management by technically qualified managers and a division of responsibilities. This is a very major step that enables the company to expand past the constraints imposed by family management. It affects the pattern of decision-making which tends to move from the extreme centralization of patrimonial management towards a decentralized pattern. It also brings with it a need for more specialized and sophisticated training and development of managers.

### **4.3 THE ENVIRONMENT**

The economic, political, social and cultural milieu in which a company operates is bound to impinge on the management of the company. The overall health of the economy and the company's position concerning that will determine whether corporate

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<sup>89</sup> F.H. Harbison and C.A. Myers, "Management as a Class, t ' Culture and Management. T. D. Weinshall, ed. p. 216.

<sup>90</sup> Drucker, op. cit., PP• 141-144.

belts are being tightened and items like management training, which are too often considered 'non-essential' are left to fall by the wayside or whether the company is booming and a great deal of effort is being put into the recruitment and development of management staff. The level of competition will affect profit margins, the degree of efficiency demanded, and again the attitude towards training.

The influence of political factors is particularly important to companies in developing countries. The most basic prerequisite is political stability. The tensions of political life can disrupt commercial activity and may be felt within the company, influencing the way individuals react to each other, and so the smooth running of the organization. Third World governments are becoming increasingly involved in the economy, and the threat of nationalization, and or antagonistic government attitudes towards private industry influence company attitudes. Whereas in colonial times foreign firms tended to bring the bulk of their management cadre from the metropolitan country and considered the manager's s basic education, and culture sufficient qualification for management, today there is usually tight control of expatriate appointments and frequently governments place conditions on foreign companies related, amongst other things, to the training and development of local managers and rapid localization of managerial posts. This means that there is a political and commercial necessity for companies to concern themselves with management development. Companies will be expected to conform to the government's development priorities concerning such things as job creation, regional distribution and the reservation of particular industries to nationals.

The financial, legal and physical infrastructure of a country is an important constraint on the commercial activity as are social factors and the general level of

education, the local employment situation, the existence of well-qualified management recruits, and local attitudes towards business. Companies require people with a good basic education who can be trained for management, "trainable people"<sup>91</sup>, as Harbison puts it, therefore the extent, quality and orientation of the national educational system are important. It is also important that it be in harmony with the needs of the economy so that it produces the technicians, engineers, and chemist's industry needs and not an overabundance of, say, art graduates who cannot readily be absorbed into the economy.

The existence of an indigenous entrepreneurial group is significant in that it is often from this group that the new industrialists come<sup>92</sup>. Migrant groups who in many cases form a dynamic entrepreneurial class may be present in the population and can perform a very valuable function in the development of the economy. However, in some cases, there are tensions between these groups and the indigenous population which may make it difficult for their skills and aptitudes to be put to best use. Where there is no indigenous entrepreneurial talent a company is faced with a very difficult task in developing managers, indeed it may be advised to consider restructuring the company to maximize the effect of the limited managerial skills that are available. Another factor to contend with in developing countries is that managerial skills are usually in such short supply that it becomes a sellers' market. This puts both the price and the job aspirations of the seller up to such an extent that it may be impossible to employ him at a level where he can be most useful.

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<sup>91</sup> F. H. Harbison, *op. cit.*, p. 84.

<sup>92</sup> See for example the writing of Gustav Papanak on Pakistan, e.g. G.F. Papanak, "The Development of Entrepreneurship *American Economic Review*, vol. 52, no. 2 (1962), pp. 46—58.

The response of the indigenous culture to a modern economy and the compatibility of traditional values with modern commercial values will affect the attitudes and values of managerial recruits. Where these are completely at odds with those of the company some means of coming to terms with the situation, of adapting to the company the culture, needs to be found. Linguistic requirements may be significant in developing countries, many of which are multilingual, and the language in which business is conducted places constraints on recruitment. In assessing the influence of local conditions on management development one must not forget the existence of local training facilities.

These may range from a Business School to a Productivity Centre to the training program of private consultancy firms. Where there is this sort of institutional support it can play an important role in selling the idea of management development, not to mention providing needed training opportunities. This has not by any means been a comprehensive list of the local factors which influence the management and so management development activities of a company but gives some indication of the importance and complexity of the context in which companies operate and some of the ways it may impinge upon them.

#### **4.4 THE INDIVIDUAL**

Argyris believed that managers who treat people positively and as responsible adults will achieve productivity. Mature workers want additional responsibilities, a variety of tasks, and the ability to participate in decisions. Argyris also claims that all organizations originate with the attempt to fuse two basic components, the individual and the formal organization, that is, they seek to align the needs and goals of the individual with those of the company so that in performing his functions as manager

he not only fulfils himself as an individual but also the aims of the company<sup>93</sup>. The company can only begin to do so if it knows what the needs, goals and abilities of the individual concerned are. Because of this close relationship between the individual and the role of manager it may well be that in Western companies' parts of the role have been built around the characteristic entrepreneurial or managerial personality to be found in the West. One might say the role has been defined by a specific personality type. This not only creates problems when it comes to fitting a non-Western personality into the role but makes it difficult to identify fully the pure requirements of the role.

#### **4.5 EDUCATION AND TRAINING**

The level of the individual's educational attainment is important in management. Hubert, referring to European industry, stated <sup>94</sup> "A reasonably high and generalized standard of basic education would appear a prerequisite for the success of management education"<sup>95</sup>. Toyne found that one product of education is that it "probably enhances the transferability of Western-oriented beliefs about leadership and the management techniques employed," however, it may result in relatively greater need dissatisfaction<sup>96</sup>. This is to be explained by the fact that education is a form of acculturation, and higher education, in particular, tends to be oriented towards the West. However, acculturating students to the West, may separate them from their own culture and hence their dissatisfaction. From the point of view of Western firms operating in developing countries, this very acculturation makes the university

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<sup>93</sup> C. Argyris, *Personality and Organization*, p. 20.

<sup>94</sup> A. C. Hubert, "Small and Medium-sized Enterprises and Management Training — the European Experience, Promotion of Small and Medium-sized Firms in Developing Countries Through Collective Actions. OECD. p. 82.

<sup>95</sup> For instance, Dunning attributes part of the success of U.S. subsidiaries in Britain over their British competitors to the better formal qualifications of the executives. J. H. Dunning, "U.S. Subsidiaries in Britain and their U.K. competitors, *Business Ratios*, I (1966), pp. 16-18.

<sup>96</sup> B. Toyne, *op. cit.*, p. 50.



graduate better suited to its approach to management, or, put another way, minimizes the company's need to adapt to the local culture.

However, it is not always university-type training that is required. Douglas McGregor claims, there is not much evidence that high academic achievement represents a necessary characteristic of industrial leadership. There may be a positive correlation, but it is not large enough to provide a basis for a recruitment policy<sup>97</sup>. It is the practical problem-solving orientation that is of the most important to the industry. Hanna Papanek's work in Pakistan shows that formal education under the British proved to be a critical factor for entry into the new occupations in the professions, government service and the more modern sectors of commerce and industry, that is, for professionals, administrators and managers; but not for entrepreneurs. In a group of twenty-five very large firms surveyed slightly over half of the current heads of firms said they had between zero and ten years of schooling While nearly 90 per cent of their fathers were in this category. The vital skills for these early entrepreneurs were literacy, some arithmetic and a little English. For most companies with professional management sound, basic education is now an essential prerequisite. Ideally, this education should emphasize problem—solving, linguistic and quantitative skills, and, for much of management, technical skills.

#### **4.6 PERSONALITY AND ENTERPRISE**

The personality, the psychological make-up of the individual, is a crucial factor in management and is the most culture-bound. David McClelland and his colleagues have done a great deal of interesting work exploring the dimensions of entrepreneurial personality.<sup>98</sup> The vital element in this he has identified as a need for achievement

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<sup>97</sup> D. McGregor, *The Human Side of Enterprise*. p. 186.

<sup>98</sup> D. McGregor, *The Human Side of Enterprise*. p. 186.

and this has appeared to remain constant over a wide range of cultures<sup>99</sup>. He worked out ways of measuring this need in literature and folk tales and found it to be closely associated with a more rapid rate of economic growth both in free enterprise and in Communist countries as well as in societies just beginning to contact the modern technological society.

#### **4.7 ENTREPRENEURSHIP, PARTIAL MODERNIZATION, ECONOMIC**

Bradburn and Berlew, testing McClelland's, concluded that, "there, a high correspondence of an achievement level and success in entrepreneurial-type activities, but no relationship between achievement and success in bureaucratic jobs".<sup>100</sup> McClelland differentiates between the ambitious individual who is high in need for achievement and makes a natural entrepreneur, and the efficient, conscientious, forward-looking individual who makes a natural administrator, (he uses the term 'manager', but that gives a rather narrow definition of the role of manager.).<sup>101</sup> Exploring the need for achievement further, McClelland found it was strongly related to three characteristics:- "the desire for personal responsibility, the tendency to set moderate achievement goals, and the need for concrete feedback of results". The entrepreneurial type he found characteristically self-confident and optimistic, though not in a hopelessly unrealistic way. However, not all people with a high need for achievement go into entrepreneurial careers, rather they prefer high-prestige careers and opt for the highest-level career within their reach. Since in many countries business is not particularly highly regarded, this is not opted for by upper-class youths.

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<sup>99</sup> H. Papanek, "Pakistan's Big Businessmen: Muslim Separatism,

<sup>100</sup> Development and Cultural Change, XXI, 1 (1972), p. 3-4.

<sup>101</sup> N.M. Bradburn and D. E. Berlew, "Need for Achievement and English Industrial Growth, Economic Development and Cultural Change, 10, 1 (October 1961), p. 9.

On the other hand, the business provides the greatest social mobility of any occupation, and therefore, is highly attractive to low and middle-status groups<sup>102</sup>. Frequently entrepreneurs come from groups marginal to, and disadvantaged by, the mainstream of society. They may be immigrants, and/or from a particular religious or ethnic group. The result is tension between the group and the rest of society and social cohesion within the group. As a result of their marginality, many opportunities within society are closed to them; business is one of the few options that are accessible. Another aspect of marginality is that it frees them from some of the constraints of tradition and they are thus far more receptive to change, more willing to take risks and more willing to move to where opportunities lie. Not only is the entrepreneur not confined by tradition but, according to Schumpeter, . . . his characteristic task - theoretically as well as historically - consists precisely in breaking up old, and creating new, tradition. Although this applies primarily to his economic activity, it also extends to the real, cultural, and social consequences of it.

Innovation requires deviation from given social norms. This was particularly noteworthy in the financial field since the Muslim religion considers a preoccupation with material things and the practice of 'usury' to be wrong. In the case of immigrant groups, these attitudes may be combined with particular skills in business, which may not be possessed, or possessed to the same degree by the local population.<sup>103</sup> Such groups cope with their marginality through social cohesion within the entrepreneurial group, reinforced by sanctions applied to those who violate the community's code of behaviour. This provides them with a network of business contacts. It establishes an individual's creditworthiness when he wants to borrow and provides employment when

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<sup>102</sup> D.C. McClelland, *op. cit.*, p. 105 and p. 202. D.C. McClelland, *op. cit.*, p. 227.

<sup>103</sup> J. A. Schumpeter, *op. cit.*, p. 92.

he seeks a job.<sup>104</sup> All social contacts go on within the group. His loyalty and commitment are thus assured and the bonds of the community are constantly reinforced. Generally, such groups extend trust only to friends and relatives and not to strangers from outside the group of whom they may be intensely suspicious. They are thus largely self-contained and self-sufficient.

Entrepreneurial groups tend to be characterized by frugality, and hard work. Where they come from poor countries they are used to a low standard of living and so have lived very frugally, managing to put something aside no matter how small their earnings gradually building up capital and reinvesting their savings<sup>105</sup>. Bauer and Yamey mention another reason why immigrants have the propensity to save, "because they tend to value the security provided by the possession of capital"<sup>106</sup>. They also suggest that one reason why immigrant groups such as the Chinese have succeeded so well abroad while the same has not been the case at home is that "the most enterprising and ambitious section of the population tend to, emigrate.

Gustav Papanek, studying the transition of traders into the industry in Pakistan, found that it was men with "foresight, ability and ruthlessness" who were able to overcome the obstacles and make the transition. The new industrialists in a developing economy tend to come largely from the old entrepreneurial groups<sup>107</sup>. That is factors these attitudes are often manifested by Chinese Malaysians and the main reason why the Chinese are reluctant to bring Malays into their business. Berna found that, in South India, "Men of trading background constitute the largest single occupational

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<sup>104</sup> See for instance G. F. Papanek's description of Pakistani entrepreneurs in Pakistan's Development, Social Goals and Private Incentives. p. 44. The Chinese in Malaysia also form a socially and commercial cohesive entrepreneurial group.

<sup>105</sup> The Chinese in Malaysia are a good example of this.

<sup>106</sup> P. T. Bauer and B. S. Yamey, The Economics of Under-Developed Countries. p. 109.

<sup>107</sup> G. F. Papanek, "The Development of Entrepreneurship, American Economic Review, 52, 2 (1962), p. 54.

group" establishing medium-scale manufacturing enterprises in the light engineering industries; Papanek note that, in Pakistan, "if firms owned by such as experience in a business setting, knowledge about entrepreneurship, supportive social attitudes towards it, and availability of capital are likely to be important".

Indeed, Berna found such access to capital, possession of business experience, and technical knowledge" to be the single most important factors in the emergence of industrial entrepreneurs in modern India.<sup>108</sup> The question of how entrepreneurial ability is developed and transmitted remains. McClelland has related it to childrearing practices and the formative influence of the family. He found that three factors were important in producing a high need for achievement in the child, "parents" high standards of achievement, warmth encouragement, and a father who is not dominating authoritarian. He suggests that one of the reasons for the decline of great civilizations might be that with success parents relinquish child rearing to servants who are overly indulgent, and they can and keep them dependent for too long and so they lose their need for foreigners, Hindus, and government and semi-government agencies are excluded, over half of the industry is controlled by five small "communities" (quasi-caste) of traditional traders, totalling about one-half per cent of the population. On the other hand, groups which had little experience with trade or industry, are underrepresented among industrialists to a startling extent"; and Alexander, that, in Turkey, "traders were the most important single group from which industrialists were recruited. In Malaysia, the same trend is evident: the Chinese who

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<sup>108</sup> J. J. Berna, op. cit., p. 358.

are the principal entrepreneurial group are adapting their interests to include industrial entrepreneurship<sup>109</sup>.

He suggests that polygamy "promotes mother-son households in which the son stays dependent on the mother longer and does not get the strong emphasis on independent achievement needed to develop an achievement"<sup>110</sup>. He advocates that one way of improving the achievement orientation of children would be to promote the legal and social rights of women<sup>111</sup>. The exact relationship between child-rearing and entrepreneurial ability is not clear-cut but McClelland's findings do provide some interesting possibilities.

As has been noted, entrepreneurship is only one part of the package of skills that make up the role of the manager although one of the most interesting because it is so enigmatic.<sup>112</sup> One thing does seem to be clear about it, and that is that it is extremely difficult, if not impossible, given our current level of understanding on the subject, to train people to be entrepreneurs. Whilst it is entirely possible to train people to be managers, entrepreneurs appear to undergo a complex cultural and social formation during their childhood which cannot readily be reproduced by a company training program. A set of assumptions about managers that need to be considered is related to motivation. Motivation involves the factors that influence the individual's response to economic activity. As Herbert Simon has put it "Individuals are willing to

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<sup>109</sup> J. J. Berna, "Patterns of Entrepreneurship in South India, *Economic Development and Cultural Change*, 7 (1958/59), p. 346. G. F. Papanek, "The Development of Entrepreneurship, *op. cit.*, P. 54. A. P. Alexander, "Industrial Entrepreneurship in Turkey: Origins and Growth," *Economic Development and Cultural Change*, 8 (1960), P. 351

<sup>110</sup> G. F. Papanek, "The Development of Entrepreneurship, *op. cit.*, P. 54. A. P. Alexander, "Industrial Entrepreneurship in Turkey: Origins and Growth," *Economic Development and Cultural Change*, 8 (1960), P. 351

<sup>111</sup> D.C. McClelland, "The Achievement Motive in Economic Growth Industrialization and Society. B.F. Hoselitz and W. E. Moore, eds. p. 93.

<sup>112</sup> D.C. McClelland, *The Achieving Society*. p. 128. Over-indulgent child-rearing practices have been a characteristic of Malay society and this may be one explanation for the disinclination of Malays to enter commerce in the past.

accept organization membership when their activity in the organization contributes, directly or indirectly, to their personal goals. A certain amount of theory has grown up around this that makes assumptions about the individuals that aspire to be culture free. These are important because they affect the philosophy of management applied particularly by foreign firms in developing countries. Maslow has proposed a hierarchy of needs ranging from physical, to safety, to social needs, to the need for self-esteem and independence, and finally, the need for self-actualization<sup>113</sup>.

Theoretically, as each succeeding need in this hierarchy is filled the next need becomes predominant in motivating the individual. This fits in with the findings of Herzberg and his colleagues that physical conditions (his hygienic factors) - such as adverse work conditions, salary, etc. had the power to dissatisfy whereas favourable conditions could not motivate; rather it was factors related to self-actualization "achievement, recognition, work itself, responsibility and advancement" that proved to motivate people.

This brings one back to the need to identify what the goals of the individual are in another culture. Also, if one takes Maslow's hierarchy as given, it may well be that managers in a developing country are at a different place on the hierarchy than those in the West, or that personal fulfilment consists of different types of things<sup>114</sup>. For instance, Heller found prestige and authority to be the major motivating factors amongst managers in Latin American countries, and these findings are supported by those of Everett Hagan<sup>115</sup>. On the other hand, the cross-cultural study conducted by

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<sup>113</sup> A.H. Maslow, *Theory of Human Motivation*, *Psychological Review*, 50 (1943), pp. 370-396. Reprinted in *Management and Motivation*. V. H. Vroom and E. L. Deci, eds., pp. 27-33.

<sup>114</sup> See K. Davis, "Managing Productivity in Developing Countries," *Management International*, 4, 2 (1964), pp. 71—72.

<sup>115</sup> F. A. Heller, "Motivational Analysis of Managers in Developing Countries, *Management Development for Industrializing Countries*. G. Morello and M.B. Brodie, eds., pp. 95—99.

Haire, Ghiselli and Porter found the need for self-actualization and autonomy to be the most important throughout the countries of Europe as well as in Japan<sup>116</sup>. Another factor to be considered is Vroom's finding that "performance is low at low levels of motivation and reaches its maximum point under moderate levels of motivation, and then drops off again under a high level of motivation"<sup>117</sup>.

It is conceivable that a firm might unwittingly provide excessive motivation in a developing country. Lawler and Porter have proposed that the two key variables that combine with effort in determining performance are abilities, including personality traits, and role perception. both of which are, of course, strongly influenced by culture<sup>118</sup>. Douglas McGregor has added to this framework what he calls Theory X and Theory Y. Theory X he identifies as the traditional view of direction and control and assumes that man dislikes work, must be coerced into doing it and directed in the execution of it. Theory X fails, he says, "because direction and control are useless methods of motivating people whose physiological and safety needs are reasonably satisfied and whose social, egoistic and self-fulfilment needs are predominant. In contrast to this, Theory Y is based on the integration of personal and organizational goals. It states that work is a natural form of human activity, that man will exercise self-direction in working towards objectives to which he is committed, that he seeks responsibility, and that "commitment to objectives is a function of the rewards associated with their achievement. The most important aspect of Theory Y is McGregor's central principle of integration: "the creation of conditions such that the

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<sup>116</sup> M. Haire et al., "Cultural Patterns in the Role of Manager, *Industrial Relations*, (February 1963), p. 111.

<sup>117</sup> V. H. Vroom, *Work and Motivation*. pp. 204—209. Reprinted as "The Nature of the Relationship between Motivation and Performance, *Management and Motivation*. V. H. Vroom and E. L. Deci, eds., p 229.

<sup>118</sup> E.E. Lawler 111 and L. Porter, "Antecedent Attitudes of Effective Managerial Performance, *Organizational Behaviour and Human Performance*, 2 (1967) pp. 122-142. Reprinted in *Management and Motivation*. V. H. Vroom and E. L. Deci, eds.



members of the organization can achieve their own goals best by directing their efforts towards the success of the enterprise<sup>119</sup>. This reflects Argyris's view and echoes E. Wight Bakke's concept of the "fusion process" which he defined as the simultaneous operation of the socializing process by which the organization seeks to make an agent of the individual for the achievement of organizational objectives, and of the personalizing process by which the individual seeks to make an agency of the organization for the achievement of his objectives. It is the simultaneous attempt of the organization to make over the individual in its image, and of the individual to make over the organization in his image.<sup>120</sup> This discussion of some of the main theories of motivation has highlighted the key role it plays in the development of managers. A highly motivated manager, given an opportunity through careful management development to fulfil his own best abilities, will be a great asset to his company. It also restresses the point that the company needs to understand its managers - their aims, needs, aptitudes, and aspirations — to know how to develop them and so to get the best performance from them; and that the company needs to be prepared to adapt to the cultural context of its managers, for fusion, is a process in the course of which both the organization „ and the individual are modified.

#### **4.8 SOCIAL AND CULTURAL FACTORS**

Personality cannot be understood without considering the culture in which the personality exists. Culture and personality are inseparable. It is not culture and personality, but culture in personality and personality in culture. Therefore, having looked at some of the theories related to personality, now some of the social and

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<sup>119</sup> D. McGregor, "The Human Side of Enterprise," *Adventures in Thought and Action*. pp. 23—30. Reprinted in *Management and Motivation*. V. H. Vroom and E. L. Deci, eds., p. 31. 66 D. McGregor, *The Human Side of Enterprise*. pp. 47-48.

<sup>120</sup> E.W. Bakke, *The Fusion Process*. p. 5.

cultural factors that may be important in forming that personality will be examined. The attitudes and values of a culture that are conducive to economic growth are sometimes termed those of 'modern man, and those that do not fit in are described as 'peasant'. An economy is a product of, and in turn, creates a supportive cultural framework. If the economy is characterized by the high technology industry and largescale commerce it will be associated with a very different culture to that of a fairly simple subsistence economy<sup>121</sup>.

Although these are two ends of a continuum, it may help to clarify the problems by discussing the extremes. Countries striving to develop, immediately face the problem of the incompatibility between the industrial framework they build and the attitudes and values of their people. These attitudes and values comprise a system of beliefs, feelings, and moral and social codes, a system which may be infused with a sacredness which makes adherence to them of immense importance.<sup>122</sup> The culture that supports a peasant economy has a strong influence on work and work relationships and on the attitude towards time. Work involves providing food and shelter for the family, it, therefore, has a natural dignity and importance attached to it. Men may work together to accomplish this but it is done in a spirit of cooperation and respect and based on close personal and/or family ties.

The usual activity of simple farming tends to be seasonally regulated; what is more, in a peasant economy there is no need to provide for more than the family wants possibly with a little extra to barter in the marketplace. In a fertile land such as

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<sup>121</sup> Raymond Firth defines a peasant economy as "a system of small-scale producers, with a simple technology and equipment, often relying primarily for their subsistence on what they themselves produce. *Elements of Social Organization*. 3rd edition. p. 87.

<sup>122</sup> See E. Shils' discussion of this in "The Concentration and Dispersion of Charisma," *World Politics*, 11 (1958), pp. 1-19.

Malaysia, this leaves a great deal of free time for the cultivation of social relationships. A highly developed social and ethical code which lays down patterns of obligation and respect based on age, family, political and religious status tends to characterize peasant culture. In a subsistence economy, there is little scope for entrepreneurial activities and so the values that support it do not develop. Hoselitz has identified this sort of peasant culture as emphasizing ascribed status, a division of tasks according to that status, and diffuse work relationships linked to family, political, social and religious relationships. In a developed economy the reverse is the case: people are accorded status according to what they have achieved; all jobs are, theoretically, open to everyone, and work relationships are, formally, limited to the labour contract.<sup>123</sup> To the peasant, work is integrated into his daily life, his personal and social relationships, and his religion. He is generally tied to his village and his life has an unchangeable, God-given quality about it. "The very concept of change is absent".

When change does come to a country the village is usually the last to be influenced, the last stronghold of tradition and traditional values. So, a dual society may develop - with a modern economy and culture in the cities and a traditional one in the countryside and villages<sup>124</sup>. As a result, when the young man moves from the village to town he enters what amounts to a different culture. This sudden transition from the security and predictability of traditional life to the strangeness and aloneness of city life may be difficult and painful. All his values will be turned upside-down. The dignity of work will be reduced to the cash value of labour. The constant change and

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<sup>123</sup> B.F. Hoselitz, "Main Concepts in the Analysis of the Social Implications of Technical Change, " *Industrialization and Society*. B.F. Hoselitz and W. E. Moore, eds., pp. 18—19.

<sup>124</sup> 74 J. H. Kautsky, *The Political Consequences of Modernization*. p. 34.

pace of modern society is a problem and industrial discipline difficult to accept after the flexibility of agricultural life.

In light of the difficulties experienced in adapting to industry and the resentment created by the existence of a dual society, one rich, the other poor, there may be a groundswell of antagonism towards business activity in general, and towards foreign enterprise in particular, which is seen as a threat to their culture and society, and as consuming their country's wealth. 'Modern man has been described as having a "mobile sensibility so adaptive to change that rearrangement of the self-system is its distinctive mode". He is characterized by a capacity for empathy, which enables him to see himself in the other person's situation and so be able to adapt to new roles and new Munshi Abdullah described this feeling well when he wrote of the changes that had come about in Singapore with the arrival of trade and commerce: "Since Singapore has become a settlement, grasshoppers have become eagles, bed-bugs tortoises and earthworms serpents". These strange happenings have their origin in material wealth and position<sup>125</sup>relationships.

Kautsky describes modern society as, characterized by a belief in the rational and scientific control of man's s physical and social environment, and the application of technology to that end. One could thus define the process of modernization as one of secularization. . .The change in attitude towards the control of nature and the environment, and the acceptance of the scientific method as the means to knowledge about the world, together strike a blow at traditional attitudes the abandonment of which would appear to be necessary to the achievement of modern society<sup>126</sup> . Where

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<sup>125</sup> Abdullah bin Abdul Kadir, *The Hikayat Abdullah*. Translated by A.H. Hill. p. 30. 76 See, for instance, J. A. Lee, "Developing Managers in Developing Countries," *Harvard Business Review*, 46, 6 (1968), p. 60.

<sup>126</sup> McClelland' s findings support this view. *The Achieving Society*. P. 192.

it exists, the group that seems to find the transition least difficult is the entrepreneurial one because of its natural mobility and orientation to change.

This discussion has stressed the extremes and it should be noted that there is a full range of possibilities between the two poles of 'peasant' and modern'. The profound cultural gap between traditional and modern culture and the problems of the transitional stage form part of the context of business in developing countries, affecting the attitudes and values of managerial recruits. It is, therefore, only through a thorough appreciation of these factors that the organization can come to terms with the individual.

#### **4.9 MANAGEMENT DEVELOPMENT**

It is the manager who makes a productive enterprise out of the human and material resources at his disposal. In developing managers, possibly the most obvious conclusion one must come to is the need for flexibility and an individual approach. Ultimately it is the individual who develops himself, the company's role is to provide him with the opportunity to do this in an organized and progressive way with feedback as to how well he is doing so that he can continue to improve himself. The company will only succeed in this if it first succeeds in motivating the individual. The program of management development will have to concentrate not only on skills but also on the development of attitudes and values required for business and aim for the internalization of these by the manager, with the caveat that the organization too must be prepared to incorporate some of the attitudes and values of its managers. Management development looks at the individual in the context of the job, but as has been shown it cannot ignore the society from which he comes.

The essence of management development is the systematic development of managerial skills through the provision of planned learning experiences — on-the-job, through training courses, by the maintenance of a stimulus and challenge in his job and through promotion and the regular, objective assessment of performance to provide feedback to the manager as to his progress and guide those responsible for his future development. It is how the company ensures the continuity of management, provides for succession to top posts and ultimately assures the continued health and success of the firm.

A vital precondition is the commitment of top management, without which no management development programs can be effective. It is top management that establishes the management climate or philosophy that determines whether the company is conducive to personal growth and development or not. "Special manager-development activities can only be a supplement, but they are" and this is confirmed by McGregor. Programs and procedures do not cause management development, because it is not possible to "produce" managers the way we produce products. We can only hope to "grow" them, and growth depends less on the tools we use than on the environment which is created <sup>127</sup>.

Management development should be the clear responsibility of line managers, who are in a position to create a suitable environment for growth. Linked to the company philosophy is the organizational structure. Drucker firmly advocates a federal, decentralized structure which he says, "will develop, train and test a fair number of managers for tomorrow without any additional manager-development activity as such". The company needs to be structured in such a way that the individual

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<sup>127</sup> P. F. Drucker, *op. cit.*, p. 227. D. McGregor, *The Human Side of Enterprise*. pp. 204-5.

is given both a challenge and a high degree of responsibility. A management development model has been evolved which provides a useful analytical framework. This model consists of several clear-cut steps. The first step is to identify the requirements of the job and to prepare a job description covering the tasks and responsibilities involved in the job, its position in the organization, its scope and its overall purpose. In the context of a developing country, this can require particularly careful consideration since there may be a severe shortage of people with certain specialized qualifications. Where rapid localization has taken place and there are not people with sufficient breadth of experience to fill the senior posts vacated it may be necessary to redesign such jobs. Based on this analysis of the job a man specification is drawn up identifying the exact knowledge, skills, and experience required to fill the post.

Having prepared a job description and a man specification, the next step is recruitment and selection. It is the function of recruitment to attract suitable candidates, and of selection to try and identify those candidates with the skills required to do the job and with the potential to develop into highly competent managers. This may be done with the particular requirements of a job in mind which is usually the case when recruiting experienced men. Alternatively, it may be done in a more open-ended way taking in young people with no previous business experience. In this case, selection may consist, amongst other things, of various skill, intelligence and aptitude tests to try and assess their potential for management as well as their suitability for the range of jobs the company offers. In both cases, the selection is normally done by more than one person, sometimes it is by a panel, sometimes by a series of interviewers. This

selection process is of critical importance since it determines the future management potential of the company.

The following selection comes a period of induction training whereby the recruit is introduced to the workings of the company, the department and the specific job for which he was recruited. There may be a period of overlap with the former occupant of the post who may assist in training the new candidate. After this, the new manager may undergo a variety of training experiences. These will be aimed both at extending his theoretical knowledge of the subject and broadening and deepening his practical experience. While knowledge can be transmitted through training courses, the experience cannot, yet it is the vital ingredient that enables the manager to use the knowledge he has acquired. The company should therefore endeavour to give the manager a combination of training courses and planned job experience. The most important means of training is on the job. This may consist of coaching, that is, training by a successful senior manager in the day-to-day operation of the job; rotation through a variety of different jobs to gain experience of various functions or different problems and situations; broadening of the scope of a job to give increased responsibility and experience and/or promotion through increased levels of responsibility and challenge.

A warning that Drucker gives is that on-the-job training must involve real responsibility, "The whole idea of training jobs is contrary to all rules and experience. A man should never be given a job that is not a real job, that does not require performance from him"<sup>128</sup>. Other forms of training include company courses; external courses run by professional associations and business schools; and overseas training which may be within the company, with associated companies, or with overseas

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<sup>128</sup> P. F. Drucker, 226.



management training schools. It may also involve advanced education for people already in management. University courses have been shown to "help motivate continued learning, set the standards for further advances, and exhilarate generally a sense of purpose"<sup>129</sup>.

External courses may be run on an industry-wide basis to provide specialized training not feasible for any individual company to run. Further education schemes may include anything from afternoon releases and book grants to scholarships. In training and development, the emphasis should be on the manager's strengths, building on what he does well, helping him overcome his weaknesses and allying his interests and needs with those of the company.

The specific training programs and training techniques obviously will change according to the needs of the company, environment and individual. For instance, Moursi found in his research into training needs in developing countries that training in policy and decision-making skills, organizational behaviour and human relations skills was particularly needed. By far the least successful training method he found to be the lecture, followed by role-playing and the managerial grid. The more promising techniques included computerized management games and program instruction<sup>130</sup>. A key step in management development is systematic management appraisal to provide information to the manager and the company about his progress. "The ultimate test of management is business performance. An appraisal is a sensitive area and therefore needs to be conducted with the greatest possible objectivity. One means of ensuring this is identification at the beginning of each year of a series of performance objectives,

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<sup>129</sup> K.R. Andrews, *The Effectiveness of University Management Development Programs*. p.

<sup>130</sup> M.A. Moursi, "The Applicability of Newer Management Training Techniques in Developing Countries" *Academy of Management Proceedings*, (August, 1975), p. 297.

where possible expressed in quantified terms, agreed between the manager and his superior. At the end of the year, it is then possible to measure the attainment of these objectives<sup>131</sup>. This provides both the manager and his superior with information about his performance, suggests areas where training could be helpful, and indicates his potential for promotion.

This is normally done on a standardized appraisal form which is completed by the superior and then discussed with the manager concerned (and signed by him that he has seen it). The emphasis should be on helping the manager to improve his performance, not on reward and punishment. Consequently, it is recommended that this appraisal of management performance and potential be kept separate from the annual salary review. Nonetheless, financial incentives should be directly related to successful managerial performance. Another channel of feedback is related to training. When a manager has undergone a period of training, the company will be concerned to enable him to put that training into practice and to assess its impact on the manager's performance and the quality of the training program. Finally, management development is linked to manpower and succession planning. To ensure the continuity of management a company needs to plan, to plan for retirement, growth, and unexpected changes in staffing, for changes in technology or internal organization. Since competent managers take a long time to develop, it needs careful planning in which the managerial requirements of the company five years hence are estimated. The results of management appraisal are fed into this plan, forming a management inventory so that a clear pattern emerges of the people with potential for

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<sup>131</sup> This recalls McGregor's Theory Y that "man will exercise self-direction and self-control in the service of objectives to which he is committed." Douglas McGregor, *The Human Side of Enterprise*. p. 47.

promotion and the management development plan can ensure those managers receive the training and experience necessary.

A management development plan is thus oriented to the improvement of the future. To improve performance today and the preparation of managers for a concept that has become part of the system of management development in many companies is management by objectives (MBO)<sup>132</sup>. This was developed both to correct the subjective, personality-oriented assessment of managers, and to link the objectives of the individual more closely with those of the organization. Management by objectives is a dynamic system which seeks to integrate the company's need to clarify and achieve its profit and growth goals with the manager's need to contribute and develop himself. It emphasizes the joint setting of objectives for the firm, the section and the individual, in such a way that the objectives at each level contribute to the attainment of those at the next level. As far as possible objectives are set in quantified terms and attainment of them can therefore be measured objectively. In a newly developing economy management is often in short supply, yet it is such a key element its emergence cannot be left to chance and needs to be consciously fostered. Management development is a systematic approach to the training and development of managers.

It provides a model sufficiently general that, if adopted and adaptation is the key word here could prove highly useful in a developing country. The objectives of both companies and individuals and the application of the model will vary enormously, but this does not invalidate the concept nor the underlying principle of the need for conscious, careful analysis and planning, considering the needs of both the manager

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<sup>132</sup> J. W. Humble, *Improving Management Performance*. p. 1.

and the organization to develop the best possible managerial cadre for the present and the future. The process of transfer and adaptation is not easy. It is the large expatriate firms which have the experience, expertise, and resources to implement a management development program and it has often been suggested that they should act as transfer agents for the concept, setting an example for local companies. However, they also have the greatest need to adapt to the cultural differences presented by a developing country. It would be foolish to apply the methods of developed countries mechanically to the situation in developing countries; adaptation needs to be done with care and sensitivity, but most important of all, with a keen awareness and understanding of the individuals involved. Only then can there be a marriage of interests between the manager and the company. To make this marriage of interest successful it is fundamental that Malaysia's HRDF policies adjust and understand the requirements of the industry and companies. Small medium enterprises prefer on-the-job training and specific to the needs of the business should be taken seriously. Governing agencies are recommended to regard preference more seriously by providing a more structured procedure on how SMEs may work with government agencies to develop structured on-the-job training. This involves a more personalized approach to designing training programs for each SME. It prompts more one-on-one consultation among agency representatives and enterprises. At this point, the old way of depending on or pushing for participation in mass-produced training by selected training providers may not be attractive or viewed as relevant by SME operators. There seems to be a contradiction between the government agency's effort to provide external training programs and SMEs' preferences for in service-training. Instead of allocating or pooling resources to promote participation in programs by

external training providers, a fair share of effort and resources must be granted to help SMEs develop in-house training, which is more relevant to their business needs. In short, SMEs should be made aware of the opportunities to develop training modules based on their unique needs. To accomplish this goal, SME managers are encouraged to become certified as trainers and provided access to training specialists in addition to raising awareness among SME operators about the availability of such services (tailoring the training program to SMEs) in a government agency.

The policy should allow SMEs to utilize the funds for hiring training specialists or consultants for more effective and tailored training. Two of the major constraints faced by SMEs are their lack of training-related knowledge and their inability to hire professional manpower for training purposes due to financial constraints. The SMEs cited a lack of knowledge in conducting training as a prohibitive factor that led to the low training activity. Currently, it is not a policy for the training levy grant system to allow SMEs to use this account to hire training specialists or managers.

Specifically, Malaysia may recognize the current practice in the Republic of Korea through the SME Training Consortiums program. This program is aimed to combat unemployment and improve the productivity of SME workers by helping groups of SMEs organize themselves to launch and manage in-service training for workers. In Korea, each consortium will form an operating committee to manage its training tasks. The operating committee was composed of representatives from enterprises which comprised the consortium, local chamber of commerce, Ministry office, and training experts. At least two training experts are provided for each consortium funded by the training levy grant fund. This provides an effective policy because alone, enterprises may not be capable of affording to pay training specialists.

Apart from strengthening training programs, which led to certification, the provision of government-sponsored developmental training for SME owners and managers, as well as mentoring programs are highly recommended. In addition to training, government agencies are recommended to provide venues for networking and mentoring as part of training incentives. This contribution has been highlighted by SME operators as beneficial. Moreover, it can be viewed as a developmental effort for SME operators whereby they share experiences. Funds could be allocated for the payment of professional mentorship. Mazur & Coleman (2008) strongly believe that in-house mentoring can provide a cost-effective solution to employee training and development. This occurs when skills gaps can be identified more easily and allow training to be more properly targeted to address the needs of individual staff and the business.

Training awareness programs are necessary to strengthen learning cultures among SME operators. Practices and policies must ensure that SME managers acknowledge training's importance. This matter should be translated as training implementation. SME Corp or relevant agencies may provide programs to help SMEs provide training. It may take the form of increased training or awareness for properly conducted Training Needs Analysis. This policy suggestion is aligned with that proposed by Yahya, Othman and Shamsuri (2012). It is suggested that government or other associated agencies target SME managers to create awareness of the government agencies' functions or the programs sponsored. This is due to the understanding that managers' perceptions and beliefs about the benefits of training appear to be a major determinant of training.

Government and relevant authorities entrusted to develop SMEs must exert greater effort to change owner-managers perceptions of training from being a 'cost' to being an 'investment.' Simply put, training must be regarded as an investment rather than a cost. By adopting this new perception, it is expected the demand for training will increase from SMEs. Consequently, they become more efficient and contribute more effectively to the economy at the national level.

The importance of understanding the Return on Investments for training program evaluation may be raised to a higher level. SMEs will more likely participate if they can relate their participation to outcomes, such as raising productivity, output, sales or overall business growth. Program evaluation may assist SMEs to realize the benefits of participation, which will hopefully lead to more participation in government-sponsored training programs in the future. Relevant government agencies should be clear about the benefits of the program when circulating information or promoting training programs. Specifically, these representatives should be able to state how the training program would benefit business operations, present details on the nature of the training program, describe the training program (such as how the training will be conducted), outline employee characteristics (who would benefit from this training program), highlight the benefits to the enterprise as the result of participation or perceived benefits. This information should be produced for the website, messenger group, and program information kit.

## **Chapter 5**

### **5.0 MALAYSIA'S HISTORICAL AND POLITICAL CONTEXT**

The development of managers in Malaysia was directly impacted by history and the country's political situation. The colonization of Malaysia the influx of migrants the wars and eventual independence. These happenings have a direct influence on management development and decision-making. This chapter is dedicated to historical, colonial, political and racial issues. Several important factors need to be understood to appreciate the nature and complexity of the problem of management development faced by companies in Malaysia. The problems in Malaysia start during colonization followed by the independence with the origin of Malay political dominance, its characteristics, and the non-Malay position towards it.

The second set of factors is the priorities and concerns that influence the Malaysian Government in its policy-making, and in the role, it chooses to play in the economy; and third, there is the issue of racial balance and the measures being taken to deal with the problem. This chapter will explore these factors through a review of the historical background of the contemporary period, an assessment of the current political context, and finally, an analysis of the racial balance issue itself.

#### **5.1 HISTORICAL BACKGROUND**

Before British interaction, the Malay Peninsula did consist of a series of Malay states. These states were headed by Sultans, in which rival chiefs struggle for domination. The initial British involvement in Malaysia was to protect a valuable trade route to China that ran through the Straits of Malacca and around the end of the Peninsula. The British at the time had no direct interest to colonize the region. The British ships started to capture the coastal areas and establish strong points to protect



the trading routes<sup>133</sup>. The focus was the Straits of Malacca and around the end of the Peninsula. Around the nineteenth century, recognizing the mineral potential in Malaysia the British then turned their interest to the Malayan hinterland. The sudden change in heart of the British was a growing interest in the tin trade and concern to ensure a steady supply. Britain also feared foreign, particularly the French that showed some ambitions in the Peninsula. With the increasing civil strife in the states, the British evaluated the opportunities that came from this. This activity has threatened European investment and the supply of tin. This civil unrest and rivalry were the provided gateway and the immediate excuse for British action.

An opportunity came in 1874 when Raja Muda Abdullah approached the British for support in his claim to be Sultan of Perak<sup>134</sup>. In return, he was willing to accept a British adviser at his court. By the Treaty of Pangkor, concluded between the British and the Sultan and his chiefs, it was agreed, that “the Sultan receive and provide a suitable residence for a British Officer to be called Resident, who shall be accredited to his Court, and whose advice must be asked and acted upon on all time”. In a minute arguing the case for British intervention, Kimberley, Secretary of State for Colonial Affairs at the time, stated, “Her Majesty's Government could not see with indifference the interference of a foreign power in the affairs of the Peninsula, and it would be difficult to justify an objection to the Native States applying for aid to other Powers if the British Government refuses to lend its aid”<sup>135</sup>. Sir Frank Swettenham has admirably described this mixture of commercial and humanitarian motives that led to

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<sup>133</sup> Penang was founded in 1706, Province Wellesley acquired in 1800, Singapore founded in 1819, and Malacca captured in 1824.

<sup>134</sup> Cheah Boon Kheng, Vol. 64, No. 1 (260) (1991))

<sup>135</sup> Draft dispatch of Kimberley, 6 September 1872, C0273/67, Straits Settlements Original Correspondence 1838-1919.

British intervention: "Lord Kimberley has furnished Sir Andrew Clarke who became Governor of the Straits Settlements in 1873 with instructions of the first importance, showing a disposition to make an entirely new departure, and to recognize the duty forced upon England, as the dominant power, to interfere in the Malay States and put a stop to a disgraceful state of affairs. The duty was imperative from motives of humanity alone, but it was equally certain that to undertake it would be highly beneficial to British interests and British trade, though these pleas had hitherto been dismissed as of no importance. The timid British taxpayer will probably admit that it is not wholly unjustifiable to define more clearly an existing responsibility to create and to keep a trade which is wholly, or almost wholly, British, and worth British pound 12,000,000 annually"<sup>136</sup>.

This new development created a chain reaction and between 1874 and 1889, Selangor, Pahang and all the states of the federation of Negri Sembilan followed suit and accepted a British Resident. The importance of this early aspect of Malaya's history is that it determined the key relationship between the British and the Malays. The Malays were acknowledged to be the rightful rulers of the Peninsula and the British were there to advise and assist them in that rule. W.G.A. Ormsby-Gore (later Lord Harlech) wrote after he visited Malaya in 1928: "They were, they are, and they must remain, the Malay States". He noted that the primary objective of the British in the administration of these countries should be to progress the Malay inhabitants at the invitation of their forefathers who first assumed responsibilities.

Colonial greed also created its own set of problems. This greed was the source of one of the great problems for the British administration in Malaya: the conflict

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<sup>136</sup> F. A. Swettenham, *British Malaya*. p. 174. questions other than those touching Malay Religion and Custom.

between British commercial interests and their obligations to the Malay rulers. An important factor in Britain's intervention was the protection of her financial interests and the possibility of further gain. Colonial greed was the driver at that time, and the wealth of Malaya, these factors came to outweigh the immediate obligation to respect the position of the Sultans. The history of the British administration in Malaya is one in which the real power of the Sultans was steadily and consistently eroded. Sir Frederick Weld, Governor of the Straits Settlements, wrote to Kimberley in 1880 that British policy in Malaya should be, "To gradually and gently increase our influence as occasion offers to determine never to relax our hold, but not to annex whilst it is possible to go under the present system"<sup>137</sup>.

In the meantime, to work through the native government's advice was discreetly but firmly administered. In 1895 the four states which had accepted Residents - Perak, Selangor, Pahang and Negri Sembilan - were brought together in a Federation and became known as the Federated Malay States (FMS). Gradually the other states of Malaya were brought under the British umbrella. In 1902, an agreement with Thailand brought the four northern states under British influence, and in 1909, these states, Terengganu, Kelantan, Kedah and Perlis were formally transferred to British Malaya. In 1910, Kelantan accepted British protection and Terengganu agreed to receive a British agent. In 1914 Johore accepted a British General Adviser and in 1923 a treaty with Kedah, and in 1930 a treaty with Perlis brought those states into the fold. They remained outside the centralized Federation, and so were termed the Unfederated Malay States (UFMS). British influence on them was less strong, and they retained

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<sup>137</sup> Engagement entered into by Chiefs of Perak at Pulau Pangkor, 20 January 1874," Article VI in W. G. Maxwell and W. S. Gibson, eds., *Treaties and Engagements Affecting the Malay States and Borneo*. pp. 28-30. W. G. A. Ormsby—Gore, *Report on a Visit to Malaya, Ceylon and Java*, 1928. CD 3235. p. 18.

their Malay character to a far greater degree than the FMS. Partly as a result of this the UFMS remained relatively undeveloped and did not experience anything like the same degree the profound economic and social changes that were taking place in the FMS. The two states least influenced by economic developments at the time, Terengganu and Kelantan, remain the most economically backward of the states of Peninsular Malaysia until today.

While the economic and military basis of the Sultan's power had been removed by the Treaty of Pangkor, and by subsequent treaties, and the day-to-day administration of the country was being taken over by British civil servants, the traditional authority of the Sultans over the Malay people was never questioned. Indeed, it was a matter of policy that their feudal status should be preserved and their loyalty assured to guarantee the loyalty of the 'rakyat', the peasantry. The one area that remained the exclusive preserve of the Sultans was Malay religion and custom. As a result, a strong religious hierarchy, dependent upon the Sultan, was built up, a religious hierarchy that even today wields considerable power. Up until World War 2, it was considered to give back Malaysia its independence, but the Colonial powers and British Government decided that it was out of the question. Given the increasingly complex society and sophisticated economy that had developed as a result of their presence in Malaya and the trust they held for the Malay people, the British felt their continued administration was a necessity<sup>138</sup>.

It seems clear that the maintenance of the position, authority, and prestige of the Malay rulers must always be a cardinal point of British policy and the encouragement of indirect rule will probably prove the greatest safeguard against the

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<sup>138</sup> This is in keeping with the policy of indirect rule articulated by Lord Lytton in India in 1877:

political submersion of the Malays which would result from the development of popular government on western lines. In such a government, the Malays would be hopelessly outnumbered by the other races owing to the great influx of immigrants that have taken place in Malaya during the last few years. World War 2 saw several significant developments. During the period of Japanese occupation, the Japanese supported the Malays and Indians in their struggle against 'Western Imperialism. I am convinced that the fundamental political mistake of able and experienced Indian officials is a belief that we can hold India securely by what they call good government. Politically speaking, the India Peasantry is an inert mass. If it ever moves at all, it will move in obedience, not to its British benefactors, but to its native chiefs and princes, however tyrannical they may be. . . "To secure completely, and efficiently utilize, the Indian aristocracy is, I am convinced, the most important problem now before us"<sup>139</sup>.

They confirmed the Sultans in their titles, property and religious authority, and used the Malayan Police Force, which was almost entirely Malay, to control the Chinese. It was the Chinese in Malaya who suffered most at the hands of the Japanese. All active supporters of the Kuomintang, all active Communists and all who had fought in the Volunteer Forces and not surrendered were to be killed. In response, many Chinese fled into the jungle where they fought a battle of resistance. This set the Malay and Chinese communities against each other. The Chinese resistance worked in collaboration with the British Force against the Japanese Occupation. Their contribution to the liberation of Malaya won them a right to a permanent stake in the country in their eyes, and those of the British Government of the time. Finally, World

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<sup>139</sup> Lord Lytton to Lord Salisbury, in Lady Betty Balfour, *The History of Lord Lytton's Indian Administration, 1876 to 1880*. p. 109.

War 11 saw the British Government firmly commit itself to the independence of Malaya.<sup>140</sup>

During the war, the British Government worked out proposals for the future government of Malaya based on the expectation of British victory over the Japanese in Malaya, helped by the Chinese resistance, and watched by the Malays many of whom were collaborating with the Japanese.<sup>141</sup> The end of the war did not come to Malaya so dramatically. Nonetheless, a proposal for a Malayan Union was put forward that was intended to set Malaya on the path to independence. Initially, it would bring the whole of the Malayan Peninsula, other than Singapore, under direct British rule. For the first time, the rights of the Chinese and Indian communities in Malaya were to be taken into consideration. The proposal put forward citizenship requirements that would make most of the Chinese and Indians in . . . "the main aim of His Majesties Government as regards the political future of Malaya (after its liberation) will be the development of its capacity for self-government within the Empire".<sup>142</sup>

Malaya is eligible for Malayan citizenship and open to them the Malayan Civil Service, previously restricted to Malays and Europeans. This involved abandonment of Britain's former policy of preserving Malay privilege. It required that the Malay Rulers relinquish their residual authority to the British Crown, which would be represented in Malaya by a British Governor. The trappings of their positions, their allowances, residences and titles, would be retained, but their function would be merely to preside over an Advisory Malay Council dealing with laws on the Muslim religion. The Malayan Union so enflamed the Malay feeling that for the first time Malays took to the streets,

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<sup>140</sup> See V. Purcell, *The Chinese in Modern Malaya*. p. 37.

<sup>141</sup> Lord Stanley, Secretary of State for the Colonies, announced in the House of Commons on December 1 1943:

<sup>142</sup> T. H. Silcock and Ungku Abdul Aziz, *Nationalism in Malaya*. p. 25.

men and women alike. The voices of retired British Residents, who took Britain's trust in the Malay people seriously, were added to these protests.

The Union had to be abandoned a year after its institution. Having recognized Chinese and Indian rights, the abandonment that followed created tension and bitterness. The Malayan Union proposal shocked the Malays out of their apathy and so sparked off modern Malay nationalism in defence of the rights and special position of Malays. It also awoke the aspirations of the Chinese and Indians to a rightful share in the new nation. Thus, Malays and non-Malays developed different and opposing concepts of an independent Malaya and the rights of each community within it. It is this dichotomy that characterizes modern Malaysian politics. Even though the immigrant communities outnumbered the Malays, they did not seriously challenge the concept of Malay privilege, or fight to defend the rights given to them by the Malayan Union. Citizenship was to be given to those Chinese and Indians born in Singapore or Malaya or who had lived in either territory for a certain period. Silcock and Aziz seek to explain the lack of action on the part of the Chinese as follows: "The majority of the Chinese were wholly uninterested in politics. The disorder of the Japanese occupation had accentuated the almost pathologically concentrated self-interest that was already in pre-war times a feature of Chinese society in Malaya. The liberation brought vast possibilities for smuggling and black-market activity".

The Malays claimed that since they were the ones who had entrusted authority to the British, it was to them that country should be returned to. The immigrant communities were there on sufferance and should have only those rights the Malays chose to give them. This is a view that has dominated Malay nationalist thinking and is still very potent today. Out of the strength of feeling the Malayan Union proposals

provoked the United Malays National Organization (UMNO) was born, the first and most important Malay political party. With the rejection of the Malayan Union, an alternative proposal was put forward: that of a Federation of Malay States. The Working Committee that prepared the arrangements for the Federation of Malaya consisted of representatives of, the British Government, the Sultans, and UMNO; neither the Chinese nor the Indians were represented.

The Federation Agreement was to unite the Federated and Fourteen Unfederated States with Penang and Malacca. It proposed a central Government consisting of a British High Commissioner, an Executive Council and a Legislative Council, with the High Commissioner ultimately answerable to the Colonial Office in London. However, a promise was given that elections would be introduced later. It stipulated that the High Commissioner was responsible for safeguarding "the special interests of Malays" as well as "the legitimate interests of other communities". The citizenship provisions were considerably stricter than in the Malayan Union: while the entire Malay population were automatically citizens, for non-Malays it was stated that the applicant for citizenship must be of good character, intend to reside permanently in the Federation and have "an adequate knowledge of the Malay language" which was made by those who attended devotedly to their own business, and politics were an unprofitable and dangerous pursuit. Another factor that set limits to what the Chinese could do was the prevailing lawlessness and extortion. To become prominent in any way was to invite demands for money. It was also proposed that Singapore was to continue under direct British rule<sup>143</sup>.

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<sup>143</sup> Federation of Malay Agreement. Clause 19(1) (d)).



The Agreement also restored authority to the Malay Sultans, an authority that had been eroded over the years of British rule. In this way, it reaffirmed the principle that Malaya was a Malay country belonging to the Malay people. Although the Report of the Federation of Malaya Constitutional Commission acknowledged that the Malays needed certain privileges if they were to compete favourably with the other communities, it was not considered that the privileges should be permanent. The special privileges of Malays involved preferences in the four fields: reservation of land; quotas for admission to the Public Service; quotas in respect of the issuing of permits or licenses for the operation of certain businesses, and preferences in connection with scholarships, bursaries and other forms of aid for education.

During this period when Malaya was moving towards independence and the future political pattern being evolved, a part of the Chinese community was confirming the worst fears of the Malays. The Chinese guerrilla army that had fought with the British against the Japanese included in their wartime aims the establishment of a republic, and a government in which all communities would be represented. There is no doubt that most of the guerrillas had been isolated from the world for so long and separated from all information except what was contained in their propaganda that they honestly believed that the Japanese surrender had been due to their exclusive efforts.

In 1947 only, one per cent of Chinese and two per cent of Indians over the age of fifteen were literate in Malay<sup>144</sup>. In 1952, the citizenship requirements of the Federal Agreement were amended so that many more Chinese qualified for citizenship. The

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<sup>144</sup> 1957 Population Census. vol. 14, p. 22.

amendment also safeguarded the rights of those who were already citizens <sup>145</sup>. They had hidden their arms at the end of the war and in the late 1940s decided to renew the struggle this time against the British imperialists. So, began the period of Communist insurgency known as 'The Emergency' that lasted twelve years from 1948-1960. This long-drawn-out struggle brought the loyalty of the Chinese into question, drained the Malayan coffers, and built up the resentment of the rural Malays.

The insurgents were almost all Chinese, and the policy of the Malayan Communist Party (MCP) was based on the implicit assumption of an extension of Chinese power. They operated from the depths of the jungle and relied upon the support of Chinese squatters on the fringes of the jungle for food and recruits. These groups may have given support freely, but if they did not, intimidation was used. The treatment of suspected Chinese by the Government was draconian and even those born in Malaya were subject to summary repatriation to China. The claims of Malayan-born Chinese for a secure position in the country were ignored, and they were treated as unwelcome aliens.

The insurgents claimed to be fighting for the liberation of Malaya and to a degree, they may have hastened it. At the Baling talks in 1955 between the Communist Leader, Chin Peng, the Chief Ministers of the Federation and Singapore; Chin Peng declared that if Britain were to grant Malaya independence the communists would lay down their arms <sup>146, 147</sup> In 1957, Malaya did gain her independence and shortly after that the "Emergency" was ended. The end of the "Emergency" assured a non-

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<sup>145</sup> Colonial Office, Constitutional Proposals for the Federation of Malaya. Cmd. 210. p. 14, para. 55. See V. Purcell, *op. cit.*, p. 35.

<sup>146</sup> A. Short, "The Emergency", Malaysia, A Survey. Wang Gungwu, ed., p. 151.

<sup>147</sup> The MCP statement was "As soon as the elected government of the Federation attains control of internal security and local armed forces we will end the hostilities, lay down our arms and disband our forces. *ibid.*, P. 159.

communist regime in Malaya and left a legacy of political suspicion on the part of the Malays towards the Chinese. In the newly independent state, the special position of the Malays was enshrined in the Constitution, and its identity as a specifically Malay state was affirmed in the national language, State religion and the position of the Sultans. The Malays were, and are, highly concerned to keep their very considerable political power and to be very wary of giving power to the non-Malays who might then be in a position to challenge that special position.

Nonetheless, a political alliance was worked out between the Chinese and Malays that considered the anxieties and aspirations of both groups. In the understanding reached between the leading Malay political party, IJMNO, and the Chinese political party, the Malayan Chinese Association (MCA), citizenship qualifications for the Chinese were relaxed and it was understood that they would not be hindered in the commercial sphere, while the continued political hegemony of the Malays was accepted by the Chinese. However, as R.S. Milne points out, this bargain' was not static: the Chinese aspired eventually to eliminate the special privileges of the Malays and the Malays to an equal share in commerce and industry. However, as in any bargain, it was also influenced by the relative strength of either side at any one time.

At the point of independence, the Malays held the political power; the Chinese, the commercial power. Since then various factors have impinged upon this to alter the balance. In 1963, the state of Malaysia was formed uniting Sarawak, Sabah and Singapore with the Federation of Malaya. Racially, the union was a finely balanced one. Singapore is predominantly Chinese while Sarawak and Sabah have an indigenous majority consisting of Ibans, Dayaks, Melanau's, Kadazans, Muruts and

other native people who were considered, along with the Malays, as 'bumiputras' or sons of the soil. Lee Kuan Yew, the Prime Minister of Singapore, sought to create a Malaysian Malaysia in which no one group had special privileges; he also aspired to the political leadership of Malaysia and this threatened the position of the Malays. The result was the expulsion of Singapore from Malaysia in 1965. It was thus made abundantly clear to the Chinese in Malaysia that the Malay-dominated Federal Government in Kuala Lumpur would not brook a Chinese challenge.

From the beginning the Government was committed to improving a lot of the peasants, however, the choice amongst conflicting priorities is often difficult. On the one hand, was the goal of economic development; on the other a more equitable distribution of wealth and opportunities. And it was the Chinese and Europeans who had the capital, expertise, experience and contacts to develop the economy. A more equitable distribution of wealth could only be attained at the expense of slowing the pace of development. Until 1969 the former priority took precedence. The year 1969, saw the near defeat of the ruling Alliance followed by an explosion of racial violence that profoundly influenced the direction of Government policy.

The ruling Alliance, which had drawn support from all racial groups, lost 23 seats in the election and 14 of these had been lost by the Chinese partner, the MCA. It was thus a firm statement of the dissatisfaction of the Chinese community with Government policies and their desire for more equitable treatment. A Chinese victory marches to celebrate their success was said to be marked by expressions of Chinese chauvinism and insults hurled at Malays. The Malays felt that the Chinese had grown too sure of their position and had reaped too many of the rewards of development and the situation erupted into violence. Though the real figures for the final casualties of

13 May 1969 will probably never be known, even the official figures indicate the blow the Chinese received<sup>148</sup>.

May 13, 1969, was not just an attack on the Chinese; it was also an attack on the Government. The hostility that erupted against the Chinese was an expression of the dissatisfaction of the Malays with their leaders. May 13<sup>th</sup> also demonstrated the ultimate weapon the Malays had against the Chinese which was a force. Both the police and the army were predominantly Malay. They thus had control over the means of enforcing Chinese acceptance of Malay supremacy. For the Chinese, May 13<sup>th</sup> impressed upon them the present impossibility of a democratic change of power.

The Malays had seen Chinese successes at the polls as allowing political power that they felt was rightfully their prerogative to slip into immigrant hands and acted to halt this. Up until 1969, the Government followed a relatively safe, conservative policy that reflected the lessons of the British. The events of 1969 forced a complete reassessment of policy and a reorientation towards the Malay community. So, began the current period of Malaysian political and economic development.

## **5.2 CONTEMPORARY POLITICAL CONTEXT, CURRENT POLITICAL FRAMEWORK**

The current political framework is that Malaysia is a fully independent country within the British Commonwealth. It consists of a federation of thirteen states, nine of which have as their head the traditional Malay Ruler<sup>149</sup>. The Rulers and Governors form the Conference of Rulers and elect the King from among the nine Malay Rulers. The country is a parliamentary democracy with a fully elected House of

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<sup>148</sup> The May 13 Tragedy, A Report..

<sup>149</sup> The Head of State in Malacca, Penang, and Sarawak is the Governor, and in Sabah, the Yang di Pertuan Negara.

Representatives, the Federal Dewan Rakyat. While the country consists of three main racial groups, the Malays are considered the definitive people. They, and the indigenous tribes of Sarawak and Sabah, are termed bumiputras and their interests are specifically safeguarded in the federal constitution. Malay is the national language, of the electors of urban constituencies. Since the Malay population is concentrated in the countryside this ensures Malay domination of the Dewan Rakyat.

C.T. Goh recounts that soon after the elections at which UMNO, the incumbent Malay party, suffered severe losses, UMNO campaign directors demanded a more Malay-oriented cabinet. UMNO and Utusan Melayu, another Malay party, "felt that the immigrant vote could and should be written off and Malay voters agreed to the fullest"<sup>150</sup>. The Head of State in Malacca, Penang, Sarawak, and Sabah is a Governor, and for Malaysia is the Yang di Pertuan Negara. King is always Malay, and the State religion - Islam - is the religion practised by the Malays. Within Parliament, the balance of power lies firmly with the Malays. They form 53% of the population and the constitution makes provision for rural constituencies to contain less than half. Politics in Malaysia is dominated by the need to strike a delicate balance between what are almost entirely communally based parties. As a result, a system of power-sharing has evolved based on the acceptance of the Malays as the dominant political force and the 'special position of the Malay people.

Following the 1969 riots more and more opposition parties have been brought into the ruling Alliance to form the Barisan National or National Front. In the context of a racially divided country, this has the advantage of lending itself to "the resolution of

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<sup>150</sup> C. T. Goh recounts that soon after the elections at which UMNO, the incumbent Malay party, suffered severe losses, UMNO campaign directors demanded a more Malay—oriented cabinet. UMNO and Utusan Melayu, another Malay party, "felt that the immigrant vote could and should be written off and Malay voters wooed to the fullest. Goh Cheng Teik, *The May Thirteenth Incident and Democracy in Malaysia*. pp. 16-17

sensitive national issues within the structure of political consensus". In this way, public debate is avoided and the rifts in Malaysian society are supposedly minimized. It also means the Government normally has the two-thirds majority in Parliament required to amend the constitution which gives it enormous power <sup>151</sup>.

### **5.3 INTERNAL PRIORITIES**

The year 1969, was a watershed in terms of Malaysia's internal policy-making. One of the priorities, after the rioting was the need to create a united nation; related to this, was the need to solve the socio-economic problems that were the root cause of the rioting. The nation-building of the post-1969 era has particularly concentrated on ensuring the loyalty of non-Malay Malaysians. One of the first measures was the articulation of a national ideology in the "Rukun Negara"<sup>152</sup>. This expresses the shared aims and assumptions of a modern society oriented towards science and technology. It also reveals the anxieties that lie behind the emphasis on national unity, the questionable loyalty of non-Malays, "Loyalty to other countries is inconsistent with undivided loyalty to this Nation", the power of communal loyalties, "The interests of the whole must come before the interests of any sectional group", the defensiveness of the Malays regarding their "Special position" and the privileges that they have given to themselves, "the weak and the disadvantaged must be assisted to compete on equal terms".

The second aspect of nation-building was the creation of a national culture and identity based on the Malay culture. It has also brought a reemphasise on Malay as the national language and the development of the Malay language to enable it to cope

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<sup>151</sup> Malaysia, Federal Constitution. Thirteenth Schedule, Part I, 2 (c). Up until 1973 a rural constituency could contain up to but no fewer than half the electors of an urban constituency, but the August 1973 Act A206 deleted this provision thus allowing the rural constituency to contain less than a half the electors of an urban area.

<sup>152</sup> <https://www.mkn.gov.my/web/ms/2021/08/13/edisi-merdeka-rukun-negara/>

with the requirements of modern society. Malay is now referred to as 'Bahasa Malaysia', meaning the Malaysian language. Education has been seen as performing an important role in 'moulding civic and national consciousness and spiritual values and the national language has been progressively introduced throughout the educational system. From the point of view of the business community, the insistence on Malay is a matter of concern since it is 'likely to result in a decline in the standard of English spoken and English is the principal language of business in Malaysia. The Third Malaysia Plan seeks to alleviate such anxieties by stating that although Bahasa Malaysia will be used as the main medium of instruction 'the use of English will be extended as a strong second language"<sup>153</sup>.

Along with the new cultural nationalism, has gone an emphasis on economic nationalism. This is related to the idea that the Malay people should have control over the country's natural resources. It has involved the purchase of substantial interests in key companies to subsequently resell them to Malaysians, particularly Malays. Another manifestation of this has been an increasing hostility towards the foreign enterprise. A good deal of publicity was given to the figure presented in the Second Malaysia Plan (SMP) that foreign ownership of limited companies in West Malaysia was 62.1% in 1969. As a result, foreign companies experienced subsequent difficulty and inflexibility in their dealings with Government departments, reaching a climax around 1975-76. However, the Third Malaysia Plan (TMP) reaffirmed the Government's commitment to and reliance on foreign investment and the Prime Minister and Deputy Prime Minister showed themselves open to discussion with the business community and receptive to their arguments; as a consequence, the

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<sup>153</sup> The Second Malaysia Plan starts off: "National Unity is the over—riding objective of the country." p. 1, para. 1. Third Malaysia Plan. p. 2. para. 5.



suspicion and hostility have begun to subside. This has been confirmed by the appointment on 1 January 1978 of the Deputy Prime Minister, a man largely trusted by the business community, as Minister of Trade and Industry. One of the key policy changes that came out of the 1969 disaster was the New Economic Policy (NEP) introduced in 1970.

This new policy was aimed at what were seen as the two main causes of the rioting: - poverty and the identification of race with economic function, that is, that the vast majority of Malays were poor, rural farmers and fishermen and the more visible Chinese were relatively affluent, urban businessmen. This policy has had far-reaching effects on the business community which will be dealt with in detail later. The contemporary context of management development in Malaysia can only be understood in the light of this situation and the political domination of the Malay community, the determination of the Government to correct the economic backwardness of the Malays as fast as possible without serious dislocation to the economy, and the increasing power and centralization of the Government. It is determined to play a direct and active role in the economy and society to achieve its aim. This means that it is concentrating on promoting the interests of the 53% of the population who are bumiputras, and holding back the non—Malay population, who consequently feel persecuted.

#### **5.4 RACIAL BALANCE**

The term 'racial balance' is used as a shorthand for the whole process of restructuring society so that the three main races that comprise Malaysian society - Malays, Chinese and Indians, are engaged in all sectors and at all levels of the economy in the same proportion as their proportion in the population. The 1969 race

riots highlighted the dangers of allowing social and economic inequalities to continue unchecked and since then the correction of racial imbalance has been, with the elimination of poverty to which it is related, the main aim of the Government.

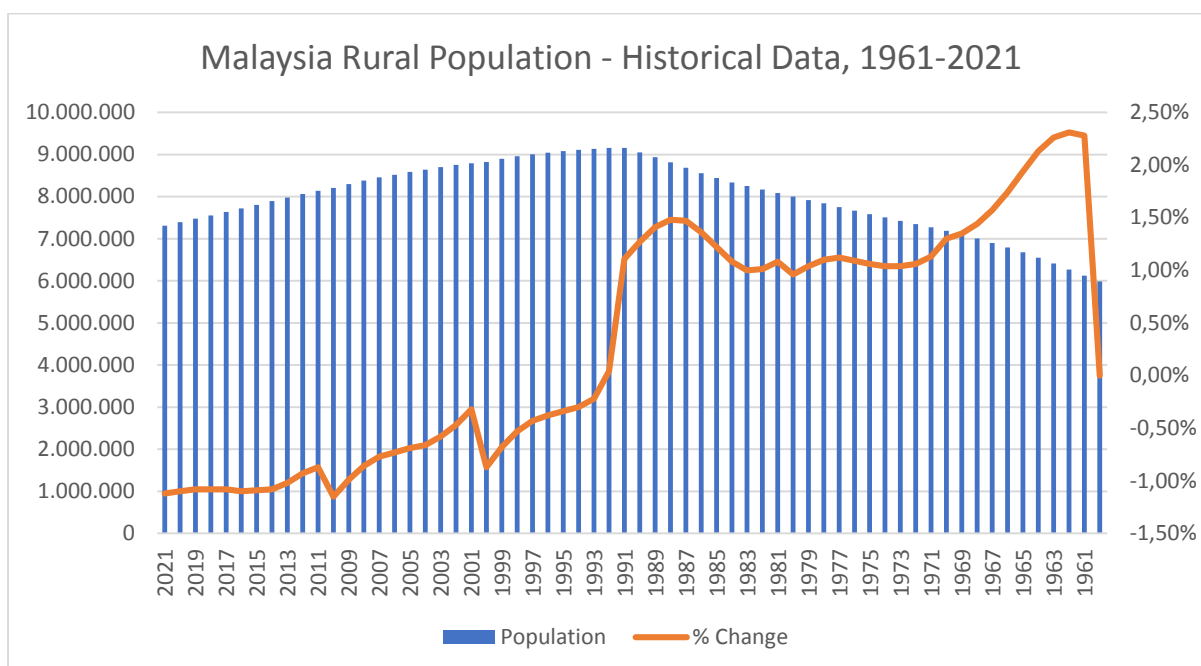
For historical reasons, the Malays find themselves politically dominant in a country in which much of the wealth of the country and the fruits of economic development are in the hands of non-Malays. The Malay population is characterized by being predominantly rural and poor and in 1975, 82% of Malays in Peninsular Malaysia lived in the countryside, and in 1970 on average 65 % of Malay households were poor.

Table 1 Poverty by state 1970-2016 %

State	Year																
	1970	1996	1975	1984	1987	1989	1992	1995	1997	1999	2002	2004	2007	2009	2012	2014	2016
Malaysia	49.7	37.7	37.4	20.7	19.4	16.5	12.5	8.7	6.1	8.5	6.0	5.7	3.6	3.8	1.7	0.6	0.4
Johor	45.7	29.0	18.2	12.2	11.1	9.8	5.6	3.1	1.6	3.1	2.5	2.0	1.5	1.3	0.9	0.0	0.0
Kedah	63.2	61.0	53.8	36.6	31.3	29.9	21.2	12.2	11.5	14.2	9.7	7.0	3.1	5.3	1.7	0.3	0.2
Kelantan	76.1	67.1	55.0	39.2	31.6	29.6	29.5	22.9	19.2	25.2	17.8	10.6	7.2	4.8	2.7	0.9	0.4
Malacca	44.9	32.4	20.4	15.8	11.7	12.4	8.5	5.3	3.5	2.9	1.8	1.8	1.8	0.5	0.1	0.1	0.0
Negeri Sembilan	44.8	33.0	26.3	13.0	21.5	9.1	8.1	4.9	4.7	4.1	2.6	1.4	1.3	0.7	0.5	0.4	0.2
Pahang	43.2	38.9	26.9	15.7	12.3	10.0	6.9	6.8	4.4	9.8	9.4	4.0	1.7	2.1	1.3	0.7	0.2
Penang	43.7	32.4	19.7	13.4	12.9	8.7	4.0	4.0	1.7	0.7	1.2	0.3	1.4	1.2	0.6	0.3	0.1
Perak	48.6	43.0	30.5	20.3	19.9	19.2	10.2	9.1	4.5	6.8	6.2	4.9	3.4	3.5	1.5	0.7	0.2
Perlis	73.9	59.6	63.1	33.7	29.1	17.4	19.8	11.8	10.7	13.6	8.9	6.3	7.0	6.0	1.9	0.2	0.1
Selangor	29.2	22.9	14.5	8.6	8.9	7.6	4.3	2.2	1.3	1.9	1.1	1.0	0.7	0.7	0.4	0.2	0.0
Terengganu	68.9	60.3	53.1	28.9	36.1	31.3	25.6	23.4	17.3	22.7	14.9	15.4	6.5	4.0	1.7	0.6	0.4
Sabah&W.P Kuala Lumour		58.3	40.7	33.1	35.3	29.7	27.8	22.6	16.5	23.4	16.0	23.0	16/0	19.2	7.8	3.9	2.8
Sarawak		56.6	47.8	31.9	24.7	21.0	19.2	10.0	7.3	10.9	11.3	7.5	4.2	5.3	2.4	0.9	0.6
W.P Kuala Lumpur				4.9	5.2	3.7	1.7	0.5	0.1	0.4	0.5	1.5	1.5	0.7	0.8	0.1	0.0
W.P Putra Jaya													0.0	0.0	0.0	0.0	0.0

Source: Household Income Survey 2016, Department of Statistics, Malaysia and Ministry of Economic Affairs, Malaysia

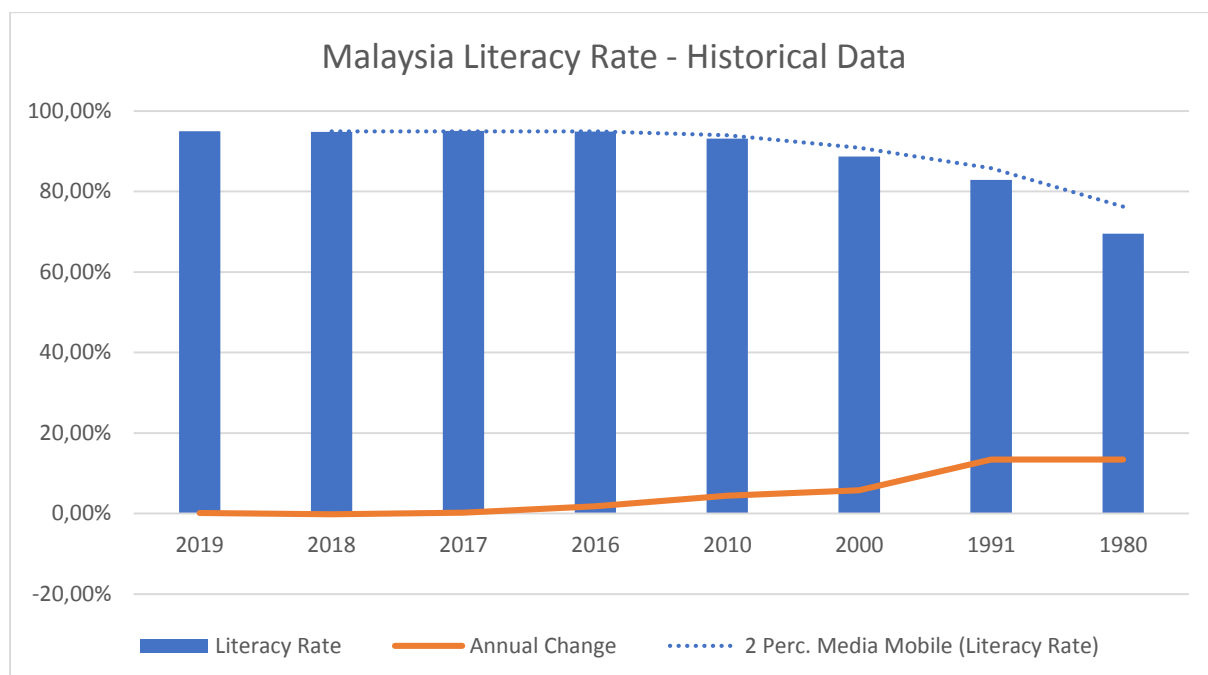
The rural areas have not had the same educational facilities as the cities and a 1967/68 Survey found 88% of the rural population had attained no more than primary education. Malays are concentrated in subsistence agriculture, utilities and services, and are substantially underrepresented in mining, manufacturing, construction and commerce. Within these industries, the underrepresentation is particularly marked in the more senior administrative grades.



Source: 2010-2022 Macrotrends LLC, World Bank  
 Figure 3 Malaysia Rural Population 1960-2022

One area to which Malays have been attracted is the Civil Service which until 1953 was closed to non-Malays (other than the British). When in 1953 non-Malays were allowed into the MCS for the first time it was on a quota basis of four Malays to each non-Malay and this system of a preferential quota for Malays in the Civil Service has been incorporated into the Malaysian constitution. The prestige, security and Malay orientation of the Civil Service tend to make it a natural first choice for many young Malays even today. Added to this is the fact that the vast majority of Malay students are on Government scholarships that bond them to serve the Government. More recently, with the extension of instruction in Malay to the university level, there has been a growing number of graduates who are unable to use English fluently and so are unemployable by much of the business community. That the Government takes its responsibility towards these new Malay graduates seriously is witnessed by the fact that during 1975/78 Government employment increased by over 100,000 making it

second only to manufacturing in terms of its contribution to job creation. "The alternatives open to individuals are important since we must consider the opportunity costs of entrepreneurial acts. In the case of the Malays, the opportunity costs of entering the high-risk world of business have tended to be prohibitively high.



Source Malaysia Department of Statistics

Figure 4 Malaysia Literacy Rate - Historical Data 1980-2019

- Malaysia's literacy rate for 2019 was **94.97%**, a **0.12% increase** from 2018.
- Malaysia's literacy rate for 2018 was **94.85%**, a **0.23% decline** from 2017.
- Malaysia's literacy rate for 2017 was **95.08%**, a **0.2% increase** from 2016.
- Malaysia's literacy rate for 2016 was **94.88%**, a **1.76% increase** from 2010.

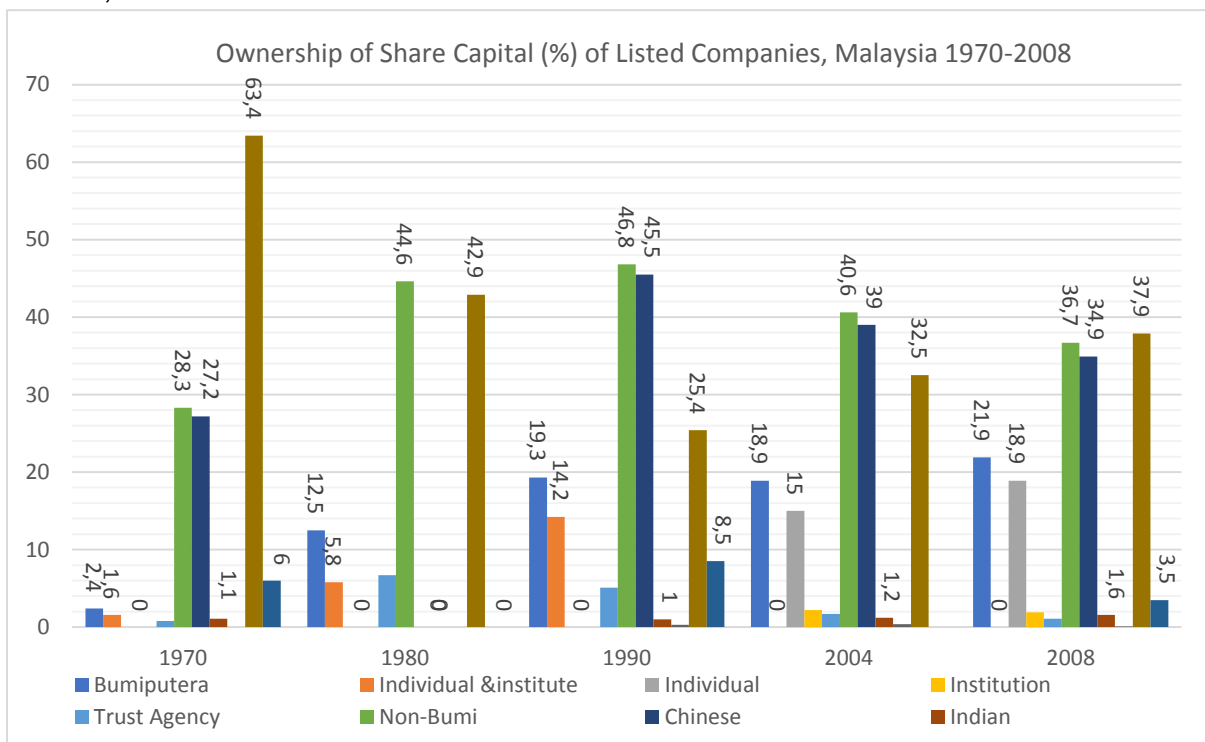
Not only are the Malays underrepresented in the modern sectors of the economy, they are grossly underrepresented in terms of ownership of the private sector. In 1970 Malays and Malay interests owned 1.9 per cent of share capital in Peninsular Malaysia, rising in 1975 to 7.8%.

Table 2 Ownership of Share Capital, Listed Companies, Malaysia

	1970	1980	1990	2004	2008
	%	%	%	%	%
Bumiputera	2.4	12.5	19.3	18.9	21.9
Individual & institute	1.6	5.8	14.2		

Individual	-	-		15.0	18.9
Institution	-	-		2.2	1.9
Trust Agency	0.8	6.7	5.1	1.7	1.1
Non-Bumi	28.3	44.6	46.8	40.6	36.7
Chinese	27.2		45.5	39.0	34.9
Indian	1.1		1.0	1.2	1.6
Others	0.0		0.3	0.4	0.1
Foreigners	63.4	42.9	25.4	32.5	37.9
Nominee	6.0		8.5	8.0	3.5

Source: Department of Statistics, Malaysia Federal Government Administrative Centre,



Source: Department of Statistics, Malaysia Federal Government Administrative Centre,  
*Figure 5 Ownership of Share Capital (%) of Listed Companies, 1970-2008*

The Malays see the reasons for their lack of participation in the modern sector as due to (a) a lack of opportunity and facilities due to continuous official neglect, and (b) the entrenchment of non-Malay interests. The roots of the problem go much deeper than that. Faced with the problem of moving rapidly into the commercial and industrial sectors, Malays tend to lack the knowledge, experience, capital and contacts to do so. The Government is concentrating its efforts on overcoming these handicaps.

The restructuring of society to correct racial imbalance has particularly focused on the need to bring the Malays into the modern sector, that is, "the creation of a Malay commercial and industrial community in all categories and at all levels of operation. The four main areas on which the Government has concentrated are the modernization of the rural areas, the creation of a Malay entrepreneurial class, the introduction of Malays into all levels of management and increased Malay ownership of the economy as a whole. The first of these will not be dealt with since it is not relevant to this study; the Government's policies and practices in the other three areas will be examined at greater length since they substantially affect the management context in Malaysia.

## **5.5 THE CREATION OF A MALAY ENTREPRENEURIAL CLASS**

To foster the development of a Malay entrepreneurial cadre the Government has sought to help them overcome their immediate disadvantages by provision of capital, opportunities, facilities, and training. Several institutions have been fostered by the Government for the express purpose of providing financial facilities for Malays and in particular, easy loans. The most important of these is Bank Bumiputra, which was initiated with RM 25 million from the Government and with the intention that shares would be sold to Malays at a later date. Because Malays do not always have security for loans the Credit Guarantee Corporation (CGC) was set up in 1973 to underwrite bank loans to Malays. As a result of these measures between 1971-1975 total loans and advances to bumiputras rose ten-fold from RM 80 million at the end of 1970 to RM 791 million at the end of 1975.

The provision of opportunities for Malay entrepreneurs has taken several forms. A certain quota of licenses in the transport and haulage business is reserved for

Malays, a policy started by the British in 1952, and laid down in the Constitution (Article 153). A proportion of timber concessions is also reserved for Malays. The Government follows a policy of Malay preference concerning its contracts: all construction contracts under RM 10,000 automatically go to Malay firms and over that they are open to tender but Malay preference is still assured. Malay contractors are given preference in the supply of goods and services up to RM 5 million for prices 10% over other competitors, and 30 % of the value of all work contracted by the Public Works Department is reserved for Malays. These measures are intended to assist and encourage small Malay businessmen who cannot compete with well-established Chinese firms. One result has been that several smaller Chinese firms have been forced to the wall and competition, and cooperation, amongst non-Malays, has become even more intense.

There has been a tendency for Malays to sell or lease their concessions, or sub-contract to non-Malays. A manager of a Chinese firm (*Name withheld due identity protection*) interviewed, explained that the only possibility for survival in his field, which was the supply of provisions to the armed forces, was to obtain a sub-contract from a Malay firm, and this was then shared out amongst a small group of companies in the same field to enable each of them to keep ticking over.

Another approach taken has been for the Government to create companies for Malays, get them started and then hand them over to Malay private enterprises. Is the chief Government body concerned with this? PERNAS was incorporated as a private company in 1969 to speed up the entry of Malays into commerce and industry. The degree of Government support for PERNAS is indicated by the fact that under the First Malaysia Plan PERNAS received RM 10 million, under the Second Malaysia Plan RM 100 million, and under the Third Malaysia Plan RM 200 Million. It has six wholly owned

subsidiaries in insurance, construction, manufacturing, property development, securities and trading. It also has a monopoly on all trade with the People's Republic of China which gives it a key position in distributive trade.

Not only does PERNAS initiate its own companies, but it also goes into joint ventures with other companies, however, it demands a controlling share in the equity so that it can insist on Malay employment at all levels up to at least 45 to 50 per cent of the workforce. Majlis Amanah Rakyat (MARA) has started an Industrial and Commercial Division with the task of facilitating direct Malay participation in tapioca processing, fruit canning, timber processing and the like. The State Economic Development Corporations (SEDCs) are involved in establishing wholly owned Malay companies as well as joint ventures.

They also assist ailing industries owned by Malays. Finally, the Government seeks to provide opportunities for Malay entrepreneurs by forcing the private sector to give preference to Malay companies. The distributive and service sectors are seen as areas well-suited to Malay involvement. Consequently, the Government has set a target that 30 % of the distribution and service business of the private sector be given to bumiputra companies by 1990. Indeed, there has been strong pressure on companies to comply with this target well before 1990. This has caused a good deal of resentment since established distributors have built up a reputation, a market and a distribution network that the new bumiputra distributors do not have. On the service side, it is felt that Tunku Raza Leigh Hamzah and bumiputra companies are not necessarily able to provide the range of services of a well-established company.<sup>154</sup> A further problem is that the only companies that are considered to be bumiputra are

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<sup>154</sup> Aids to Malay Development, Financial Times, 26.2.73, p. 16.



those that have 51 per cent of equity in the hands of Malays, whereas companies that have complied with the racial balance ownership target of 30 per cent Malay participation are categorized as non-bumiputra.

The Government has involved itself in the provision of suitable business premises for Malay enterprises. The Urban Development Authority (UDA) was established to acquire and develop suitable land in Kuala Lumpur, state capitals and major towns to ensure that Malay traders have the opportunity to operate in the main commercial areas of the country. These facilities they sell or lease on easy terms. MARA has built a shop and office complexes for Malay businessmen which it leases for nominal rents. Industrial estates, business premises and shopping complexes are also built by the SEDCs.

To facilitate and sustain such rapid development of a Malay entrepreneurial cadre requires a massive training effort. One aspect of this is the improvement of Malay educational standards which will be dealt with in a later chapter. On-the-job training is one of the main purposes of the PERNAS and MARA ventures and PERNAS companies have the luxury, rarely found in a fledging enterprise, of substantial training funds. When PERNAS enters into a joint venture one of the requirements made of its partner is in-service training both in Malaysia and in the overseas facilities of the partner. There are also a host of training courses that have been initiated for the express purpose of preparing Malays for business. The consultancy has been made available to the Malay entrepreneur by the NPC; MARA, also provides feasibility studies; FIDA, likewise provides feasibility studies; and MIDF Industrial Consultants Sdn Bhd.

## 5.6 RACIAL BALANCE IN MANAGEMENT

Not only does the Government want to create a new entrepreneurial class of Malays it is also committed to bringing Malays into all levels of management of the private sector. The exact proportion of Malays to be attained is unclear. The SMP states, "The Government has set a target that within twenty years, Malays and other indigenous people will manage and own at least 30 per cent of the total commercial and industrial activities in all categories and scales of operation. However, the TMP suggests a target of 53 per cent when it states that, "employment in the various sectors of the economy and employment at all occupational levels should reflect the racial composition of the country by 1990. Either target requires the private sector to recruit a very high proportion of Malays. The Government estimates that Malay employment will have to account for 64 % of total new employment in industry and 54 % in services during 1976-90. In 1970, 22 % of all administrative and managerial workers were Malay but this proportion varied between 35 % in the tertiary sector and only 15 % in the secondary sector. By 1975, the proportion of Malays in the managerial and administrative grades had risen to 27 % and by 1978 it had reached 33 %<sup>155</sup>. This rapid improvement is evidence of the seriousness with which the problem of racial balance is being tackled.

If 53% is to be attained there will still need to be a very large increase in Malay managers. In companies that have been growing rapidly there has been room for new employment; older companies, especially those with a slower rate of growth, have found it difficult to improve their racial balance without sacrificing existing staff and the Government has specifically stated that no one is to be deprived to attain the

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<sup>155</sup> Mid-Term Review of The Third Malaysia Plan. p. 47, Table 3-4.

objectives; racial balance is to be achieved out of growth<sup>156</sup>. New industrial firms often apply for pioneer status to receive tax incentives offered by the Government. A condition of these incentives has been a commitment to employ a representative number of Malays. This approach has been reasonably effective: pioneer firms employ a considerably higher proportion than other manufacturing companies, for example as early as 1968 pioneer firms employed 42 per cent of Malays compared to 24 per cent in modern manufacturing companies<sup>157</sup> as a whole. The difficulty lies at the level of senior management. While foreign experts are allowed in during the early stages of an operation they have to be rapidly phased out except for a very few key posts, and it normally requires a considerable length of time to train a man to take over at the senior level. In recognition of this problem in the TMP, the Government has made some allowance and has committed itself to adopt a "flexible approach in the implementation of the restructuring objectives for the modern industrial sector.

Malay employment in management has been at previous low levels for several reasons. One is the education policies of the British, which will be examined in the next chapter. As a result of these policies, Malays lacked the educational qualifications particularly in the fields of science, technology and business studies to enter management. And those who had the necessary education tended to prefer to enter the Civil Service. Another difficulty has been the special requirements, such as the need for managers in sales divisions to speak Chinese, because the wholesale and retail trades are dominated by Chinese. A further difficulty has been their disinclination to enter the business and the Malay value structure that runs counter to that of a

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<sup>156</sup> Mid-Term Review of The Third Malaysia Plan. p. 47, Table 3-4.

<sup>157</sup> D. R. Snodgrass, "Summary Evaluation of Policies Used to Promote Bumiputra Participation in the Modern Sector in Malaysia, Development Discussion Paper. No. 38, Harvard Institute for International Development, p. 5. TMP. p. 84, para. 254.

modern industrial economy. Finally, there has been the stereotype that has grown up of the Malay being unsuited to the demands of business life.

## **5.6 GENDER EQUALITY -DISCRIMINATION**

It is appropriate now to highlight gender equality in Malaysia. As much as we could see racial discrimination in Malaysia after independence, gender equality was non-existent. Women had no place in the forming of the new government or the economy. Malaysia was a man's world. Is much related to the peasantry's behaviour and religious beliefs? Modern Malaysia has come a long way since independence as far as gender equality is concerned.

Heralded by the call to create a gender-balanced working world. While balance is important for all workers throughout an organization, it is particularly relevant to women who — much more so than their male colleagues — are often expected to strike a balance between career building and homemaking, between bringing home a pay cheque and bringing up the children, and even between ambition and compassion<sup>158</sup>.

From a more practical perspective, gender balance means creating more equitable opportunities for women, particularly at the highest levels of an organization. According to “The power of parity: Advancing women's equality in Asia-Pacific”, a report published by McKinsey's business and research arm, McKinsey Global Institute (MGI), women in the region continue to be concentrated in lower-growth sectors and lower-paying roles. The talent pipeline also narrows for women, with a drop-off of over 50% of representation from entry-level to senior management.

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<sup>158</sup> Nimal Manuel and Ee Huei Koh The Edge Malaysia April 07, 2019 15:30 pm +08

Beyond the moral and ethical implications suggested by this imbalance, gender inequality puts corporations at a disadvantage. McKinsey research from our Women Matter series has shown that greater representation of women in senior corporate positions correlates to improved business performance. In essence, diversity leads to more dynamic discussions, a broader range of factors considered and healthy challenges to conventional thinking. The benefits apply to governments as well as private organizations. In short, gender equality at all levels is not just a moral and ethical imperative; it is also good for business and the economy.

Ultimately, measures that help promote gender balance — for instance, flexible hours and expanded parental leave — directly improve the work-life balance of all employees, female and male. These factors can be crucial as today's top talent, often favoured with multiple opportunities, weigh work-life balance and other aspects of happiness more keenly than previous generations in choosing and staying with their employers.

## **5.7 GENDER BALANCE**

Much is at stake. MGI report has estimated that US\$ 12 trillion can be added to global growth by advancing gender equality. According to the report, Malaysia has the potential to add US 50 billion a year to its gross domestic product by 2025, which would be an 8% increase over its business-as-usual trajectory.

Capturing these benefits requires not just a vision and a will but also proactive and focused measures. Governments, companies and society, which make up this trifecta, must work together to unlock this potential. Malaysia has already taken steps to address sources of gender inequality. The United Nations has listed Malaysia as a leader in encouraging women to participate in science, and half of all researchers in

Malaysia are women. In addition, in 2004, the government committed to filling at least 30% of key roles in the public sector with women, and in 2017, women comprised 36% of the public-sector workforce. Also, in 2015, the government mandated that women comprise at least 30% of the boards of large corporations by 2020, making it the only country in ASEAN with such a directive.

## **5.8 PRIORITIZING GOVERNMENT ACTION FOR GENDER EQUALITY**

The first actor in the tripartite effort to encourage gender balance is the government, which must build on ongoing efforts to bring more women into the workforce and particularly into senior positions. In Malaysia, women account for 38% of the workforce, one percentage point higher than the 37% average in Asia-Pacific. They also contribute about 32% to Malaysia's GDP, compared with 36% in Asia-Pacific. Along with building a more equitable workforce, bringing participation in the workforce by women closer to parity would have economic benefits.

To advance gender equality in Malaysia, measures should be taken that address gender stereotyping, sexual harassment, lack of women in leadership roles, support for pregnant women and balancing work and caregiving responsibilities, among other pressing issues. The Gender Equality Act was introduced in 2006 to protect women from discrimination through all stages of life and efforts are needed to finalize and implement its provisions.

## **5.9 THE BUSINESS CASE FOR GENDER EQUALITY**

There is also a big role business can play to improve gender parity pivotal of which is narrowing gaps in pay for equal work. A gender pay gap is a contributing factor to the lower representation of women along the pipeline and this remains a

problem in Malaysia, where women degree holders on average get only 76% of what men get paid, according to numbers released by the Department of Statistics in 2017.

Thankfully, both the government and private corporations within the country are stepping up efforts to drive change. For example, 30% Club Malaysia, a business group that campaigns for more female directors on company boards, has helped advance women in directorships and leadership positions and is on course to achieve 30% women on corporate boards by 2020. Their numbers have risen to 19.1% in 2017, up from 16.6% in end-2016. The club convenes women through roundtable sessions where several issues that women are facing are raised, including sourcing for board-ready women directors.

#### **5.10 CULTURAL CHANGE TO BREAK GENDER GRIDLOCK**

Society generally is the last tripartite element. Deeply rooted attitudes play an integral part in limiting the potential of women, and an investment in public awareness to shift social norms and help ease the path for working women is called for. A complex fabric of conventions, beliefs, values, attitudes and prejudices based on traditions and historical experience wind through many levels of any society. The orthodox society remains patriarchal and the affluent still transfer property along patriarchal lines. The movement to change these traditional mindsets may be slow, but it is essential for real and long-term change.

Education and awareness are crucial. Schools could consider ways to remove gender bias and work in tandem with companies, for instance, in sponsorship and mentoring program for women, to encourage women to participate more broadly in the economy. Such measures could encourage a change in attitude among policymakers, business leaders and society generally to smooth the path towards gender parity.

Gender equity in Malaysia cannot be achieved without conscious efforts, and the challenge is compounded by changes in demographics and increased automation, which put increased pressure on the workforce. But if the tripartite actors - government, companies and society - work together, progress can be made and everyone can reap the benefits of the balance for the better.

Among Malaysian states, the top three states with high levels of gender equality in 2020 were: Kuala Lumpur (85.3%), Putrajaya (79.3%), and Perlis (78.2%). The overall level of gender equality in Malaysia has improved, according to the Department of Statistics Malaysia's (DOSM) latest report, *Statistics on Women Empowerment in Selected Domains, Malaysia, 2021 Using the Malaysia Gender Gap Index (MGGI) score*—which identifies the gap between women and men across four sub-indices: economic participation and opportunity, educational attainment, health and survival, and political empowerment, the overall gender equality improved to 0.714 (71.4%) in 2020. The equality of women and men is achieved when the score hits a value of 1.0 (100%).

Dr Mohd Uzir Mahidin, Chief Statistician Malaysia, shared: "Based on the MGGI 2020 score, we were ranked 74th from 156 countries in the world. Simultaneously, within East Asia and the Pacific, Malaysia remained at the eighth position in 2020 where we were ahead of Thailand, Vietnam, Indonesia, China, and Brunei Darussalam. "However, we were still behind New Zealand, the Philippines, Australia, and Singapore."

Across the four aforementioned sub-indices, the index with the highest level of gender equality in education attainment (education sector) at 1.059. This is followed by health and survival (healthcare sector) at 0.956, and economic participation and



opportunity (economic sectors) at 0.738. The lowest index is political empowerment (political sector) at 0.100 - which translates to 10%.

Dr Mahidin added: "The labour force participation rate (LFPR) for women was still low at 55.3% in 2020 as compared to other Southeast Asian countries such as Singapore (69.7%) and Thailand (66.8%). Generally, women's LFPR for developed nations exceed 60%. Political empowerment recorded the lowest at 10% (score 0.100) which shows women were still lagging behind men in the Ministerial position and Parliament."

The statistics on individual Malaysian states showed gender equality in 2020 did show improvements but some states are still lagging. Among the individual states, all but Melaka, Perak, Penang, and Terengganu have attained an MGGI score of more than 0.7 (70%). DOSM noted. The state with the highest score is Kuala Lumpur at 0.853 (85.3%), followed by Putrajaya (79.3%) and Perlis (78.2%).

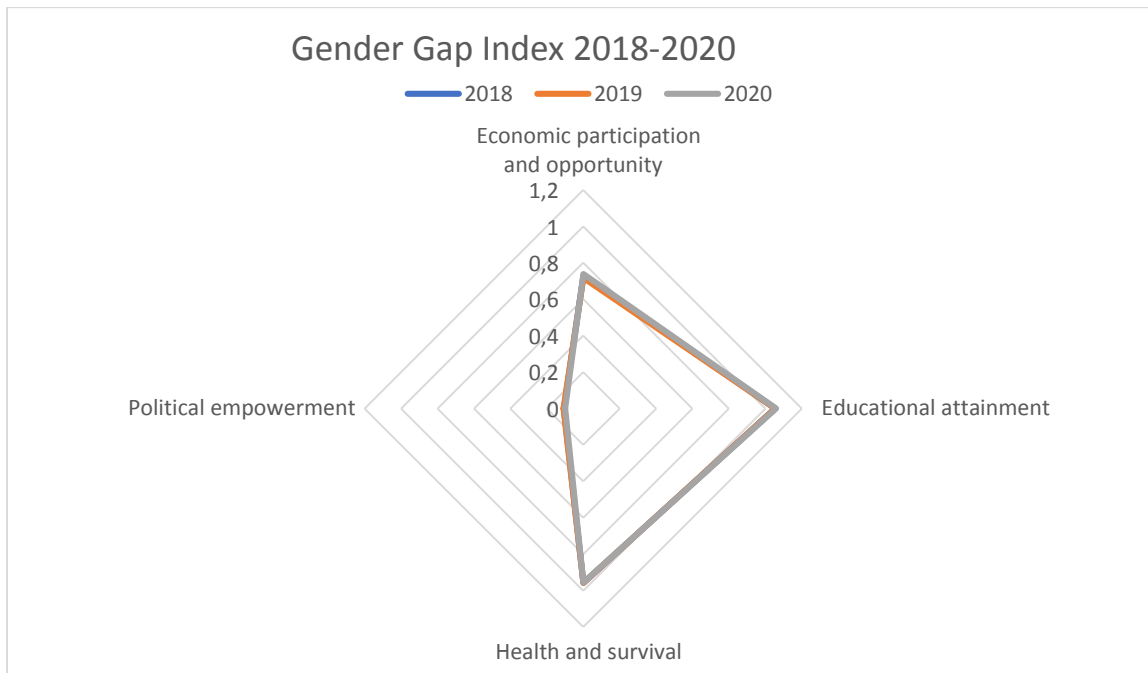
Diving into specific indices, all states have attained an MGGI score of more than 0.9 across education as well as the healthcare sector. In the political sector, however, most states have reached a score of 0.1, with the better-performing ones being Kuala Lumpur (0.671), Perlis (0.336), and Selangor (0.333). Women currently make up 40% of positions in senior management teams within companies in Malaysia. This is a 3-per centage point jump from 2021, which is the highest number ever recorded since 2004 according to Grant Thornton International Ltd.'s Women in Business research, which surveys senior leaders from 5,000 businesses across 29 economies.

*Table 3 Malaysia Gender Gap Index (MGGI) score*

Malaysia Gender Gap Index			
Sub-index	2018	2019	2020

Economic participation and opportunity	0.727	0.717	0.738
Educational attainment	1.054	1.053	1.059
Health and survival	0.958	0.958	0.956
Political empowerment	0.106	0.108	0.1
MGGI score	0.711	0.709	0.714

Department of Statistics, Malaysia, Federal Government Administrative



Department of Statistics, Malaysia, Federal Government Administrative

Figure 6 Malaysia Gender Gap Index (MGGI) score, 2018 - 2020

### 5.11 MALAY OWNERSHIP OF THE ECONOMY

The Government has stated that by 1990 Malays will own 30 per cent of the economy, Other Malaysians 40%, and foreigners 30%. The New Economic Policy (NEP) has scripted Malaysia's development for 50 years, with the 30% Bumiputra equity target as the main protagonist. It is particularly concerning to correct the imbalance in ownership in the Modern Rural and Modern Urban sectors of the economy where they are greatest. Given that Malays and Malay interests owned only 2.4% of share capital in 1970, 7.8% in 1975, and 16.2% in 2015 which shows a definite increase but it is still a concern and it is clear that an enormous leap forward is required. This expansion of Malay ownership is to come mainly out of growth so that

existing owners will not be dispossessed. There is a variable policy on the attainment of the objectives, "pioneer" industries, for instance, are required to reserve at least 30 per cent of their equity for Malays, while established companies are required to work gradually towards the target. On the other hand, sensitive resource-based industries are expected to comply with the target immediately. Where an established company decides to restructure its ownership, it is compelled to set aside 30 per cent for Malays. This restructuring of the ownership of the economy is overseen by the Foreign Investment Committee established in 1974.

The NEP's imprint remains deep; its legacy endures long beyond the initial 1971-1990 timeline. While followed by a raft of other long-term plans, the NEP reigns supreme, its successors consigned to historical footnotes. The draft of the Shared Prosperity Vision (SPV) 2030, Malaysia's next grand plan, makes the most substantive reference to the NEP, while cursorily acknowledging the National Development Plan (1991-2000) and the National Vision Policy (2001-2010). Bumiputras have steadily progressed toward policy targets in education and employment, but the persistence of Bumiputra equity holdings below the 30% threshold, according to the official estimations, is continuously reiterated as the NEP's defining – but elusive – quest<sup>159</sup>. Perpetuation of this target is problematic, from historical, empirical and strategic perspectives. In 1971, the NEP originally aspired to a complex mix of Bumiputra development objectives, but 30% equity ownership was placed on a pedestal in the mid-1970.

This has allowed quick gains and political patronage to prevail over longer gestation pursuits focused on building capability and competitiveness. In recent years,

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<sup>159</sup> Lee 2019

policy emphasis has principally shifted toward productivity-driven, bottom-up Bumiputra enterprise development, deepening the disconnect between these broad priorities and the narrow 30% target. Empirical flaws also mar the target setting and progress monitoring processes. A sub-target within the overall 30% has been surpassed, without acknowledgement. The official accounts, which include foreign ownership and opaque nominee companies while excluding Malaysian government ownership, have continuously provided a partial picture that demands more clarity and completeness. From a strategic standpoint, persisting with a single macro equity target detracts from the more crucial attention needed in a dynamic and competitive Bumiputra enterprise. This calls for a thorough policy revisit of priorities and targets, and a reset that coherently and effectively aligns policy actions with those priorities and targets.

One of the major difficulties in fulfilling this goal has been the poverty of the Malay community - they do not have the financial resources to take advantage of the shares reserved for them. If the target of 30 per cent ownership is to be achieved, Malays and Malay interests will have to acquire roughly one-third of the total increase in equity capital between 1975—1990 or over RM 23 billion worth of shares as well as those reserved shares not yet taken up. It is very clear that the targets set were not realistic and that the government should have looked at the underlying problems and solved those first. Instead of providing training and lifting people out of poverty first the Government to accomplish this, they have stepped in to purchase shares in trust for the Malay people. TMP. p. 191, para. 588(i) states: "Present imbalances in the ownership of equity stock in individual enterprises will be corrected mainly through growth. Disinvestment of existing stock will not be compulsorily enforced to execute

the restructuring objectives of the Government". These will then be resold to Malays as they become more affluent. However, it is clear that Government bodies will have to hold an increasing proportion of Malay shares and that only in this way will the targets be achieved.

Even by 2015, it is anticipated that private Malay holdings will have been able to take up less than a quarter of the reserved shares. This has created a problem for many companies that have had to reserve 30 per cent of their equity and found that the shares have not been taken up. A further problem is a fact that the price of reserved shares is set not by the market but by the Government and may be well below the market price. Having sold shares to Malays there is also nothing to stop Malays from reselling their shares to non-Malays so diluting what has been an expensive balance to achieve.

One of the ideas underlying the aim of achieving a racial balance in all sectors and at all levels of the economy by 1990 was that this should be achieved through rapid growth so that no one else should be deprived of what he had to make room for the Malays. This meant it was essential to maintain an attractive investment climate. However, the very radical social change to which the Government aspires cannot be achieved without a considerable degree of dislocation and adequate time for preparation, training and readjustment. When, in 1974-75, the timescale was reduced and pressure applied for companies to comply far sooner and on an individual basis this aggravated the dislocation and created the sort of tension and uncertainty among investors that induces them to reduce their time horizon for profitability. This fostered the sort of attitude that led to 'window-dressing' on the part of companies concerning the restructuring of their management cadre. Wong Sulong cites the example of Batu

Kawan, a large plantation and investment group, having to sell 15 million shares to Bumiputras at RM 1.10. per share when the going price on the Kuala Lumpur Stock Exchange was RM 1.7 per share<sup>160</sup>.

A problem in the attainment of the Government's racial and gender equality balance policies is that it has continued to foster the very attitudes and values that produced the imbalance it seeks to overcome. Its extensive efforts to assist Malays have made them even more dependent on benevolent Government action and obviated the necessity of developing a 'need for Achievement' to use McClelland's term. "Malays have not succeeded in entering the modern economy in the past partly because of their traditional, 'peasant' orientation". If the restructuring of society is to succeed there will need to be a change in the attitudes and values of the Malay people, a move away from tradition towards hard work, self-reliance, and a desire for achievement. It is interesting to note that the Government appears aware of this need. The Rukun Negara declares that Malaysian society "shall be oriented toward modern science and technology. The Deputy Prime Minister of the time advocated the urbanization of the Malay community, back in 1970, as a means of bringing about rapid attitude change. There is also a reference to the important role to be played by women, longer saddled by prejudice and traditional conservatism a reference which recalls McClelland's emphasis on women's role in the creation of a dynamic society. In the introduction to the Third Malaysia Plan, the Prime Minister urges, "There can be no substitute for hard work and a determination to succeed. Further on the Plan explicitly refers to the dilemma: The community as a group can identify and integrate its short and long—term needs, strive for the satisfaction of these needs with the minimum

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<sup>160</sup> Wong Sulong. "Coming of Age Difficulties Financial Times, 1 February 1979, p. 33.

assistance from the Government and deal with all forms of challenges as individuals and as a community, thus, while Government assistance is necessary for promoting development and change within the community, such assistance given injudiciously may negate the above objectives<sup>161</sup>. Yet the political necessity for rapid progress towards racial balance, to avoid another racial conflagration, but more immediately because the Government is directly dependent on the Malay voters, forces it to intervene to speed up the pace of change.

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<sup>161</sup> 56 Mahathir bin Mohamad, *The Malay Dilemma*. p. 105, para. 318.

## **CHAPTER 6**

### **6.0 MALAYSIA: THE SOCIAL CONTEXT**

In order to understand the Malay management, it is fundamental to understand the social context of Malaysia the chapter will examine the social context of management development in Malaysia which will highlight the main characteristics of Malaysian society in general, with a focus historical education development, ethnic composition, population distribution on the labour force in particular and the origins of its multiracial society. It will examine the social and cultural features of the three main racial groups; and their educational background. As has already been shown in other chapters, the nature of the population from which managers are drawn, the complexity of attitudes and values of a society where racial conflict and gender inequality are at play, as well as the level and quality of education and the availability of technically qualified staff in the three main groups, are highly relevant to the problem of developing competent management. The main focus of this study is within the context of Peninsular Malaysia and surrounding states and the indigenous or “orang asli” is not being included in the studies. The “orang asli” fall into the ‘hunter-gatherer’ group and do not establish themselves in one area for extended periods.

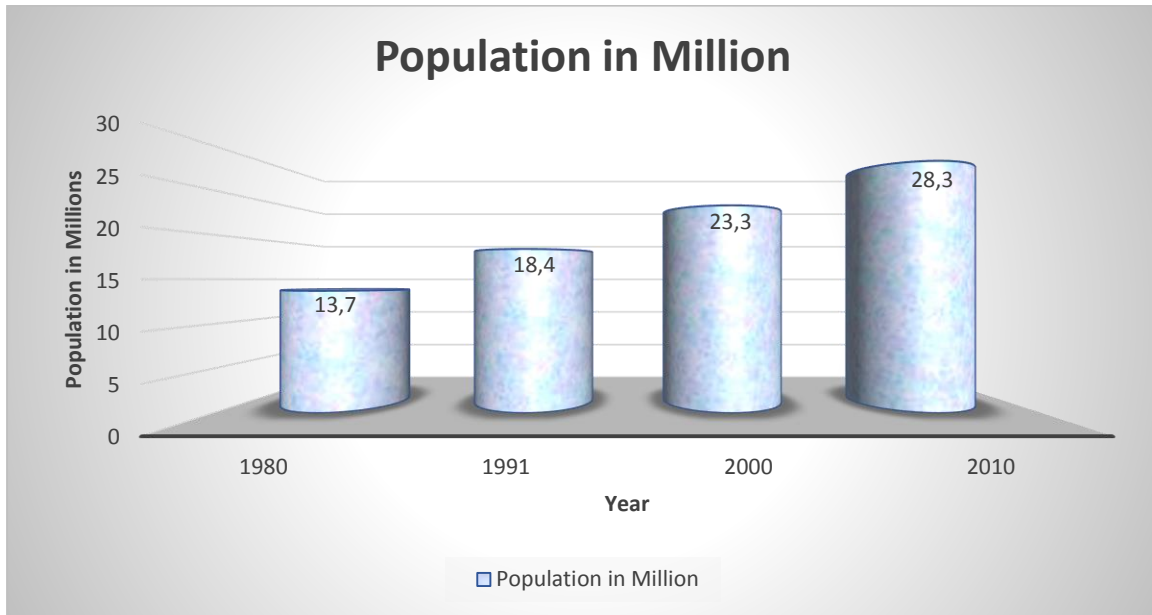
#### **6.1 SOCIAL DIMENSIONS**

The 2010 Population and Housing Census of Malaysia (Census 2010) was the fifth decennial census to be conducted since the formation of Malaysia in 1963. The previous censuses were conducted in 1970, 1980, 1991 and 2000. Census is an enormous statistical project that has been undertaken to produce very useful data for the planning and implementation of national development.



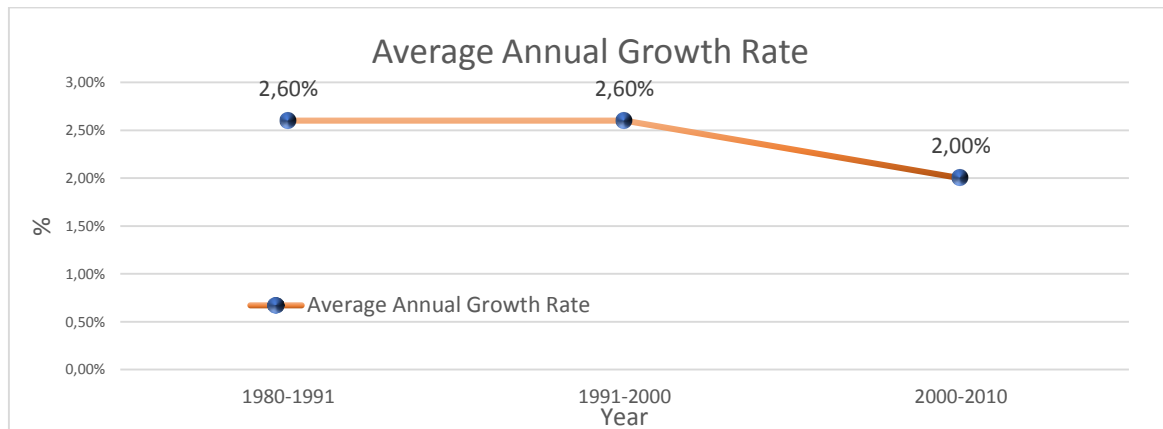
The population of Malaysia as a whole in 1975 was estimated to be 12,249,000, of which 10,385,000 or 85%, were in Peninsular Malaysia. Of this number 53.1% are Malay, 35.5% Chinese, 10.6% Indian, Pakistan or Ceylonese, and 0.8% Others. This gives Malaysia the highest proportion of Chinese of any country in South East Asia at the time.

The population of Malaysia have grown rapidly and has grown to 33,519,406 (July 2021 est.). The Ethnic groups were divided into, Bumiputra 62.5% (Malays and indigenous peoples, including Orang Asli, Dayak, Anak Negeri), Chinese 20.6%, Indian 6.2%, other 0.9%, non-citizens 9.8% (2019 est.), The shift in balance can be seen. Census 2010 revealed that the total population of Malaysia was 28.3 million, compared with 23.3 million in 2000 (Chart 6.1). This gives an average annual population growth rate of 2.0 per cent for the period 2000-2010. The rate was lower compared to that of 2.6 per cent during 1991-2000 (Chart 6 2). The state with the highest growth rate for the period 2000-2010 was W. P. Putrajaya (17.8%), followed by Selangor (2.7%), Melaka (2.6%) and Sabah (2.1%). Among the states which experienced lower growth rates were Terengganu (1.4%), Perak (1.4%), W. P. Labuan (1.3%) and Perlis (1.2%).



Source: Department of Statistics Malaysia  
 Figure 7 Total Population of Malaysia 1980, 1991, 2000, and 2021

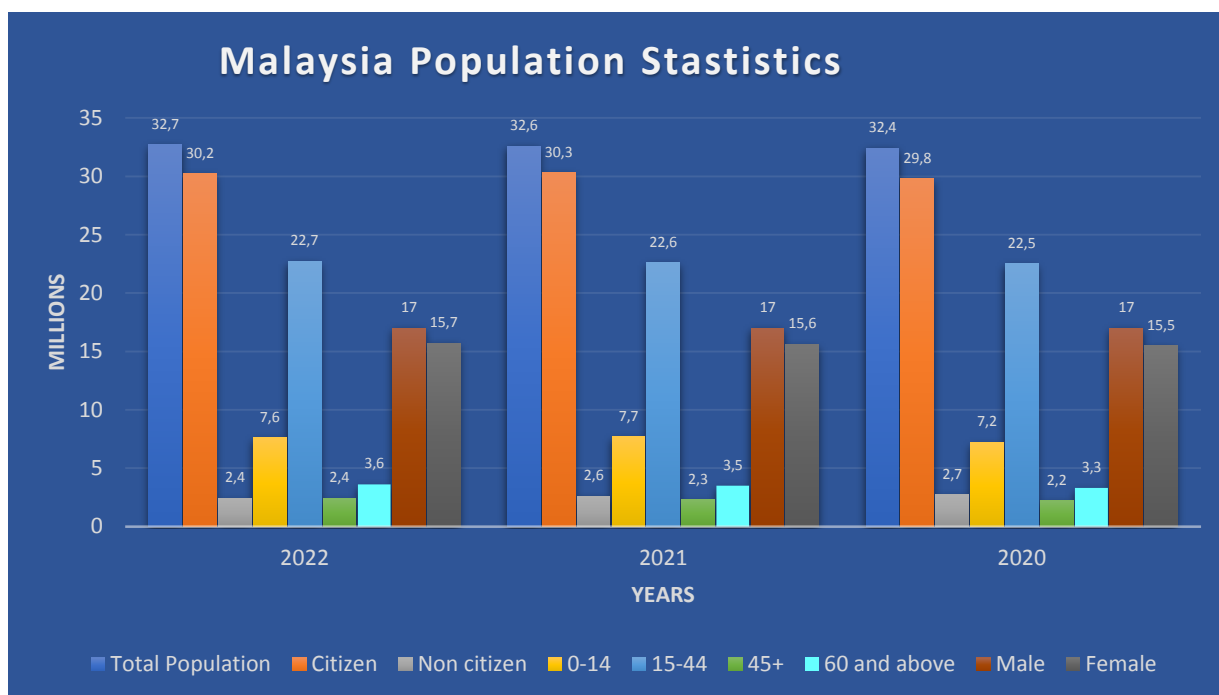
### Total Population of Malaysia 1980, 1991, 2000, and 2021



Source: Department of Statistics Malaysia  
 Figure 8 The Average Annual Growth Rate, Malaysia

The total population of Malaysia in 2022 is estimated at 32.7 million as compared to 32.6 million in 2021 with an annual population growth rate of 0.2 per cent. The decline in population growth rate is due to the lower number of Non-Citizens from 2.6 million (2021) to 2.4 million (2022). This is in line with the restriction on international travel by countries during the spread of the COVID-19 pandemic worldwide in 2020

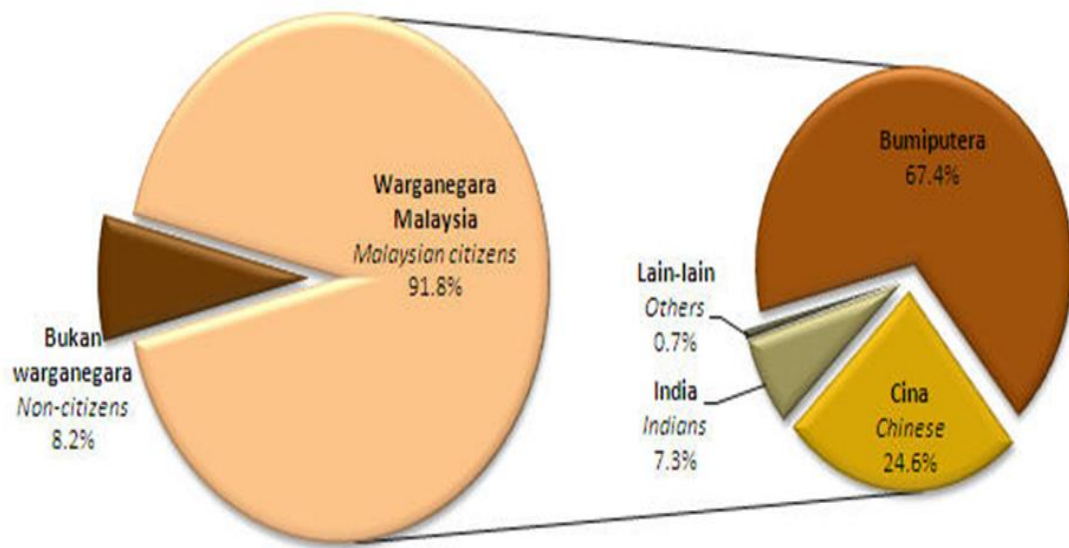
and 2021. The Citizen's population increased from 30.0 million in 2021 to 30.2 million in 2022 with the growth rate decreasing from 0.8 per cent to 0.7 per cent over the same period.



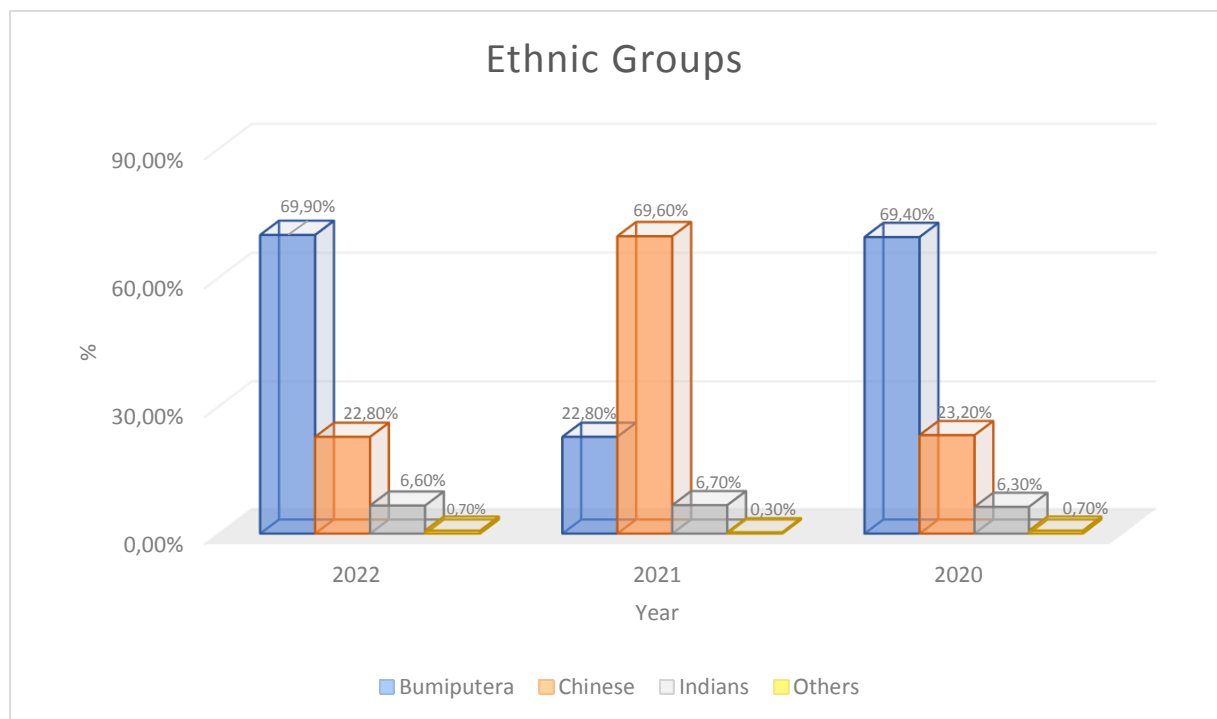
Source; Current Population estimates 2022, Department of Statistics Malaysia  
 Figure 9 Malaysia Population Statistics 2020-2022

## 6.2 ETHNIC COMPOSITION

The majority of Malaysia's ethnic Chinese and Indians trace their roots to the British colonialists' recruitment of hundreds of thousands of Chinese and Indians as mine and plantation workers between the early 19th century and the 1930. The total population was 28.3 million of which 91.8 per cent were Malaysian citizens and 8.2 per cent were non-citizens. Malaysian citizens consist of the ethnic groups' Bumiputra (67.4%), Chinese (24.6%), Indians (7.3%) and Others (0.7%). Among the Malaysian citizens, the Malays were the predominant ethnic group in Peninsular Malaysia which constituted 63.1 per cent. The Ibans constituted 30.3 per cent of the total citizens in Sarawak while Kadazans/Dusun made up 24.5 per cent in Sabah.



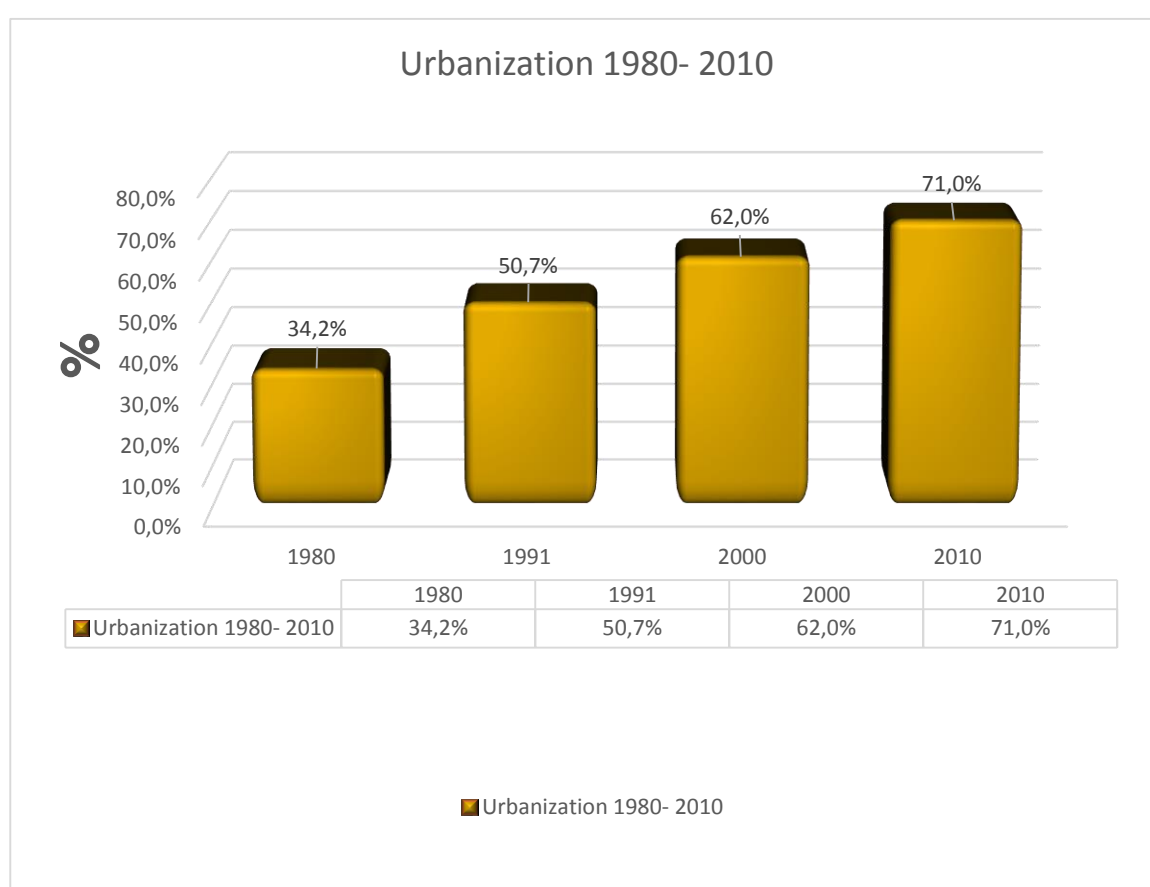
Sources: by the Department of Statistics Malaysia  
 Figure 10 Percentage of the population by ethnic group



Source; Current Population estimates 2022, Department of Statistics Malaysia  
 Figure 11 Distribution of population by ethnic group, 2020-2022

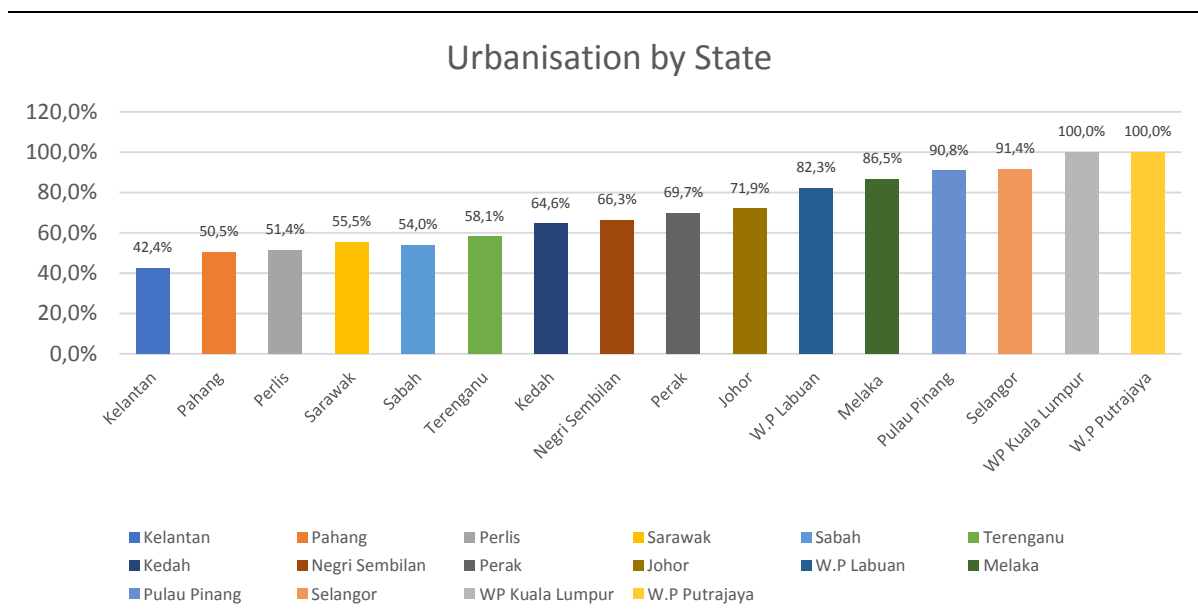
Most Malays have maintained their rural lifestyle, while the entrepreneurial Chinese have achieved greater wealth and economic dominance. To eradicate Malay poverty, it was fundamental to urbanize the Malays and provide education.

In tandem with Malaysia's rapid development, the proportion of the urban population increased to 71.0 per cent in 2010 compared with 62.0 per cent in 2000 (Chart 6.3). Apart from W. P. Kuala Lumpur and W. P. Putrajaya with a 100 per cent level of urbanization, the other states with a high level of urbanization were Selangor and Pulau Pinang with 91.4 per cent and 90.8 per cent respectively (Chart 6). Conversely, the states with lower urbanization levels were Kelantan (42.4%), Pahang (50.5%) and Perlis (51.4%).



Source: by the Department of Statistics Malaysia

Figure 12 Urbanization, in Malaysia, in 1980, 1991, 2000 and 2010



Source: The Department of Statistics Malaysia  
 Figure 11 The urbanization by state, Malaysia 2010

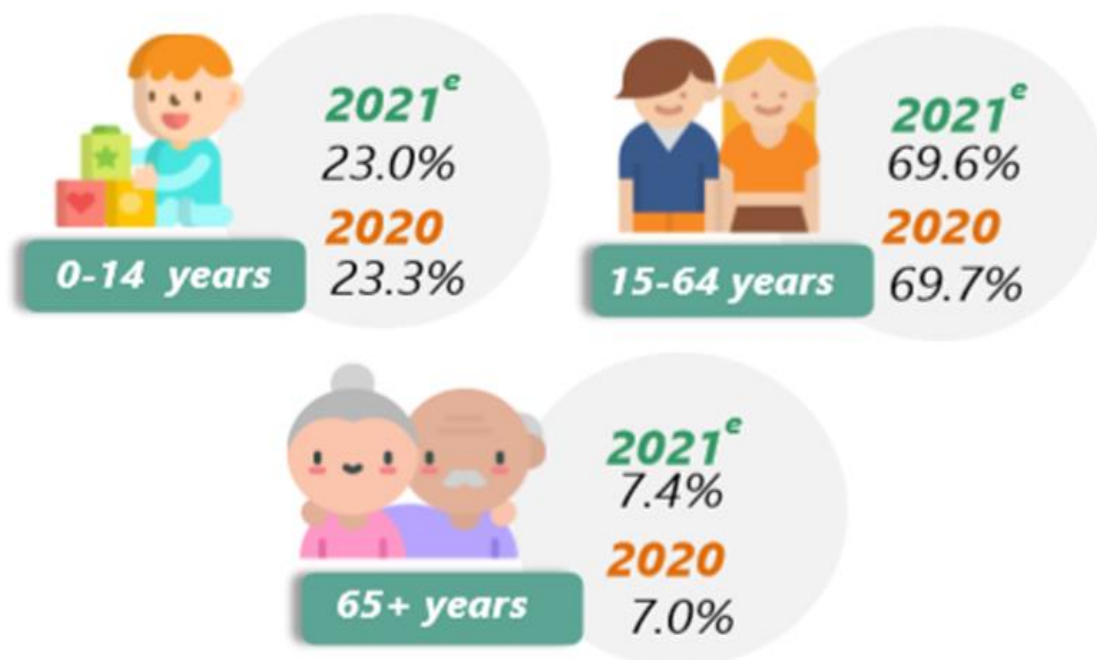
### 6.3 AGE STRUCTURE

The country's age structure has changed significantly since the 1960, as fertility and mortality rates have declined. Malaysia's total fertility rate (TFR) has dropped from 5 children per woman in 1970 to 3 in 1998, to 2.1 in 2015 as a result of increased educational attainment and labour participation among women, later marriages, increased use of contraception, and changes in family size preference related to urbanization. The TFR is higher among Malays, rural residents (who are mainly Malay), the poor, and the less educated. Despite the reduced fertility rate, Malaysia's population will continue to grow, albeit at a decreasing rate, for the next few decades because of its large number of reproductive-age women. The youth population has been shrinking, and the working-age population (15-64-year old's) has been growing steadily. Malaysia's labour market has successfully absorbed the increasing number of job seekers, leading to sustained economic growth. This new influx of foreign workers is now creating its own set of problems and Malaysia is repeating the same issue the British faced during the colonization era with the shortage of labour.

However, the favourable age structure is changing, and around 2020, Malaysia will start to become a rapidly ageing society. As the population ages, Malaysia will need to better educate and train its labour force, raise productivity, and continue to increase the number of women workers to further develop its economy.

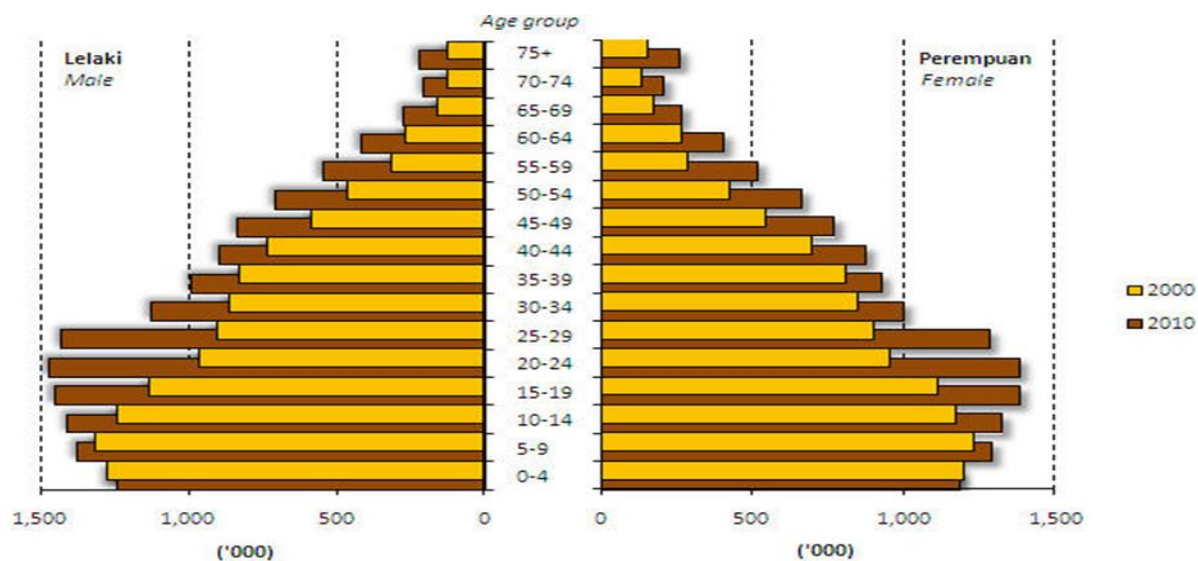
The proportion of the population of Malaysia below the age of 15 years decreased to 27.6 per cent compared with 33.3 per cent in 2000. In contrast, the proportion of the working-age population (15 to 64 years) increased to 67.3 per cent from 62.8 per cent. The proportion of the population aged 65 years and over also increased to 5.1 per cent as compared with 3.9 per cent in 2000. Consequently, the median age increased from 23.6 years in 2000 to 26.2 years in 2010, while the dependency ratio dropped from 59.2 per cent to 48.5 per cent. The trend of these indicators is in line with the transition of age structure towards an ageing population of Malaysia.

The percentage of the population aged 0-14 years (young age) in 2021 decreased to 23.0 per cent compared to 23.3 per cent in 2020. Meanwhile, the percentage of the population aged 15-64 years (working age) also decreased from 69.7 per cent in 2020 to 69.6 per cent in 2021. This is due to the decline in the Non-citizens population which was mostly comprised of foreign workers. The percentage of the population aged 65 and over (old age) increased from 7.0 per cent to 7.4 per cent for the same period. The median age also increased from 29.3 years in 2020 to 29.6 years in 2021.



Source: Picture by the Department of Statistics Malaysia

Figure 13 Population by age group, Malaysia 2020 and 2021

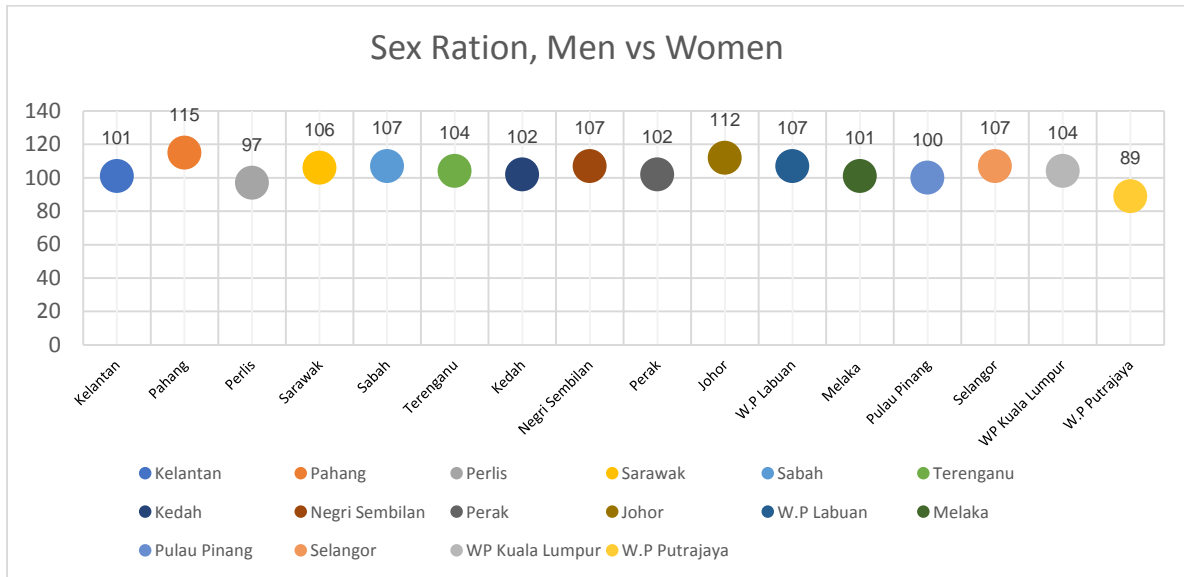


Source: Picture by Department of Statistics Malaysia

Figure 14 Population by sex and age group, Malaysia, 2000 and 2010

Men outnumbered women with a sex ratio of 106 to 1. A similar pattern was observed in the year 2000 (104). The ratio of males to females was relatively high for Pahang (113), Johor (112), Negeri Sembilan (107), Sabah (107), Selangor (107), W.P. Labuan (107) and Sarawak (106). On the other hand, men were outnumbered by women in W. P. Putrajaya (89) and Perlis (97) as shown in Figure.

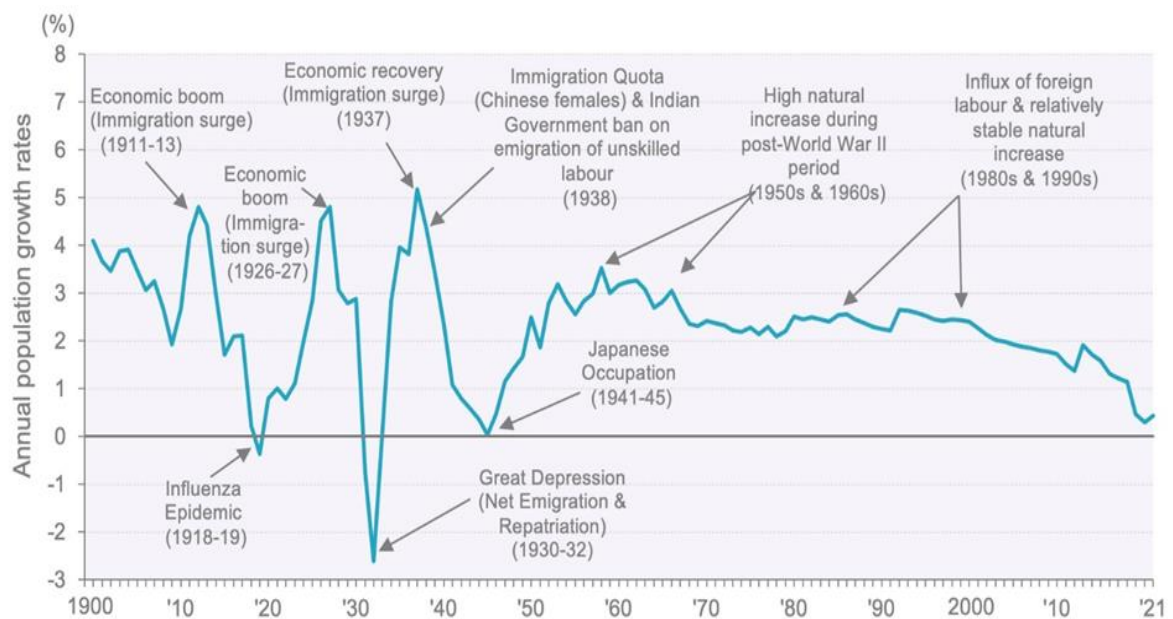




Source: Department of Statistics Malaysia

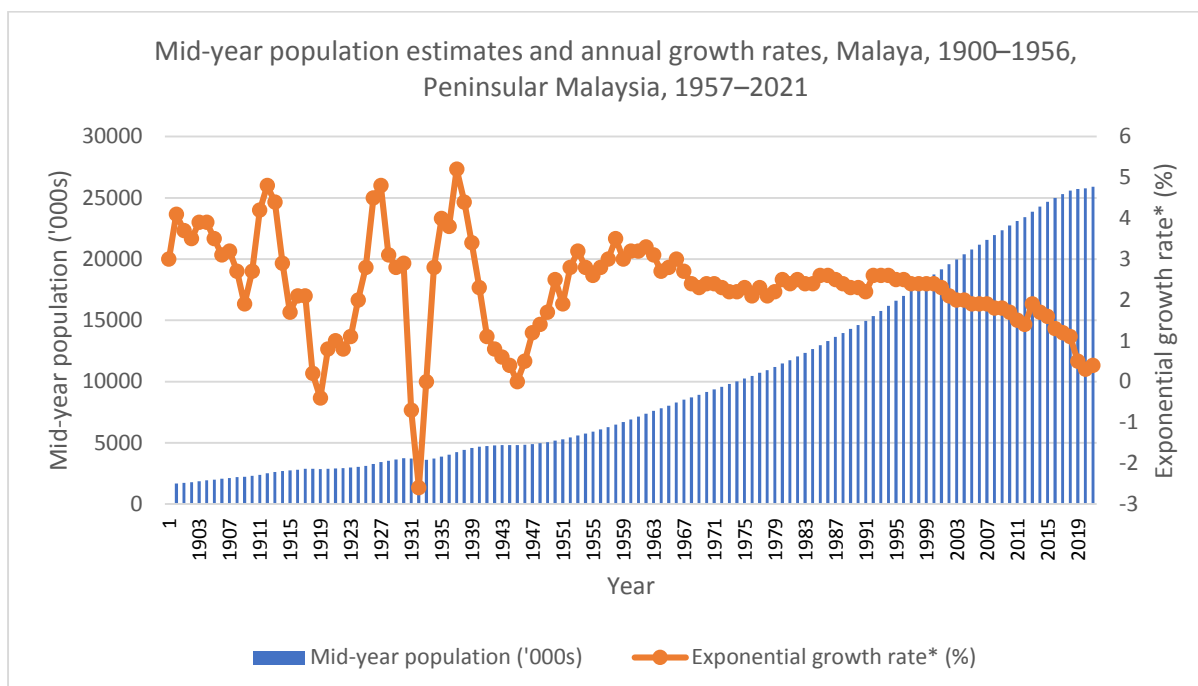
Figure 15 Sex Ration, Men vs Women

The population in Malaysia in general is concentrated in two main areas: a strip down the length of the West Coast of the Peninsula and the northeast corner. There is also a particular concentration of population in the state of Selangor which has seen a growing influx of people from other states drawn by the prospect of employment in industry or government in the Federal capital, Kuala Lumpur.



Source: - Picture by the Department of Statistics Malaysia

Figure 16 Annual % growth rates and the impact of major events



Sources: 1900-1956 population estimates by Sultan Nazrin Shah, Vital Statistics Time Series, Peninsular Malaysia, 1911-1985 (Kuala Lumpur: Department of Statistics Malaysia, 1991), pp. 11-12, [For population data of Peninsular Malaysia (1958-1962)]. Vital Statistics Time Series, Malaysia, 1963-1998 (Putrajaya: Department of Statistics Malaysia, 2001), pp. 35, 105, 167 and 227. [For population data of Peninsular Malaysia (1963-1990) (1971-1990)]. Current Population Estimates, Malaysia, 2015 [Downloaded from Department of Statistics-Malaysia Website on 11th October 2016]

Figure 17: Mid-year population estimates and annual growth rates.

Table 4 Mid-year population estimates, Malaya, 1900, Peninsular 1957

Year	Peninsular Malaysia		Year	Peninsular Malaysia	
	Mid-year population ('000)	Exponential growth rate* (%)		Mid-year population ('000)	Exponential growth rate* (%)
1	2	3	1	2	3
1900	1,671.2	4.1	1961	7,146.7	3.2
1901	1,733.7	3.7	1962	7,383.7	3.3
1902	1,794.9	3.5	1963	7,614.2	3.1
1903	1,866.1	3.9	1964	7,822.3	2.7
1904	1,940.4	3.9	1965	8,045.9	2.8
1905	2,008.9	3.5	1966	8,294.9	3.0
1906	2,071.4	3.1	1967	8,520.7	2.7
1907	2,139.8	3.2	1968	8,724.2	2.4
1908	2,197.7	2.7	1969	8,927.9	2.3
1909	2,240.5	1.9	1970	9,146.7	2.4
1910	2,301.3	2.7	1971	9,366.4	2.4
1911	2,399.9	4.2	1972	9,587.5	2.3
1912	2,517.9	4.8	1973	9,803.3	2.2
1913	2,631.6	4.4	1974	10,019.7	2.2

1914	2,710.3	2.9		1975	10,251.1	2.3
1915	2,757.1	1.7		1976	10,472.5	2.1
1916	2,815.4	2.1		1977	10,716.6	2.3
1917	2,875.5	2.1		1978	10,944.5	2.1
1918	2,881.6	0.2		1979	11,188.6	2.2
1919	2,870.9	-0.4		1980	11,473.0	2.5
1920	2,893.6	0.8		1981	11,757.1	2.4
1921	2,922.8	1.0		1982	12,054.2	2.5
1922	2,946.1	0.8		1983	12,352.5	2.4
1923	2,979.1	1.1		1984	12,653.3	2.4
1924	3,038.7	2.0		1985	12,980.1	2.6
1925	3,126.4	2.8		1986	13,315.5	2.6
1926	3,270.9	4.5		1987	13,646.7	2.5
1927	3,432.2	4.8		1988	13,975.0	2.4
1928	3,538.8	3.1		1989	14,300.7	2.3
1929	3,639.2	2.8		1990	14,626.9	2.3
1930	3,745.6	2.9		1991	14,956.0	2.2
1931	3,718.0	-0.7		1992	15,357.1	2.6
1932	3,622.3	-2.6		1993	15,766.6	2.6
1933	3,620.9	0		1994	16,180.6	2.6
1934	3,725.2	2.8		1995	16,595.1	2.5
1935	3,875.6	4.0		1996	17,008.0	2.5
1936	4,026.3	3.8		1997	17,425.4	2.4
1937	4,239.9	5.2		1998	17,857.4	2.4
1938	4,429.0	4.4		1999	18,298.1	2.4
1939	4,583.9	3.4		2000	18,743.8	2.4
1940	4,692.7	2.3		2001	19,174.6	2.3
1941	4,743.6	1.1		2002	19,587.3	2.1
1942	4,781.4	0.8		2003	19,986.4	2.0
1943	4,809.8	0.6		2004	20,388.0	2.0
1944	4,827.4	0.4		2005	20,785.3	1.9
1945	4,829.0	0.0		2006	21,180.1	1.9
1946	4,851.4	0.5		2007	21,576.8	1.9
1947	4,908.1	1.2		2008	21,969.5	1.8
1948	4,978.1	1.4		2009	22,363.3	1.8
1949	5,061.4	1.7		2010	22,753.3	1.7
1950	5,189.1	2.5		2011	23,099.2	1.5
1951	5,286.8	1.9		2012	23,417.1	1.4
1952	5,436.1	2.8		2013	23,868.3	1.9
1953	5,612.1	3.2		2014	24,280.8	1.7
1954	5,773.3	2.8		2015	24,669.0	1.6

1955	5,923.1	2.6		2016	24,995.2	1.3
1956	6,093.7	2.8		2017	25,302.8	1.2
1957	6,278.8	3.0		2018	25,593.2	1.1
1958	6,504.6	3.5		2019	25,713.3	0.5
1959	6,702.6	3.0		2020	25,788.7	0.3
1960	6,919.1	3.2		2021	25,900.1	0.4
<b>Notes:</b>						
(1)	* Refers to growth rate calculated on an exponential basis.					
(2)	The 1957 figure for Peninsular Malaysia is that of the 1957 Census undertaken on 17/18 June.					
(3)	The population data given above for the years 1981 onwards are based on the revised intercensal population estimates adjusted for under-enumeration using the PES/CCES and then to mid-year. The forward-reverse survival-rate method was used to obtain these intercensal figures. This methodology involves the calculation of two preliminary estimates, one by 'ageing' the first census and the second by 'youngling' the second census and then averaging the two estimates.					

Sources: 1900-1956 population estimates by Sultan Nazrin Shah, *Vital Statistics Time Series, Peninsular Malaysia, 1911-1985* (Kuala Lumpur: Department of Statistics Malaysia, 1991), pp. 11-12, [For population data of Peninsular Malaysia (1958-1962)]. *Vital Statistics Time Series, Malaysia, 1963-1998* (Putrajaya: Department of Statistics Malaysia, 2001), pp. 35, 105, 167 and 227. [For population data of Peninsular Malaysia (1963-1990) (1971-1990)]. *Current Population Estimates, Malaysia, 2015* [Downloaded from Department of Statistics-Malaysia Website.]

## 6.4 POPULATION DISTRIBUTION

Population distribution by state indicated that Selangor was the most populous state (5.46 million), followed by Johor (3.35 million) and Sabah (3.21 million). The population share of these states to the total population of Malaysia was 42.4 per cent. The least populated states were W. P. Putrajaya (72,413) and W.P. Labuan (86,908).

## 6.5 Population density

The population density of Malaysia stood at 86 persons per square kilometre in 2010 compared with 71 persons in 2000. Unlike the population distribution, the population density revealed a different picture. Selangor is the most populous state and was only ranked fifth in terms of population density with 674 persons per square kilometre. Among the most densely populated states were W. P. Kuala Lumpur (6,891 persons), Pulau Pinang (1,490 persons) and W. P. Putrajaya (1,478 persons).

A significant problem is that of very rapid population growth in the 19<sup>th</sup> century and the start of the 20<sup>th</sup> century. A high post-war birth rate has been compounded by improvements in public health which have brought a marked drop in infant mortality from 75.7 per 1000 in 1957 to 40.8 per 1000 in 1970, and an increase in male life expectancy from 55.8 years in 1957, to 59.8 years in 1970, to 61.6 years in 1975. The overall result is an estimated rate of population growth of 2.6 per cent per annum in 1976 – 80.

A consequence of the fairly recent spurt in the birth rate is a very young age distribution: 45% of the population<sup>162</sup> were in the age group 0 - 14 years in 1970, compared to 23% in Great Britain, 26% in Japan and 30 per cent in the United States. This places a burden on the 52% of the population who are in the working age, the 15-64 age group, and must support such a large dependent group. This large youth group gradually moved onto the labour market resulting in the growth of a very young, and consequently inexperienced, labour force with the problems this poses for management development.

The youth of the population in Malaysia combined with the achievement of independence and the rising aspirations that brought have produced an enormous demand for education. The improvement in the availability of education is reflected in the improved literacy rate, particularly amongst the younger generation

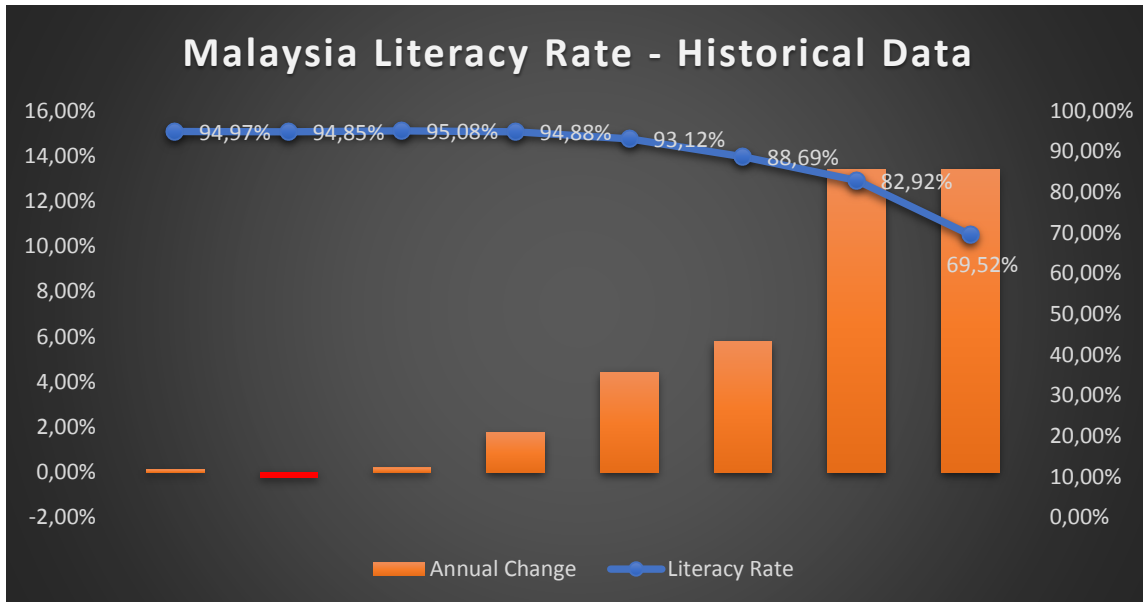
## **6.5 MALAYSIA'S LITERACY RATE**

The adult literacy rate is the percentage of people ages 15 and above who can both read and write with an understanding of a short simple statement about their everyday life.

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<sup>162</sup> Department of Statistics. Socio-Economic Sample Survey of Households. p. 66, Statement 14.

- Malaysia's literacy rate for 2019 was **94.97%**, a **0.12% increase** from 2018.
- Malaysia's literacy rate for 2018 was **94.85%**, a **0.23% decline** from 2017.
- Malaysia's literacy rate for 2017 was **95.08%**, a **0.2% increase** from 2016.
- Malaysia's literacy rate for 2016 was **94.88%**, a **1.76% increase** from 2010.



Source: Minister of Education and Department of Statistics Malaysia

Figure 18 Malaysia Literacy Rate - Historical Data

In 1967/68 the Socio-Economic Sample Survey of Households found that 68 per cent of the population over 25 had no formal education at all, and of those who had attended school 80.5% had not received more than primary education<sup>163</sup>. Only 10% of those who had attended school, or 4% of the population in Peninsular Malaysia, had achieved middle secondary education or above, that is, what might be considered the very minimum education for a management recruit<sup>164</sup>. By 1975 well over 90% of the appropriate age group was receiving primary education and 50-60 per cent, secondary education<sup>165</sup>.

The figures for the population as a whole are of interest but it is the characteristics of the labour force that are of particular relevance. The labour force in

<sup>163</sup> Department of Statistics, 1970 Population Census, Age Distributions. p. 55.

<sup>164</sup> Socio-Economic Sample Survey of Households. PP. 61 and 63.

<sup>165</sup> Mid-Term Review of The Third Malaysia Plan. p. 83, Table 5-4.

Peninsular Malaysia was in 1970 and 1975. Between 1966-70 it grew by an average of 2.9% a year, and from 1971-75 by 3.2 per cent overall. However, as a result of the demographic pattern already mentioned the labour force between the ages of 15-29 increased by 4.8% between 1971-75.

Roughly half the employed population are to be found in agriculture, forestry and fishing. The next largest single group is employed in the public sector, followed by commerce and manufacturing. Employment in manufacturing has grown particularly rapidly and is expected to continue to do so. The overall employment figures conceal some very marked racial differences.

Malays are over-represented in agriculture and substantially under-represented in mining, manufacturing, construction and commerce. The pattern of Chinese employment is almost exactly the opposite of this, whereas the Indians are over-represented in utilities and to a lesser extent transport, storage and communications, and under-represented in manufacturing and construction. Although the situation ameliorated between 1970 and 1975, the differences remain marked. It is this pattern of racial dominance of specific sectors that lies behind the call for racial balance.

Not only is there a racial concentration in different industries but also at the different functional levels within the various sectors. In 1970, the Chinese formed 70% of the administrative and managerial workers in the primary sector and 76 per cent in the secondary sector. In the field of sales, their share rose to 73% in the primary sector and 81% in the secondary sector. Their dominance in these fields was largely at the expense of Malays who formed 20% of administrative and managerial workers and 19 per cent of sales workers in the primary sector and 15% and 9% in these fields in the secondary sector. The only occupation in which Malays were overrepresented was

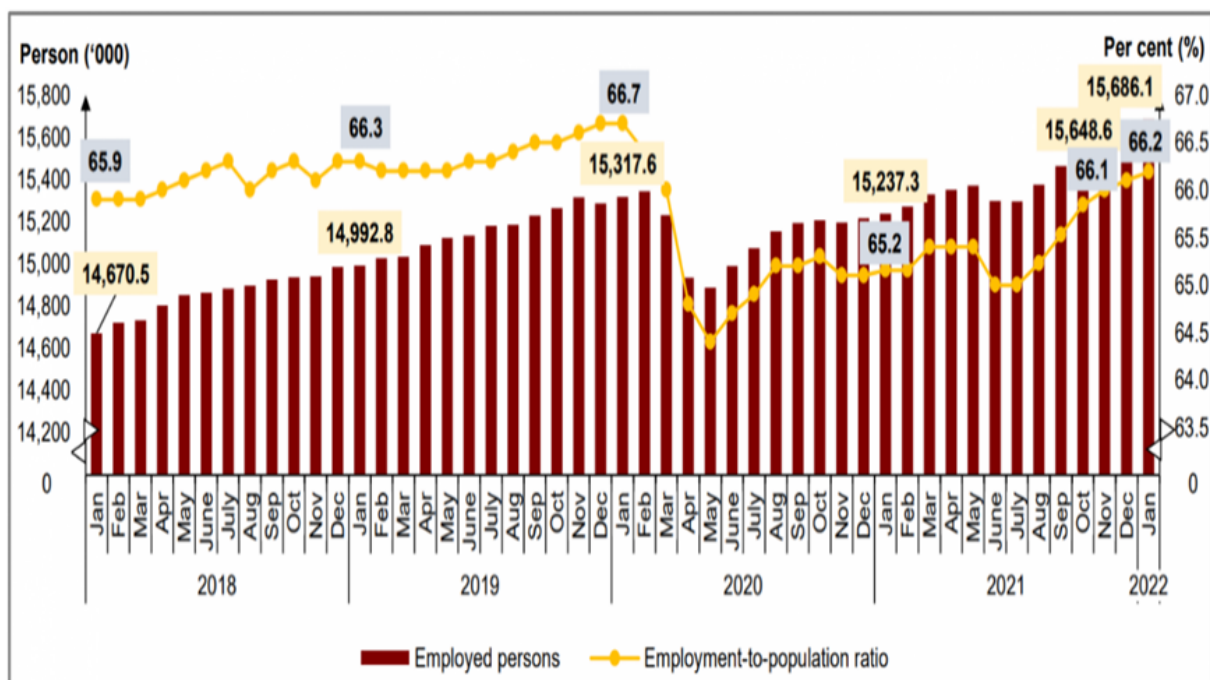
among agricultural workers where they comprised 69 per cent overall. Indians were concentrated in clerical employment in the primary and secondary sectors, where they made up 32% and 17% respectively; amongst production and service workers, of which they comprised 24% in the primary sector; and amongst agriculture workers in the secondary and tertiary sectors, where they made up 17% and 23% respectively.

The Socio-Economic Sample Survey of Households brings these differences out very clearly. The Malays are concentrated in agriculture and Government employment, the Chinese in business and the Indians in estate work and, to a lesser extent, Government employment. This identification of race with economic function is one of the characteristics of the Malaysian labour force and the extent to which it accentuates the difficulties involved in achieving the racial balance desired by the Government.

In the face of the rapid rate of population growth and the even more rapid growth of the labour force, Malaysia has been struggling to expand its employment opportunities. Between 1962-67 employment rose at an average of 2.7% a year, but the labour force rose to 2.9% a year; as a result, unemployment rose from 6% in 1960 to 7.4% in 1970. Under the Second Malaysia Plan, 1971—75, employment grew at a rate of 3.3%. Employed persons and the employment-to-population ratio, January

2018 - January 2022





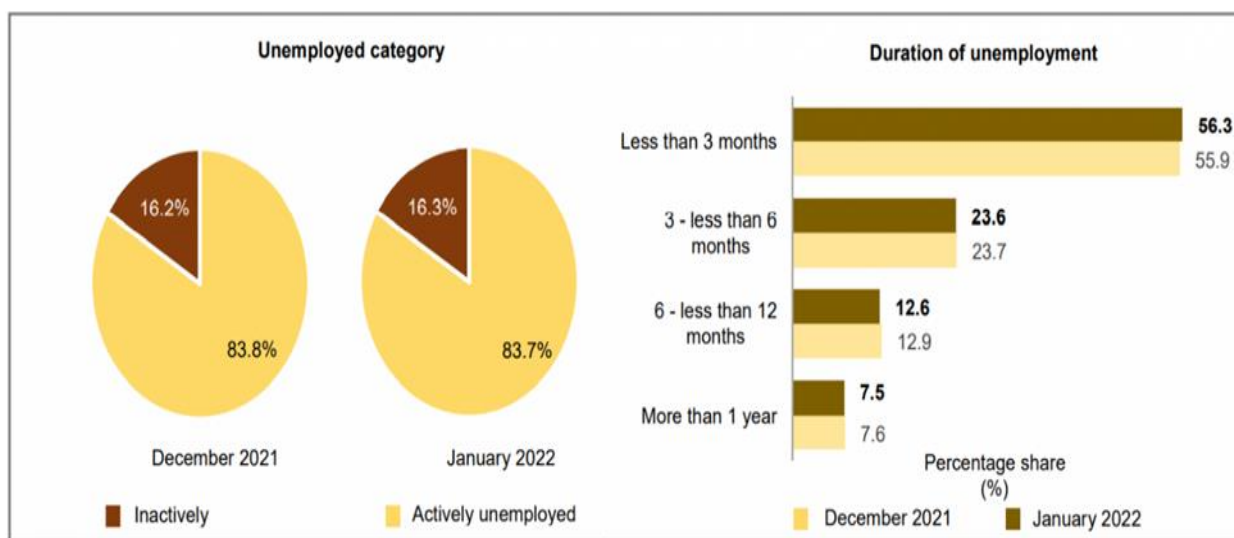
Source: Department of Statistics Malaysia

Figure 19 Employed persons, employment-to-population ratio

The largest composition of employed persons was the employee category encompassing 76.7%, which posted a month-on-month increase of 0.1% or 13.0 thousand persons to 12.03 million persons (December 2021: 12.02 million persons). Likewise, the own-account worker's category continued to increase by registering 2.66 million persons (+0.6% or +16.0 thousand persons) in January 2022 (December 2021: 2.64 million persons). This category consists mostly of daily income earners working as small business operators such as retailers; hawkers; sellers in markets and stalls; as well as smallholders.

By looking at the category of unemployment, 83.7% of the total unemployed persons were those who were available for work and were actively seeking jobs or the actively unemployed, registering a decline of 1.2% (-7.0 thousand persons) to 569.5 thousand persons (December 2021: 576.5 thousand persons). Subsequently, 56.3 per cent were unemployed persons for less than three months while 7.5% was those who were in long-term unemployment for more than a year. As for the

inactively unemployed or those who believed that there were no jobs available reduced by 0.2% or equivalent to 0.2 thousand persons to record 110.9 thousand persons (December 2021: 111.1 thousand persons).



Source: Department of Statistics, Malaysia Federal Government Administrative  
 Figure 20 Unemployed category and duration of unemployment

The youth unemployment rate for those aged 15 to 24 years declined by 0.5 percentage points to a record 13.2% in January 2022. The number of unemployed youths for this age group decreased by 3.3 thousand persons (-0.9%) to 364.5 thousand persons (December 2021: 367.7 thousand persons). A similar trend was observed in the unemployment rate for those aged 15 to 30 years which reduced to 8.3%, registering 521.8 thousand unemployed persons (December 2021: 8.5%; 533.8 thousand persons).

During the month, the number of the male labour force increased to 10.05 million persons (December 2021: 10.01 million persons) whereas the female labour force decreased to 6.31 million persons (December 2021: 6.33 million persons). In terms of the LFPR, male LFPR was unchanged at 81.9 per cent while female LFPR rose to 55.3%. As for the year-on-year comparison, both male and female LFPR grew

by 1.0 percentage points (January 2021: 80.9%) and 0.1 percentage points (January 2021: 55.2%) respectively.

Schooling and training were the main reason for outside labour force

The number of the outside labour force in January 2022 reduced further to 7.33 million persons with a lessening of 5.6 thousand persons or 0.1% (December 2021: 7.34 million persons). Likewise, year-on-year, the number of the outside labour force declined by 34.1 thousand persons (0.5%) as compared to January 2021 (7.37 million persons). Schooling/ training was the main reason for outside labour force with a share of 41.4 per cent, followed by the housework/ family responsibilities category (41.3%).

Although the tide seems to be turning, unemployment remains a serious problem that could present a threat to the stability of the country, and consequently, the Government has set itself the target of bringing the unemployment rate down to 3.9 per cent by 1990. It is a problem, particularly amongst the young, the rate being as high as 22.8% amongst the 15 -19 age group in 1971, brought down to 16.6% in 1974 and 15.6% in 1977. Unemployment amongst this age group in the urban areas was even higher: 28.3% in 1971, falling to 18.8% in 1974, and 17.3% in 1977. Unemployment is also more acute amongst non-Malays: amongst Chinese, it rose from 7.0% in 1970 to 7.2% in 1975, and amongst Indians from 11.0% to 12.2%. While amongst Malays it fell from 8.1% to 6.9 %. These figures show the impact racial balance policies have had on unemployment opportunities amongst non-Malays. As a result, competition for jobs is very keen.

## **6.6 THE ORIGINS AND GROWTH OF MALAYSIA'S MULTIRACIAL SOCIETY**

In Malaysia, racial considerations play a very important part in the choice and development of managerial staff. It is therefore essential to understand the nature of

the racial problems and the differences between the races. In the economic development of Malaya following British intervention, one vital factor was missing - a labour force. The Malay community was already occupied as farmers and fishermen and was unwilling to toil for foreign interests.

In his Report as, High Commissioner for the Federated Malay States in 1901 Swettenham makes this clear: Malays cannot be regarded as an available source of labour supply. When they work it is for themselves, on their land, and very few of them can be persuaded to accept as agricultural labourers, or on public works.

The Chinese mine owners solved this problem by arranging for the transportation to Malaya of large numbers of Chinese workers. By the mid-nineteenth century, this was highly organized with professional recruiters contacting potential immigrants in China and accompanying them by ship to Malaya. The success of Chinese labour was commended by Sir Hugh Clifford to the Royal Colonial Institute in 1902 "The Chinaman is an excellent labourer and a very shrewd and reliable man of business"<sup>166</sup>. He stands possessed of just that energy, enterprise, continuity of purpose and dogged determination to succeed which the Malay most signally lacks.<sup>167</sup>

The Stability of British control encouraged increasing numbers of Chinese to immigrate. Nonetheless, Chinese labour was so essential that direct measures were taken to further Chinese immigration: in 1899 a scheme was instituted for assisting Chinese immigration and in 1904 a convention was signed between China and Britain to regularize the immigration of Chinese to British Colonies and Protectorates<sup>168</sup>. Most

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<sup>166</sup> F.A. Swettenham, "High Commissioner's Report for Federated Malay States for 1901 Reports on Federated Malay States for 1901. Cd. 1297. p. 4.

<sup>167</sup> H. Clifford, "British and Siamese Malaya, Proceedings, Royal Colonial Institute, XMIV (1902-1903), p. 55.

<sup>168</sup> Victor Purcell estimates that in Perak the number Of Chinese miners increased from 9,000 in 1871 to nearly 50,000 in 1882, to 90,000 in 1891. V. Purcell, op. cit., pp. 8-9.

of these early Chinese labourers came in as indentured labourers and the abuses were many. In 1877 a Chinese Protectorate had been established to be responsible for the position of the Chinese in Malaya, and in 1914, the Labour Contracts Ordinance abolished Chinese indentured immigration. For the most part though, the Chinese looked after themselves and little was done on an official level to relieve the hardship of Chinese immigrants.

With the opening up of rubber estates, a more reliable source of labour was needed. The Chinese were reluctant to work for non-Chinese and so rarely accepted employment outside the few Chinese-owned estates, except indirectly as contract labour working for a Chinese go-between.

There was a certain amount of immigration of Malays from Sumatra, Java, and the neighbouring islands who were fairly rapidly assimilated into Malay society. Although they accepted some employment on estates, this proved to be insufficient to meet the demand for labour. Many of the European planters came from Ceylon where they had used Tamils as tappers. With the precedent of using imported Indian labour established, and the convenience of arranging for such immigration given a British colonial administration in India, it was natural that they should turn to Tamils to work their Malayan estates. To assist Indian immigration, in 1907 the Government set up the Indian Immigration Fund which was a compulsory levy on employers used to finance the transportation of Indian labour. But by 1910 indentured Indian immigration had been banned and all subsequent Indian immigration was voluntary.

One of the advantages of Indian labour so far as the Government was concerned was that it could be repatriated during a slump. In this way, the Government was able to avoid problems of unemployment. Chinese immigrants also tended to flow

back to China during the depression but this was through choice rather than compulsion. The figures for arrivals and departures during the period of the 1930 depression illustrate this. Because Indian labour flows were dictated by the Government it was possible to begin repatriation immediately after the economy started to take a downswing. The voluntary movement of the Chinese responded more slowly.

There was a constant need for the Government to recruit more labourers. This was not only for the plantations; the Government was forced to rely upon Indians for railway and road building and other public works. As the country developed, the need for labour continually grew. In 1901 there were already 301,463 Chinese and 58,386 Indians to 313,205 Malays, while by 1911 the figures had jumped to 433,244 Chinese and 172,465 Indians to 420,840 Malays, and in 1921 they stood at 494,540 Chinese and 305,219 Indians to 510,810 Malays<sup>169</sup>. The Malays had become a minority in their own country with the Government minimally aware of this and little concerned first, because immigration meant an increased rate of development, and second because the immigrants were considered to be temporary residents in Malaya. Not only were the immigrants concentrated in the modern sector of the economy but also in the towns.

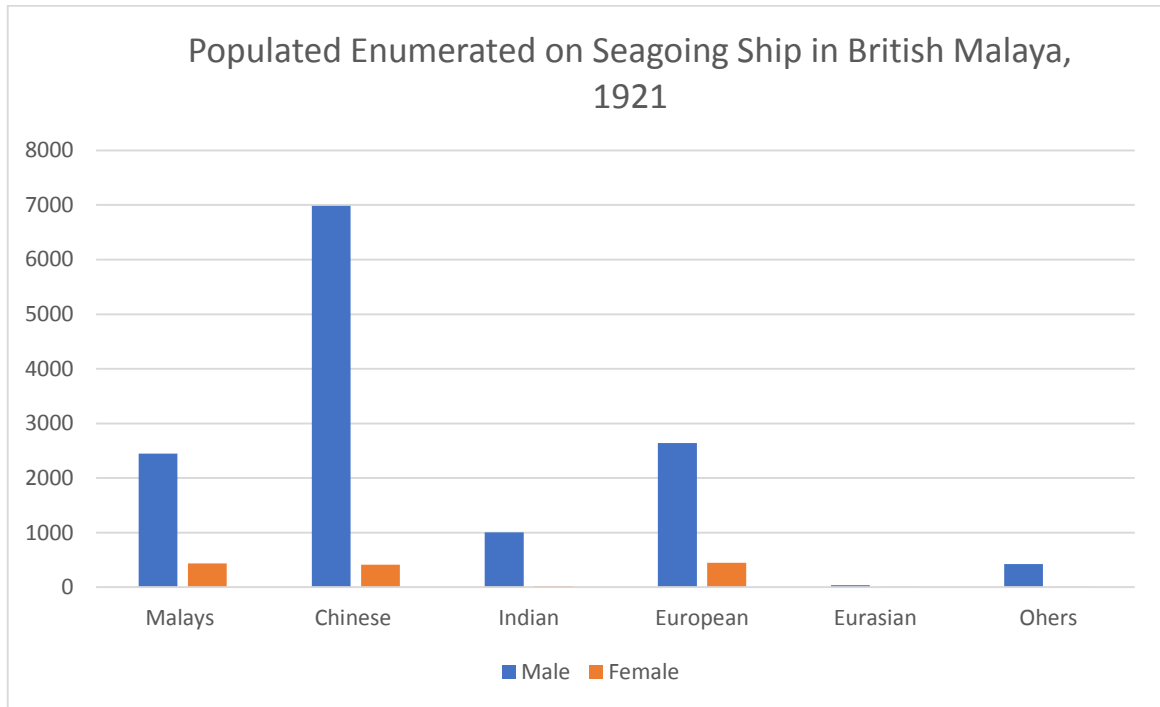
*Table 5 Movement of Chinese and Indians into and out of Malaya*

	Indians			Chinese		
		Departures	Difference	Arrivals	Departures	Difference
1929	114,252	76,854	+37,398	264,591	164,826	+99,765
1930	69,114	151,755	82,641	218,868	199,800	+19,068
1931	19,692	101,547	81,855	79,085	12,900	133,815
1932	17,734	84,501	66,767	33,534	191,809	+158,275
1933	86,555	58,091				

<sup>169</sup> Census of British Malaya, 1921. p. 29.

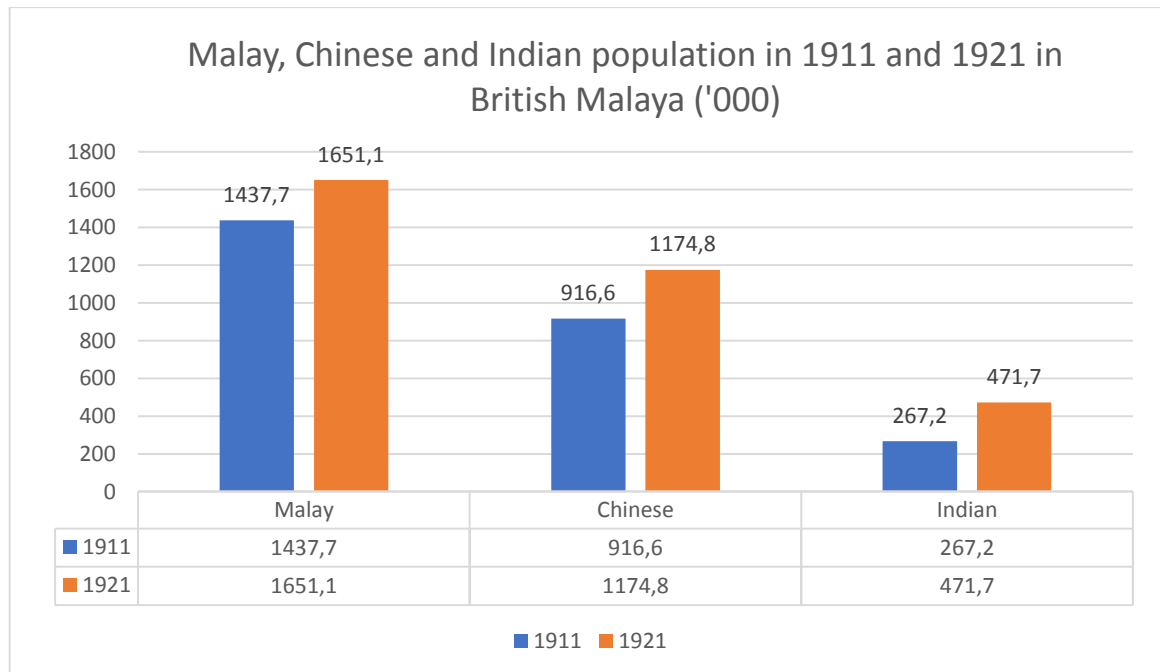
1934	65, 191	89, 828	28,608	109, 267	68, 129	+ 41, 138
1935		38, 869	+26, 322	145, 853	69,025	+ 76,828
1937	122,566	45,167	+77, 399	243,304	66,502	+176, 802

Source: K. A. N. Aiyer, Indian Problems in Malaya pp. 122-123.



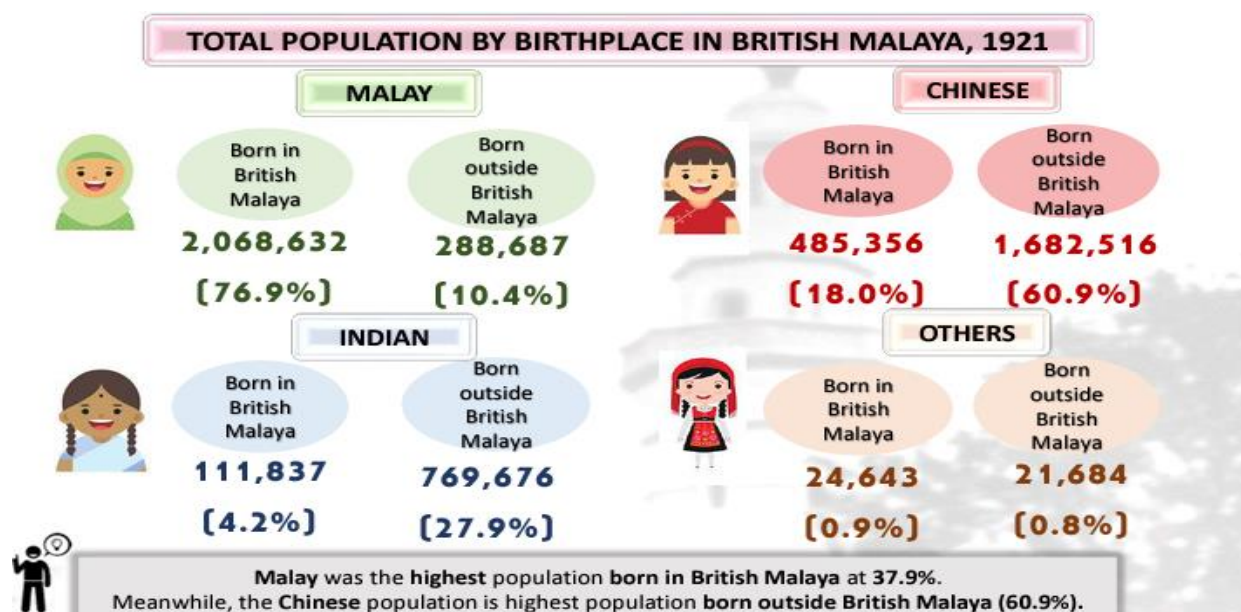
Source: K. A. N. Aiyer, Indian Problems in Malaya.

Figure 21 Populated Enumerated on Seagoing Ship, Malaya, 1921



Source Population Census 1921 Vol II

Figure 22 Malay, Chinese & Indian population, 1911-1921, Malaya ('000)



Source: Population Census 1921 Vol II

Figure 23 Population by Birthplace in British Malaya, 1921

Table 6 Population size ('000) by ethnic group, Malaya, 1901–1957

Year	Malays	Chinese	Indians	Others	Total
1901	1,088.9	508.5	107.7	28.6	1,733.7
1911	1,369.8	693.2	239.2	36.8	2,339.1
1921	1,568.6	855.9	439.2	43.1	2,906.7
1931	1,863.9	1,284.9	571.0	68.0	3,787.8
1947	2,427.8	1,884.5	530.6	65.1	4,908.1
1957	3,125.5	2,333.8	696.2	123.3	6,278.8

Sources of data: For 1901: Hare (1902); Innes (1901)—estimates were made for the Unfederated Malay States. For 1911: Cavendish (1911); Marriott (1911a and 1911b); Pountney (1911). For 1921: Nathan (1922). For 1931: Vlieland (1932). For 1947: Del Tufo (1949). For 1957: Fell (1960).

Notes: The population figures for 1901 were obtained from population censuses of the Federated Malay States and for Malacca and Penang, with an estimate being made for the 1901 population of the Unfederated Malay States based on the 1911 census.

This gave them access to the modern facilities the British brought with them, hospitals, communications, etc. While the Malays remained isolated in the countryside. In the early years, immigrant groups were transient. Few women came and the men tended to return home to their families when they had accumulated sufficient savings. An important change in the pattern of immigration came in the 1930. With the depression, the Government decided to restrict the immigration of Chinese men, but not women. The resulting influx of women made the Chinese a far more



settled population. Amongst the Indians more direct action was taken. It was seen to be an advantage to have a resident Indian labour force consequently men were encouraged to bring their wives and children, and employers were paid a higher recruiting allowance for married couples.

The result in both cases was withdrawal into traditional culture and religion and the gulf between the communities grew larger. Both groups arrived in such large numbers and came from such rich cultural traditions that they did not assimilate. Religious differences also kept them apart and discouraged intermarriage, and they were also given very few incentives to assimilate. Indian labourers were repatriated during a slump and the Chinese were given no reason to feel any particular allegiance to the country, like the British commercial community, they were there to make their fortune and then return home. With the redressing of the balance of the sexes, there was a marked increase in the number of Chinese and Indians born in Malaya.

Milne summed up the problem neatly: "Arithmetically, the sin of the British was not deliberate division, but rather insouciant addition, of immigrants. Each racial group was, and largely still is, concentrated in a different economic and geographic sector: the Chinese in tin and trading in the towns, the Indians in rubber tapping on the estates, and the Malays in peasant agriculture in the countryside. The three major communities were geographically, economically, culturally, religiously and linguistically separated from each other"<sup>170</sup>.

## **6.7 THE MALAYS**

The Malays are considered to be the rightful owners of Malaysia. They are not the original inhabitants of the peninsula: the aborigines of Malaya the Negritos, Semai,

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<sup>170</sup> R.S. Milne, "Politics and Government, Malaysia, A Survey. Wang Gungwu, ed. p. 328.

Semelai, Temiar and Jakuns - settled around 3, 000 BC, 2,000 years before the Malays migrated from Yunnan. However, their numbers are so small (52,449 or 0.6 per cent of the population of Peninsular Malaysia in 1970), their lifestyle so primitive and their participation in modern Malaysia so slight that they may be ignored<sup>171</sup>. The Javanese and Sumatran Malays who immigrated to Malaya in sizeable numbers throughout much of the nineteenth and twentieth centuries were fairly readily assimilated due to similarities of language, race and religion and are now considered part of the indigenous Malay community<sup>172</sup>.

There is now a difficulty in studying Malay society for it is going through a period of very rapid change. The following generalizations must therefore be regarded as provisional. Traditional Malay society bears many of the characteristics of a peasant society. Malay society was feudal and this has influenced contemporary Malay society which still recognizes class distinctions between noble and commoner. Indeed, a Malay is considered to be subject to the ruler of his state and the Malay aristocracy enjoys a prominent place in the political and economic life of the country. The mass of Malays was, and the majority still are, peasant farmers and fishermen with a relatively simple economy based primarily on fishing and the cultivation of rice and other food crops.

Money was not widely used before British intervention, since the limited commercial transactions of the marketplace could be conducted by barter. Tin mining was a source of revenue for Malay rulers and chiefs but only affected a small area of the country. Therefore, no commercial middle class grew up and there was little accumulation of wealth. It has been mentioned by several observers that to acquire

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<sup>171</sup> 1970 Population and Housing Census, Community Groups. p. 82.

<sup>172</sup> See Vlieland's discussion of this in *British Malaya, A Report on the 1931 Census*. pp. 71-72.

wealth in pre-intervention Malay society was to invite confiscation by local chiefs<sup>173</sup> . Where wealth was acquired it was held as jewellery, livestock or land. Jewellery had the advantage that it was, and still is, almost as liquid as cash and could be sold if the need arose. Livestock could be put to use in 'padi' cultivation. Land, however, is particularly valued as providing the security of a source of food as well as a deep sense of belonging.<sup>174</sup>

It is often suggested that Malay-Muslim values discouraged Malays from entering the commercial sphere, for the Muslim religion forbids usury, and it is usury, interpreted loosely, that enables a modern economy to function. Islam condemns the materialism of the business world. It is true that such tenets influenced Malay attitudes to business but probably because they reinforced the existing antipathy of a peasant society towards commerce. As farmers Malays had long periods of free time during the growing and fallow seasons during which they could concentrate on village and family life. As a result, social customs and etiquette became highly developed and unstinting hospitality the norm. E. K. Fisk has commented: "These institutions (i.e. Malay custom and social organization), many of which perform a valuable social function in their original context, are liable to abuse, and act as deterrents to the enterprise. An obvious example is the social obligation, felt seriously by most Malays, for conspicuous expenditure, often on a scale they cannot afford, on certain special occasions such as marriage.

The Malay farmer is highly conservative and resistant to change, an attitude illustrated by the Malay proverb: "Let our children perish rather than our customs". He

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<sup>173</sup> For example, see Richard Winstedt, *The Malays, A Cultural History*. p. 120.

<sup>174</sup> E. K. Fisk, "Rural Development Policy," *The Political Economy of Independent Malaya*. edited by T. H. Silcock and E. K. Fisk. 183.

values formality, courtesy and ceremony and has a natural dignity and pride which affects his attitude towards work in the modern sector. The strength of community ties is one of the factors that stabilize, or immobilize, the Malay<sup>175</sup>. The Malay peninsula is a fruitful, tropical land and so Malays were largely spared the hardships of cold and starvation. However, the disease was a problem. The rural population suffered from intestinal parasites, malaria, and other illnesses which sapped their energy. The British built hospitals but they were concentrated in the towns and viewed with considerable suspicion by Malays. Although the food was bountiful the diet was often unbalanced.

Dr Mahathir, the previous Prime Minister, has sought to explain the inadequacy of Malay performance in competition with the Chinese by the effect of these social and geographic factors upon the Malay people<sup>176</sup>. He has suggested that the very fertility of the land almost eliminated the operation of the law of the survival of the fittest and that this, in conjunction with Malay marriage customs that encouraged inbreeding and pairing off even the most handicapped members of society, led to the perpetuation of all the weakest strains in the Malay race. He has also criticized the early age of marriage amongst Malays which tended to throw the responsibility for child-rearing upon over-indulgent grandparents<sup>177</sup>. To this must be added the instability of Muslim marriages which often led to the children being relinquished to the care of elderly aunts or grandparents where discipline was minimal, and the child was so showered with the attention that there was no opportunity for it to be adventurous or to show initiative.

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<sup>175</sup> In 1957 less than an eighth of the Malay population lived outside the states of their birth. J.C. Caldwell, "The Demographic Background, The Political Economy of Independent Malaya. T.H. Silcock and E. K. Fisk, eds. p. 87.

<sup>176</sup> Mahathir bin Mohamad, *op. cit.*, Chapter 3.

<sup>177</sup> Judith Djamour has also commented on the over-indulgence of Malay parents towards their children. Judith Djamour, *Malay Kinship and Marriage in Singapore*. p. 35.

Malay society could not be completely insulated from the changes overtaking the country: the introduction of a monetary economy, the influx of immigrants who were skilled businessmen, and the pressure on land for new development. Unable to cope with these changes, the peasant frequently fell into debt. Islam also contributed to the impoverishment of Malays through its laws of inheritance which resulted in the division of Malay land holdings between relatives so that they became uneconomic. This happened in two main ways: first, the 'padi kunca' system whereby credit was granted to be repaid in padi at harvest time, at an interest of 60—100%; and the "jual janji" system where land was offered as security for a debt and when the borrower defaulted the land was 'sold' for the amount of the debt plus interest. in size.<sup>178</sup>

An interesting explanation of Malays' reluctance to work in the modern sector of the economy is put forward by P. J. Wilson. He found Malays classified work into two types: 'kerja, work considered worthwhile, that has an essential dignity and importance - this applies to the traditional agrarian tasks that directly provide for the basic needs of the family; and 'makan gaji', work done to make money, that has no intrinsic value to it<sup>179</sup>. In the situation Wilson was studying, rubber tapping fell into the latter category therefore only the minimum was done to provide for the family's needs and there was no interest in adopting more modern methods to improve the yield.

Wilson suggests that it is this attitude that influences Malay response to factory and office work. Wilson continues: Employment within the village is not thought of as an impersonal relationship bound by a legal contract or subject to sanctions outside of the persons involved in the relationship. It is a social relationship first and foremost, and it is this view of employment that is carried from the village to the towns. The

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<sup>178</sup> S. Husin Ali, *Malay Peasant Society and Leadership*. p. 81.

<sup>179</sup> P.J. Wilson, *A Malay Village and Malaysia*.

obligation to observe the contract as a priority, especially a contract in which 'makan gaji' rather than kerja is concerned, is unlikely to rank high in the Malay scale of values. As already stated Malay places considerable importance on social relations and the key factors in such relations are equality and mutual respect. Rice production, for instance, was based on a system of mutual help based on mutual respect. The result, Wilson suggests, is that Malays consider work relationships.

The independent Government has sought to overcome these causes of poverty by the supply of credit through agricultural cooperatives and through the opening up of large tracts of land to provide farms of economic size, particularly to the landless. As social relationships, and expect them to function the same way. Unfortunately, modern commerce and industry do not work this way: the relationships are fundamentally contractual and entail no social obligations. Since industrial relationships have no parallel in Malay society, the Malay acts in the only way he knows, that is, in the traditional personal way. As a farmer, the Malay is surrounded by his community and generally works for himself and his family. He has a particular dislike of working with or for foreigners. This was reflected in the Malays' early disinterest in employment in the modern sector of the economy and the pattern of Malay advancement through a largely Malay civil service with entry into business only at the top level.

The tactic of the British Government in Malaya was indirect rule: to preserve the position and status of the Malay aristocracy, and equally the position and status of the Malay peasantry, while assuming power and authority. Religion and custom alone remained the preserve of the Sultans and this goes some way to explaining the

religious conservatism of the Malays<sup>180</sup>. The position of the aristocracy was maintained in several ways including, the maintenance of the pomp of their positions through civil lists, palaces, and periodic durbars; the provision of an elite system of education as will be discussed in the next section; and the creation of the Malayan Administrative Service (MAS) to bring high-ranking Malays into the Civil Service. A further consequence of this policy was the maintenance of a quiescent Malay peasantry. While Malays showed no inclination to enter the wage economy they were also not encouraged, indeed they were actively discouraged from doing so. As the pace of development and land alienation increased in the early twentieth century it was feared the Malay peasantry would become landless.

This would endanger the political stability of the country and Government policy towards the Malays, consequently, Malay reservations were created consisting of tracts of land reserved exclusively for Malays and intended for use for rice cultivation and, Rice Lands. Enactment of 1917 and the Malay Reservations Enactment forbade the growing of rubber on such land. These reserves kept the Malay community in isolation from changes taking place in the rest of the country. The Selangor Malay Association described them as, land traps, in which Malays are forced to seek a living like sheep allowed to eat only the grass inside the pen, while non-Malays, like wild animals, are given complete freedom to take their will outside. Thus, it was not only their inclinations but also Government policy that held Malays in a traditional peasant society while all around them the country was changing and developing.

It would be inaccurate to say that there were no Malay businessmen. There are a very small proportion of Malays who are in business. They tend to be concentrated

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<sup>180</sup> Mohd. Yunus Hamidi, *Sejarah Pergerakan Politik Melayu Semenanjung* Ong. p. 4, quoted in W.R. Roff, *The Origins of Malay Nationalism*. p. 240.

on the East Coast which is predominantly Malay<sup>181</sup>. Oliver Popenoe's study revealed that Malay entrepreneurs do in some ways conform to the characteristic pattern, and the more they do so the more likely they are to be progressive and successful. They seem to have chosen business as a result of the closure of other, preferred, alternatives such as Government service, and they were in some way marginal figures — through English education, marriage to a foreigner, and/or association with non—Malays. Almost two-thirds of them had a tradition of business in the family. The more innovative amongst them were particularly 'modern' in outlook and experience, as opposed to traditional: they were better educated, far more likely to speak English, had travel led abroad, were urbanized, read newspapers daily — often two or more — had opinions on the problems of the nation, and they preferred to hire professionals rather than family for management.

Interestingly enough, this group came from stronger religious backgrounds than the population as a whole, and then the less innovative<sup>182</sup>. They also tended to be of a higher socio-economic group than the less innovative, a factor that might have given them the self-confidence required for success.

Popenoe's study confirms the idea that if Malays are to succeed in business they need to abandon many of their traditional ways and become 'modern men'. With the growth of the Government's program to increase the proportion of Malays in business, more and more Malays are entering the private sector with no previous experience. They lack the formal and informal network that assists the Chinese in business. They often also lack the capital and technical experience. In such a case a

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<sup>181</sup> Oliver Popenoe, "Malay Entrepreneurs: An Analysis of the Social Backgrounds, Careers and Attitudes of the Leading Malay Businessmen in West Malaysia. PhD London 1970.

<sup>182</sup> This factor can probably be explained by the fact that religion was virtually the only avenue open to the Malay with leadership potential.



Malay with a preferential license may join up with a Chinese who runs the business. This is often referred to as an "Ali-Baba" arrangement. (The business is registered in the name of the Malay 'Ali', while the Chinese 'Baba' operates it.) If he is entering an established firm, the Malay may have little idea of the demands of a management position. A great deal of reorientation is, therefore, necessary.

Recent changes in the social pattern have begun the process of modernization, a process that the Government is deliberately undertaking. The Malay population is becoming increasingly urban, better educated, healthier, and more self-confident. Yet some of the measures to assist Malays through specialized institutions isolate them from that contact with non-Malays which seems to have been important to the innovative entrepreneurs Popenoe studied, the changes in education that make it unnecessary for them to master English, which again will isolate them from the more advanced forms of technology and management and the international perspective that appears to be an important characteristic of the modern man.

Despite the changes that are taking place in Malaysian society, the majority are still simple farmers and fishermen with many of the characteristic attitudes and values of peasants towards work, time, religion and rank. The Malay community wants a share in education, senior posts and affluence and it is motivated to get them in the way with which it is familiar, by Government action. Since Malays have the controlling influence in Parliament this is particularly effective but it does not alter the dilemma of their position: wanting the rewards of modern commercial and industrial life while seeking to preserve traditional attitudes and values that are incompatible with it. This is one of the major problems of management development in Malaysia: to accept that the premises and assumptions of the Western enterprise are foreign to Malays,

indeed, run counter to their own set of premises, and to find some way of bridging this gap, of modifying the assumptions of the company, and those of Malays so that there can be a marriage of interests.

## **6.8 THE CHINESE**

Chinese contact with Malaya dates from the Han Dynasty (206 BC – 205 AD). During these very early years communication was limited to the visits of official envoys, travellers and monks. Their stays were brief and no permanent settlements were established. In the sixteenth century, the first small colonies of Chinese appeared servicing Chinese traders, but it was not until the nineteenth century and the discovery of tin that significant numbers of Chinese migrated and it was the presence of the British that provided the security and stability which invited the large-scale migration of the early twentieth century. At the same time events in China were pressing many to the point of desperation. Most Chinese emigrants were from the southern provinces of Kwantung and Fukien. Although traditionally these were amongst the richest provinces, the seventeenth and eighteenth centuries saw them afflicted by floods and famine as never before. The extraordinary population increase that China experienced in the eighteenth century aggravated the already acute problem of overpopulation. Besides these natural disasters, the southern provinces were distinctly out of sympathy with the ruling Manchus, and as a result of their provision of supplies to the anti-Manchu pirate Ko\*inga, they felt the full force of Manchu reprisals. Malaya was close at hand, of similar climate, and had already been visited by traders from these provinces. Yet all these considerations Purcell, who is one of the foremost authorities on the Chinese in Malaya, considers secondary to the natural energy and enterprise

of the people of Kwantung and Fukien. "This he says is probably more important than all the other reasons put together<sup>183</sup>.

This early period of settlement was marked by close contact between the Chinese and Malays. Since the Manchus forbade emigration those who did emigrate and tried to return were liable to the death penalty, so the Chinese who came during the first half of the nineteenth century looked upon themselves as semi-permanent residents in Malaya. Having left their wives and families behind them they intermarried freely with the Malays. It was only as the male-female ratio evened up in the twentieth century that intermarriage, in fact, social intercourse of any sort between the Chinese and Malays, ceased.

In 1860 the Manchu ban on emigration was disposed of in treaties, and from then most Chinese who came to Malaya did so intending to make enough money to retire to China with ease; a more transient community than the early Chinese emigrants<sup>184</sup>. Chinese immigrants worked exceedingly hard; they had been used to constant struggle and penury in China and so were willing to endure the back-breaking toil of the tin mines that promised future rewards. They had left China out of economic necessity and entered business also out of necessity. Since capital was scarce, mines were often opened up on a profit-sharing basis where the labourer worked unpaid until the mine began to make money and then, as the term implies, was given a share in the profits. By such arrangements, the Chinese were able to make maximum use of virtually their sole asset: labour.

Reinforcing these attitudes of hard work, cooperation and frugality was the extended Chinese family. As the upbringing of Malay children encouraged an easy-

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<sup>183</sup> V. Purcell, *The Chinese in Malaya*. p. 6.

<sup>184</sup> The law was not actually repealed until 1894 but it had ceased to be effective.

going approach to life, so Chinese children encouraged a selfless, disciplined approach to life. Family bonds were strong and the family unit was extremely stable. The honour and well-being of the family as a whole were always placed before the happiness of the individual, and the child saw himself as only a part of a greater whole the interests of which were at all times uppermost. Isolated both from their motherland and the host society, the Chinese drew comfort and support from their culture and 40 community. Learning has always been highly prized by the Chinese and they took pains to establish suitable schools for their children. They brought their customs, religions, and festivals and drew certain security from the great heritage of Chinese culture. This contributed further to their isolation from the rest of Malayan society. They also maintained family links with China by sending money home to their relatives.

Besides their willingness to put up with long hours of the hardest work, the Chinese did have another distinct advantage over the Malays, their familiarity with a monetary economy. They accumulated wealth because, in comparison with the people among who they came to live, they were highly sophisticated in the handling of money. At the outset, they knew not only how to work themselves but also how to make their money work. Their financial skill rested above all on three characteristics of the society in which they were raised: the respectability of the pursuit of riches, relative immunity of surplus wealth from confiscation by political superiors, and the legitimacy of careful and interest ted finance dealings between neighbours and even close kinsmen.

They had a developed set of attitudes and organizational tools to facilitate trade and commerce. A code of honour bound them to keep all agreements and informal social sanctions were applied to those who did not. In a strange country where the individual needed the support and protection of the community, this was a powerful

penalty. They had learned the advantages of family enterprises — complete honesty and commitment. Mutual help associations of all sorts had been developed, one of the most prominent and certainly most useful in Malaya being the Money Loan Association which provided the sort of seed money needed to launch a new business. Another form of organization they brought was trade guilds; these established such matters as hours and rates of work, and terms of apprenticeship.

The contribution of the Chinese to the development of Malaya was enormous.

The Chinaman has been from the beginning the muscle and sinew of the community, and also, in no small degree, its brains as well. For every one commercial enterprise which owes its success to the initiative of the European in the Peninsula, there are hundreds, organized, financed, and managed entirely by Chinamen, and the Federated Malay States owe an incalculable debt to the courage persistence and ability of their Chinese citizens<sup>185</sup> .

The one area into which they did not venture was politics. It was taken as an almost unwritten law that they would have nothing to do with it as long as they were left free to pursue their commercial activities. The Chinese cannot be considered a homogeneous community. There are many divisions - different dialect groups, between the Straits Chinese who settled in Malaya, for centuries and the new immigrants, between the English educated and the Chinese educated<sup>186</sup>.

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<sup>185</sup> M. Freedman, "The Handling of Money: A Note on the Background of the Economic Sophistication of the Overseas Chinese, Readings in Malayan Economics. T. H. Silcock, ed. pp. 38 and 42.

<sup>186</sup> H. Clifford, "British and Siamese Malaya", op. cit., p. 55-56. interfering with the Chinese community, and so far as its internal affairs were concerned the Chinese community governed itself, a pattern they were used to from China. This reinforced the influence of the family or clan.

## GEOGRAPHICAL DISTRIBUTIONS OF ETHNIC CHINESE MALAYSIANS (BY MAJORITY)



Source: [https://en.wikipedia.org/wiki/Malaysian\\_Chinese](https://en.wikipedia.org/wiki/Malaysian_Chinese)

Figure 24 Geographical Distributions of ethnic Malaysian Chinese

Table 7 Ethnic Chinese Populations in Malaysia

DIALECT	POPULATION
Hokkien	1,848,211
Khek (Hakka)	1,679,027
Cantonese	1,355,541
Teochew	974,573
Mandarin	958,467
Hainanese	380,781
Min Bei	373,337
Foochow	249,413
Kwongsai	77,577
Hokchiu	57,095
Henghwa	16,924
Hokchia	9,039
Others	51,697

Source: Encyclopaedia Britannica/place/Malaysia/People

There is a tendency for Chinese firms to specialize according to their dialect group. Hokkien dominates the rubber trade; Hakkas and Cantonese, the tin mining

industry; Cantonese, the restaurants; Hainanese, the coffee shops; Hokchiu, the bicycle trade; Teochew's, rice importing and goldsmiths' shops; and Hakkas, textile shops and medical halls<sup>187</sup>.

There are strong business and social links within each industrial/ dialect group with mutual trust and cooperation between the individuals concerned. The unity of the group is maintained through strict discipline and adherence to a traditional code of behaviour. This makes it extremely difficult for someone from outside the dialect group, let alone a non-Chinese, to enter into these industries for they will have none of the supportive business networks to assist them and will find it impossible to compete.

The Chinese in Malaysia thus conform very closely to the entrepreneurial pattern discussed in Chapter 4 they are a marginal group in a state of tension within the mainstream of Malaysian society and with a strong degree of internal cohesion. They chose commerce as the only route to advancement open to them. Indeed, it was the new arrival from China who tended to be the most active entrepreneurial businessman, those well-established in Malaysia and integrated into the rest of society had some of their drives sapped. Having acquired a comfortable standard of living and alternative routes to advancement many Chinese urges their children to train for professions rather than for business. In the Chinese value system business is not a prestigious occupation. The classic story in Malaysia is Of the Chinese iced water seller, or food hawker who has become a millionaire. He still dresses in shorts and a vest and lives a little differently from his early days. It is this frugality that has enabled him to save and invest his money. Indeed, it is said that only a coolie can become a millionaire. His son is usually at university and has probably lost much of his father's

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<sup>187</sup> Goh Joon Hai, "Some Aspects of the Chinese Business World in Malaya," *Ekonomi*, 111, I (December, 1962), pp. 93-94.

powerful entrepreneurial drive. However, he is gaining technical qualifications in considerable demand in modern Malaysian society.

The Chinese put great emphasis on achievement since in the Malaysian Chinese context a man is what he achieves, and financial achievement is the chief criterion for social status. There is no possibility of inherited social status since all the Chinese came as impoverished peasants. The pattern of Chinese social and commercial life has enabled them to excel in business and establish a virtual monopoly over certain trades. This goes a long way to explaining why the Government has given the Malays such strong preferences to enable them to begin to compete with the Chinese. Chinese companies, themselves, face a problem of adapting to the new opportunities in manufacturing where the need for technically qualified professional management and a higher level of capitalization impose new conditions for which the family concern is ill-suited. Overall the Chinese continue to make an enormous contribution to business in Malaysia.

## **6.9 THE INDIANS**

The Indians form a third, though smaller, element in Malaysian society. They have never been so numerous as the Chinese nor have they risen to such economic prominence. Like the Chinese, their association with the peninsula dates back a long time. There was a small Indian quarter in old Malacca in the sixteenth century, but the Indian culture and religion had been brought to Malaya even earlier by the Hindu Kingdom of Srivijaya which left its imprint firmly upon Malay culture.

Indians were first brought to Malaya in the modern period as convict labour to build the roads and public buildings of the Straits Settlements. This practice was abandoned before Britain had extended her sphere of influence to the Federated



Malay States, but when large supplies of cheap labour were required for the rubber plantations it was to India again that she turned. In Malaya Where the provision of an adequate labour supply was a chronic problem, and where the variability of the tin and rubber markets brought periodic depression and retrenchment, the convenience of Indian labour was very welcome.

For the most part, Indians in Malaya were desperately poor, living in isolation on the estates, in the meanest conditions where health standards were low and mortality rates, at times, shockingly high. Like the Chinese, they came from poverty, but unlike the Chinese, they never worked their way out of it.<sup>188</sup> This was partly because of the Hindu caste system that bound them to the bottom of the social ladder, and partly because wages paid to Indian rubber tappers were amongst the lowest in the Federated Malay States <sup>189</sup>. Not all Indians in the Malay States were labourers though. A small number of Indians from the middle class immigrated independently, and they came with some financial backing, trade and a degree of familiarity with the ways of British rule. Coming from a British-ruled territory they knew well the commercial value of English education. They were, therefore, quick to take advantage Of the English schools opened by missionaries and the opportunities both in Government service and in the professions such schooling afforded.

The conservatism of the Indian immigrant displayed itself in his social life and attitudes. The labourer who came for only one to two years turned to his customs and religion as his sole comfort away from home. Likewise, the more affluent Indian relied upon his culture and community for support. He eschewed intermarriage preferring to

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<sup>188</sup> The Annual Reports give an idea of just how bad the situation was at times. See for example: Report for 1911 on FMS. p. 12, and Report for 1912 on FMS, p. 23.

<sup>189</sup> Comparative Rates of Pay on Rubber Estates for Tamils, Javanese

send back to India for a wife than marry a non-Indian, so creating a tightly-knit, inward-looking community. The notable exception was the Muslim Indian: the faith he shared in common with the Malay helped to bridge the racial gap and so made integration easier.

The Indian business community, like the Chinese, specialized largely along caste lines for they stuck to their traditional occupations. The Gujarat is are usually merchants with large business concerns. The Marakkayars were general merchants and petty shopkeepers (being Muslim they intermarried with Malays); Chettians are bankers and money-lenders; Sikhs and Pathans, policemen and watchmen as well as money-lenders; and Jaffna Tamils, lawyers, doctors, and Government clerks, especially in the railways<sup>190</sup>. Many of their business concerns are run on family lines and recruitment tends to be restricted to family and close friends. This is particularly so in the field of banking and money lending where security considerations are uppermost. Indeed, in the past, they recruited staff from India with well-known family backgrounds and paid them in Indian currency. All accounts were kept in Tamil and therefore businesses could not employ a non-Tamil speaker.

The Indian and Chinese communities responded to modern economic developments very differently than the Malays. This was partly because they were self-selected and formed the more enterprising part of Chinese and Indian society. Hunter has also suggested that their level of culture and sophistication was such that they were not overwhelmed by Western concepts and technology but were able to adapt them to their advantage<sup>191</sup>. The Malays lacking their cultural self-assurance, felt themselves at an acute disadvantage and acquired a sense of inferiority.

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<sup>190</sup> U. Mahajani, *The Role of Indian Minorities in Burma and Malaya*. pp. 98-100.

<sup>191</sup> G. Hunter, *South—East Asia — Race, Culture and Nation*. P. 61.

Malaysian society is marked by a very high degree of ethnic and occupational specialization. A specialization based on knowledge and experience and reinforced by social, cultural and organizational factors. The British, who had been responsible for the influx of immigrants, tended not to interfere and so this situation became firmly established.

The problem of achieving racial balance, therefore, is a particularly daunting one. The fact that the Malays have virtually no tradition of commerce, and come from a society whose values are different from those of an industrial one, only makes it more challenging for companies to find a means of effectively developing Malay managerial talent.

## **6.10 THE HISTORICAL DEVELOPMENT OF EDUCATION**

The Malaysian Education System has undergone various reforms since 1824 and during British Colonialism, the schooling systems begin to be structured. Malaysia was known as Malaya and four streams of education medium were established based on the “Divide and Rule Policy” such as English Medium, Malay Medium, Tamil Medium and Chinese Medium. The “Divide and Rule Policy” allowed the British to separate the public by ethnicity, religion, and race besides dividing them as upper class and lower class to govern.

### **6.10.1 PRE- BRITISH PERIOD – BEFORE 1824**

The education was generally delivered in a non-formal pedagogy where it emphasized religious teaching, value and morality teaching, spiritual teaching, martial arts teaching and handicraft teaching. In addition, education is taught for survival

related to teaching agriculture, fishing and hunting<sup>192</sup>. Furthermore, during that era, there was a system known for religious education as “Pondok” (small hut) as a school established by Islamic religious scholars<sup>193</sup>. This type of school begins in 1450 in the State of Malacca (Melaka), and only during the 19th century, it expanded to other states like Kelantan, Terengganu and Kedah. By 1918, most of the students will stay around this school by having their small huts built around it and economic development also emerged. Today, there is some schools that still existed and it is managed in a more organized matter. To think about it, today in the 21st century Malaysia is refocusing its education system on various soft skills, and survivor skills.

#### **6.10.2 PRE–WORLD WAR II – 1824 – 1941**

From 1824 to 1941, the education administrations in the Malay Peninsula were based and focused on the colonial policy of “Divide and Rule Policy”<sup>194</sup>. Four language concepts of education were (Malay, Chinese, Tamil and English) and it was separated with school systems to serve different purposes. It has to note at this stage, during the war, many were affected and the counselling concepts started to develop in the US<sup>195</sup>.

#### **6.10.3 THE PRE-INDEPENDENCE -1941 – 1957**

The Pre -Independence time or known as World War II was another turning point for the Malaysian Education system then known as Malaya. The invasion and occupancy of the Japanese military from 1941 – 1946 introduced the addition of the Japanese language. During that time the Japanese were replacing Chinese and

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<sup>192</sup> Hussin, S. B. (1989). Impact of Counsellor Education Programmes in Malaysia a Study of Guidance and Counselling Services in Secondary Schools (Vol. 339). University of Toronto.

<sup>193</sup> Muhamad M.F, Rahman. A.A., Mahyudin.R, Isa A.M., Kasa.Z., Ali.W.Z., & Raffiee A.R., (1992). Pondok educational system in Malaysia-its effectiveness and limitations. Social Sciences, 363.

<sup>194</sup> Hussin, S. B. (1989). Impact of Counsellor Education Program in Malaysia a Study of Guidance and Counselling Services in Secondary Schools (Vol. 339). University of Toronto

<sup>195</sup> See, C. M. (1996). The Role of The Secondary School Counsellor in Malaysia as Perceived by Administrators, Counsellors and Teachers: Toward Role Definition (The Ohio State University).

English schools as Nippon-Government schools, Tamil schools and Malay schools just needed to add the Japanese language with a Japanese orientation<sup>196</sup>.

However, past literature has indicated that the English and Chinese languages were abolished by the Japanese occupation to only have Japanese influence and the death penalty will be applied to schools that use English and Chinese language. Furthermore, some secondary schools were replaced as technical colleges for telecommunication, fisheries, and agriculture and some urban school was used as barracks, trading centres and headquarters for the Japanese military. This change in education made the Malay community realize that increasingly settled immigrants with their education schools have caused other challenges. Therefore, it was time to have their own political, social and economic education was vital.

The Malay community seek for improvement in Malay schools and in 1950 a Malay education committee was established under the chairmanship of Mr L. J Barnes, Director of Social Training, and Oxford University which lead to “The Barnes Report 1951” mainly towards changing the whole education system. The proposal recommended having an interracial bilingual national school with English or Malay as the instruction language and the vernacular schools in Malay, Chinese, and Tamil to be gradually transformed into National Schools as national streams.

However, The Barnes Report 1951 has made other communities unhappy, mainly the Chinese who felt threatened that their languages and cultures are planned to be eliminated. Therefore, a Chinese education committee was established under the leadership of Dr Fenn a trustee from Chinese University and Dr Wu from the United Nations who reports on Chinese Schools in Malaya. This led to “The Fenn-Wu Report

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<sup>196</sup> Muhamad M.F, Rahman. A.A., Mahyudin.R, Isa A.M., Kasa.Z., Ali.W.Z., & Raffiee A.R., (1992). Pondok educational system in Malaysia-its effectiveness and limitations. Social Sciences, 363.

1951". This report recommended that the preservation and improvement of Chinese schools be maintained, and this added more intensity towards education in Malaya. Both reports "The Barnes Report 1951" and "The Fenn-Wu Report 1951" were reconciled and debated and they became the "Education Ordinance of 1952". In 1955, the Federation of Malaya had its first government and the first Minister of Education then made 17 recommendations which lead to the "Razak Report 1956" which was eventually enacted as the "Education Ordinance of 1957" which laid the National Education Policy. In addition, this resulted in the establishment of the University of Malaya in Singapore in 1949 as the demand for higher education in Malaya and Singapore increased.

#### **6.10.4 THE POST-INDEPENDENCE – 1957**

Onwards After independence, the National Education Policy was incorporated into the Education Act of 1961. A comprehensive system of education was developed and various departments were established such as the Educational Planning and Research Division in 1963, the Vocational Division in 1964, The Textbook Bureau in 1967, Educational Media Services in 1972, The Curriculum Development Centre in 1973 and the introduction of guidance and counselling in 1965.

In the Malaysian Government 1971 adopted policies that gave preference to the bumiputra in public university admissions, government jobs and contracts, and property ownership. Affirmative action continues to benefit well-off urban bumiputra but has done little to alleviate poverty for their more numerous rural counterparts. The policies have pushed ethnic Chinese and Indians to study at private or foreign universities (many do not return) and have created and sustained one of the world's largest civil services, which is 85-90% Malay. More than 1.8 million Malaysians lived

abroad as of 2015, including anywhere from 350,000 to 785,000 workers, more than half of whom have an advanced level of education. The vast majority of emigrants are ethnic Chinese, seeking better educational and job opportunities abroad because of institutionalized ethnic discrimination favouring the Malays. The primary destination country is nearby Singapore, followed by Bangladesh and Australia. Hundreds of thousands of Malaysians also commute across the causeway to Singapore daily for work.

Brain drain impedes Malaysia's goal of becoming a high-income country. The situation is compounded by a migrant inflow that is composed almost entirely of low-skilled labourers who work mainly in manufacturing, agriculture, and construction. Officially, Malaysia had about 1.8 million legal foreign workers as of mid-year 2017, largely pro--Indonesia, Nepal, the Philippines, and Bangladesh – but as many as 3 to 4 million are estimated to be in the country illegally. Immigrants outnumber ethnic Indians and could supplant the ethnic Chinese as Malaysia's second-largest population group around 2035.<sup>197</sup>

A very important factor in the pre-experience development of managers is education and in Malaysia, it has had a particularly significant effect. It is therefore appropriate that it be examined in some detail. When the British arrived in Malaya the only type of formal education was instruction in the Koran. Indeed, Raffles was stirred to propound in his Minute on Education<sup>198</sup>, “. . . wherever our flag is carried, it should confer the benefits of civilization on those whom it protects, in proportion as we extend the field of our inquiry and information, we should apply it to the advantage of those

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<sup>197</sup> Malaysia Demographics Profile

<sup>198</sup> Sir T. Stamford Raffles, "Minute on Education, Appendix in C.E. Wurtzburg, Raffles of the Eastern Isles. p. 627-8.

with whom we are connected, and endeavour to bring among them the light of knowledge mark the means of moral and intellectual improvement”.

In the same year, 1838, he advocated the founding of a college which would teach the languages of China, Siam and the Malay Archipelago. It had been established subsequently in India, in 1854 that it was the responsibility of the Government to provide a complete system of schooling from lower primary to university. Nonetheless, in Malaya education took second place to economic and political considerations. Before 1920 at no time did expenditure on education in the FMS exceed 1.6 per cent of total expenditure. Money was needed to build the railways and roads that would stimulate economic growth and it was only when this was well underway in the mid-1920 and 1930 that more was diverted into education.

There was no single comprehensive policy towards education, rather it tended to evolve in a rather haphazard fashion according to economic and political requirements. Education, like so much else in Malaya, followed communal lines and will therefore be dealt with first by looking at the history of the four school systems — Malay, English, Chinese and Tamil — and then by examining the education situation since independence.

#### **6.10.5 MALAY EDUCATION - MALAY MEDIUM SCHOOLS**

Malay education started during the “Pondok school” concept and had strong Quranic teaching. In 1858, most of the Malay schools were expanded and taken over by the British Malaya administration and financial aid was provided. These schools were assisted by the British East India Company and by 1938, approximately 788 Malay schools were subsidized in the Straits of Malacca (Melaka) and the Federated Malay States. The main purpose of Malay education is to provide knowledge on



reading writing and arithmetic (Mathematics) together with vocational skills to enable more students to become better farmers and fishermen. Today, in 2020 we are discussing similar issues under the name TVET. Education was given more focus by the citizen and administration and in 1884 the 'Training of Malay Teachers' was started in Telok Belanga, Singapore, which was part of the Malaya Federation. Due to the increase in demand, in 1922 The Sultan Indris Training College in Tanjung Malim was established which is known today as the University Pendidikan Sultan Indris (UPSI). Furthermore, in 1935, The Malay Women's Training College was established to train Malay women teachers.

The one area in which British thinking was fairly well defined was Malay education. Here there were two discrete policies: one for the Malay elite and one for the 'rakyat', the masses, with two separate schooling systems to take care of each group. As in the political sphere, in education the British were concerned to protect the position and prestige of the Malay leaders, so ensuring their loyalty. This was to be done by educating them for positions in Government administration. The official policy was articulated by Sir Cecil Smith, Governor of Malaya, in a letter to the Secretary of State for the Colonies, in 1893, "I wish to refer to the result of the policy regarding the education of the Malays for employment in the administration. This has been kept steadily in view as a cardinal feature in the government of the States, and has met with a considerable measure of success". Throughout the States, there is an increasing number of Malays, who, with 'hereditary or customary claims to office, are being trained and are helping to educate themselves to take an active and responsible share in the Government. The importance of the policy referred to, whether as regards our simple duty towards the Protected States or as regards the expediency of doing

all that is feasible to make the natives have the greatest interest in the welfare of their own country, cannot be overrated.

In pursuance of this policy, the Malay College was opened at Kuala Kangsar in 1905. The College was itself unique<sup>199</sup>, in that it principally accepted children of royal blood, either the sons of Sultans or close relatives and only occasionally the children of lesser Malay leaders. Indeed, it was restricted to Malay nobility until after World War 2. Social distinctions were rigidly maintained with royal children classified as Grade I students and welcomed as boarders into the home of the Principal of the school, while the children of lesser chiefs were termed Grade II students and assigned to dormitories<sup>200</sup>.

E.W. Birch, the Resident of Perak, stated "As this school is exclusively for boys of gentle birth, all the surroundings should be substantial and attractive. The cost per student reflected this comfort: at the Malay College it was about RM 290 a year; in an ordinary vernacular school, RM 15. The subjects studied, the language of instruction, the emphasis on games, and the importance given to character training were all inspired by the English Public School. Students were expected to become leaders of their community and were groomed for that role with special arrangements being made for prominent graduates to go on to a term of study in England.

The Malay College also served the interests of the Malays, in that it provided a small elite group of well-educated Malay aristocrats who now make up the political and bureaucratic leadership of the country. Malay vernacular education was radically different, though its primary concern was the same: the security of the State. fulfilling this end there were two main dangers to be avoided: over-education and English

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<sup>199</sup> Quoted in F.A. Swettenham, *British Malaya*. p. 259.

<sup>200</sup> Perak Administrative Report for the Year 1905. p. 12.

education. A.N. Kenion expressed the typical British view concerning the education of Malays in an address to the Federal Council: The great object of education is to train a man to make his living<sup>201</sup>. . . You can teach your Malays so that they remain in the padi fields and so that they do not lose their skill and craft in fishing and jungle work. Teach them the dignity of manual labour, so that they do not all become "Kranis", clerks, and I am sure you will not have the problems which have arisen in India through over-education. Education had to be "safe" its object was to preserve the status quo, the simple agrarian life. The fostering of docility and obedience, of acceptance of their lot became a primary focus of Malay vernacular education.

The risks inherent in teaching English were frequently expounded upon by Swettenham who did all that he could as a Resident in Perak to prevent the spread of English education. In the Annual Report on the State of Perak for 1890, he wrote: The one danger to be guarded against is to teach English indiscriminately. It could not be well taught except in a few schools, and I do not think it is at all advisable to attempt to give to the children of an agricultural population an indifferent knowledge of a language that to all but the very few would unfit them for the duties of life and made them discontented with anything like manual labour.

The initial reaction of the Malay people to this form of education was suspicion and hostility, seeing the white man's teaching as a threat to their religion and customs. To overcome resistance, Malay schools started by using the Koran schools, giving normal classes in the morning and letting the 'Haji's' give Koranic instruction in the afternoons. They used schools as distributing centres for quinine and exerted pressure on the village 'penghulus' or headmen, to persuade people to send their children to

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<sup>201</sup> Chai Hon-Chan, The Development of British Malaya 1896-1909. p. 245.

school. Besides reading, writing and arithmetic, the curriculum included tropical hygiene, gardening, poultry-keeping, and general handiwork. The Acting Lieutenant Governor, Penang, wrote to the Colonial Secretary, in September 1871: "I agree with Mr Skinner in his suggestion that we must commence these Schools as supplementary to the existing system, whereby the child is only required to know by heart a few texts of the Koran. By this means we shall carry the Priests with us continued". In 1908, it was made compulsory for Malay boys in the Federated Malay States within one and a half miles of a school to be in attendance there. The very fact that the British were willing to go through the formalities of legislation to make schooling compulsory for Malays indicates the seriousness with which they viewed the subject<sup>202</sup>. Malay education for girls moved more slowly. Parents were reluctant to let their daughters attend school and tended to withdraw them at puberty to preserve their virtue. The curriculum in these schools provided little of any intellectual worth. Winstedt wrote in 1921: "The curriculum of the girls' schools is no longer dead and uninspiring. Cookery, clay-modelling, paper-cutting, drawn thread work, and hygiene taught by lady Medical Officers are romantic subjects for the little Malay girl<sup>203</sup>".

Those who attended Malay schools had few prospects open to them; other than the traditional roles they could become school teachers or possibly the humblest clerk. There was no secondary education in the Malay language and further education was confined to Sultan Idris Training College for teachers. If a child wished to proceed with his education the only means was to transfer to and avoid the opposition that would doubtless arise to the establishment of any Education where the Koran was not taught.

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<sup>202</sup> In 1928, only 9 per cent of Malay girls of school age attended vernacular schools compared to 75 per cent of Malay boys of school age. W. A. A. Ormsby—Gore, Report on a Visit to Malaya, Ceylon and Java. p. 44.

<sup>203</sup> R.O. Winstedt, Annual Report on Education for 1921. Quoted in R.O. Winstedt, Education in Malaya. p. 30.

I have little fear that when these semi Government schools have been fairly started we shall be able to appoint duly qualified School Masters in the place of these Hadji's, and thus improve the standard of Education.<sup>204</sup>

#### **6.10.6 SECONDARY SCHOOL FOR MALAYS -ENGLISH MEDIUM SCHOOLS**

English education was established in 1816 as Penang Free School and by 1938, 56 government schools, 59 supported schools, and 106 private English schools were established in Malaya. The curriculum was based in Great Britain, and in 1905 the Malay College at Kuala Kangsar, Perak was established to train administrators for the Malayan Civil service. Most of them are from aristocratic families (Royal Family/ upper social classes). Furthermore, in 1905 - 1912, diploma-level courses were established at Raffles College in Singapore, and Higher Education courses in science and arts at King Edward VII Medical College.

Not only was there the barrier of a new language to be learned but these schools were located in the towns and were fee-paying. (Malay education was free.) Consequently, very few Malays received more than a rudimentary primary education. The Malays were set in their traditional way of life, isolated from all that was dynamic and modern in Malayan society, and stuck at the bottom of the socioeconomic scale. It is no wonder that Malay feeling toward vernacular education was occasionally bitter. Mohammed Unus bin Abdullah, one of the Malays in a position to see what was happening, pointed out in a meeting of the Legislative Council: In the fewest possible words, the Malay boy is told "you have been trained to remain at the bottom, and there you must always remain." Why, I ask, waste so much public money to attain this end

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<sup>204</sup> Straits Settlements, Legislative Council Proceedings, 1873.

when without any vernacular school, and without any special effort the Malay boy could himself accomplish this feat<sup>205</sup>?

There were warnings that Malay education needed to be improved if the Malays were to play a significant role in the country, as in the Report of the Retrenchment Commission in 1922: The lack of training facilities, both technical and literary, is appalling and constitutes another important reason for the failure proof Malays to take up technical and professional work. Yet, the British were committed to separating through unequal development of the modern and traditional sectors of Malaya and the result was that until recently the Malays lacked the education to enter the modern sector.<sup>206</sup>

#### **6.10.7 ENGLISH EDUCATION**

The Government initially played little part in English education and was highly sceptical of the wisdom of providing it. Consequently, it was left to the missions to take the initiative. However, as the bureaucracy of Government and business expanded the demand for English-educated staff grew and the Government was compelled to give some financial assistance to the mission schools. Although the Government never actually took over the mission schools they were very much a part of the English-speaking commercial establishment and were geared expressly toward serving it. The Annual Report on Education for 1894 stated that the aim of English education was (to) supply certificated candidates for nearly the whole of the subordinate appointments

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<sup>205</sup> Straits Settlements, Legislative Council Proceedings, 1929. p. B 150.

<sup>206</sup> Report of a Committee on Employment of Malays in the Government Service, in Interim Reports of the Retrenchment Commission, 1922, Report No 41, Council Paper No 15 of 1923. Federal Council Proceedings, 1923.

under Government in the Colony and the Native States and clerical and other appointments in mercantile houses<sup>207</sup>.

As a result, the education provided in such schools was almost a replica of that provided by schools in England. While one may criticize this strong English orientation, they did provide students with the knowledge, tools and values of the modern society the British had brought to Malayan shores. Since it was English schools served the commercial and Government establishment they got preferential treatment when it came to Government grants.

The English schools provided the only complete system of education, the only one in which, should the student so desire, he could go on to secondary school and university. The graduate of an English school was virtually guaranteed a position with the prestige and income that would catapult him into the upper echelons of Asian society.

However, English schools cannot be assessed simply in terms of the degree to which they served the commercial community or the advantages made available to those who attended them; they must be viewed in the larger context of Malayan society as a whole. Their urban location effectively limited them to the children of people already involved to some degree in the modern sector of the country, and, the population of the cities was predominantly Chinese and Indian. They were in a far better position to make use of the education provided in English schools which in terms of the quality of the teaching, the standards of the buildings and equipment, and the amount of money spent per pupil, was vastly superior to anything else found in Malaya. Unlike the Malays- the Chinese and Indians were little deterred by the Christian

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<sup>207</sup> Quoted in J.S. Nag1e, "Educational Needs of the Straits Settlements and Federated Malay States. P. 105.

character of the schools. English schools also charged relatively high fees and it was the Chinese and Indians who were in the best position to pay these. Despite the considerable problems of attending English schools faced by Malays the Annual Report of the Education Department stated in 1935: For the past decade, Malays have been growing more and more anxious that their boys shall learn English and they have themselves eagerly of scholarships and free places. Nonetheless, Ormsby Gore estimated in 1928 that 6.6 per cent of Malay boys were being educated in an English school, as compared with 17 per cent of Chinese boys and 15 per cent of Indian boys<sup>208</sup>. There was, in fact, one Chinese secondary school and the prospect for a tiny proportion of its graduates of going to university in China or Hong Kong, but for the vast majority of Chinese-educated students, schooling stopped at the end of primary school.

The effect of English schools was to sharpen racial divisions that already coincided with socioeconomic status, and so they reinforced the barriers between urban and rural dwellers, the immigrant and the native communities, and the affluent and the poor by in each case discriminating in favour of the former. Yet they did weld together those who attended them into a single social entity; the English-educated form a discrete, and racially integrated, part of Malaysian society.

#### **6.10.7 CHINESE EDUCATION-CHINESE MEDIUM SCHOOLS**

In 1829, Chinese education in Malaya was very much driven and influenced by the political development in China and it began in Singapore. The curriculum was based on China and teaching materials and teachers were brought in from China and were fully maintained by the Chinese community. In 1920, the British administration

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<sup>208</sup> F.M.S., Annual Report of the Education Department for 1935.



introduced the law to prevent alienation and to have control of the activities of these schools to avoid any communist activities. Since 1924, some of the schools began to get financial grants from the British government and, by 1938, 654 Chinese schools were established, 305 Schools assisted by the government, 18 managed by Christian missionaries, 331 by private Chinese organizations and only after World War II, it had formal teacher training programs.

The British Government had no intention of providing Chinese schooling for the children of the Chinese community. It was not a Government policy to undertake the education of the children of the alien citizens or temporary population in their languages. It was held that vernacular education would inhibit the learning of Malay and the assimilation of the Chinese into Malayan society, yet nothing was done to prevent the Chinese from establishing their schools.

The Chinese did open schools and the model led them exactly to those they had known in China. Teachers and textbooks were imported from China, indeed, there were initially no training facilities for Chinese teachers in Malaya so this was essential. In the upsurge of nationalism that followed the Chinese Revolution of 1911, political sentiments made an appearance in the schools in place of the numerous dialects that had previously been used 'Kuo Yu', the national language of China was adopted as the medium of instruction<sup>209</sup>. Even though a strongly China-oriented school system encouraged racial separation and discouraged assimilation, very little was done to bring the Chinese schools under Government control<sup>210</sup>. In 1923, the Government did try and lessen the Chinese nationalist movement by trying to encourage a return to

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<sup>209</sup> W. A. Ormsby-Gore, *op. cit.*, p. 44.

<sup>210</sup> W.H. Treacher, "Annual Report for the Year 1901 on the Federated Malay States by the Resident—General, Reports on the Federated Malay States for 1901. p. 21.

the dialects as media of instruction by offering grants to Chinese schools which submitted to Government inspection, but it was too little, too late, and many of the schools that had been independent for so long preferred to forego the money and retain their freedom. Indeed, in the 1930' s the Chinese Central Government sent representatives to inspect the schools and even instituted its system of grants-in-aid<sup>211</sup>. Initially, Chinese schools offered only primary education, but after the war, the demand for Chinese secondary education grew rapidly and the number of pupils in Chinese middle schools rose from 5,000 in 1947 to over 40,000 in 1957.

Such schools isolated the Chinese----educated Chinese not only from the Malays and Indians but also from their English-educated brethren. They fostered a feeling of racial exclusiveness, even racial arrogance, on the part of those who attended them and intense suspicion and distrust in those who stood on the outside. The schools became strongholds of Chinese politics and fertile ground for the growth of Communism<sup>212</sup>.

#### **6.10.8 INDIAN EDUCATION-TAMIL MEDIUM SCHOOLS**

In 1816, the first Tamil primary school started in Penang for Indians who came to Malaya as traders and migrant workers in rubber, tea, coffee and sugar plantations. This plantation eventually grew and some were owned by wealthy Indian traders in 1923. The Federated Malay States Ordinance incorporated a provision for the plantation owners to build schools for their employee's children. In 1905, there was 13 government schools, 23 Christian missionary Tamil schools, 551 estate schools and 60 private Tamil schools were established throughout Peninsular or Malaya.

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<sup>211</sup> V. Purcell, *The Chinese in Modern Malaya*. p. 21.

<sup>212</sup> Short states: "Nowhere among the Malayan Chinese was potential support for the MCP / Malayan Communist Party/ greater than in Chinese Schools. A. Short, *The Communist Insurrection in Malaya, 1948-1960*. p. 428.

The curriculum was based on India's education systems and most teachers were from India. The teacher training program started before World War II. Emphasis was given to reading, writing and arithmetic (Mathematics). However, many of the estate owners refused to build school buildings and the student had to be placed in smoke houses and government funding was not enough. The British were only involved when there was a threat to them.

Government-sponsored Indian education was initially ruled out under the policy of non-support for all non-Malay vernacular education. However, the shortage of plantation workers constantly threatened to hamper work on the rubber estates, so to try and encourage more Indians to come and settle on the estates it was decided to provide Tamil schools.

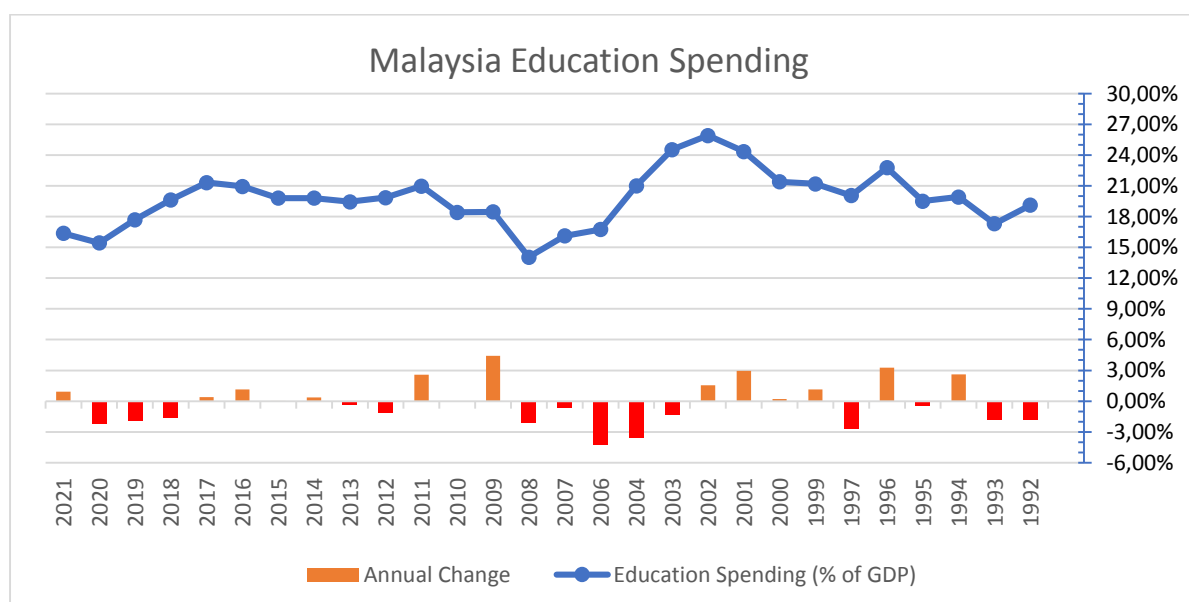
These were of very low quality. Until the 1930 there were no training facilities for Tamil teachers and so teachers, qualified and unqualified, were brought over from India and installed in a rudimentary shelter called a school. An indication of the lack of Government interest is the difference in grants paid to English and Tamil schools given. As a result of inadequate facilities, the poverty of the Tamil labourers, and the transient population, the pupil wastage rate was high and these schools made a minimal contribution to Malayan education. Indians with any money moved to the towns and cities where they sent their children to English schools.

Colonial schools did more to divide than unite the races who inhabited Malaya, and they permitted, even encouraged, the growth of communal loyalties because the British Government had not expected that Chinese and Indians would become permanent parts of Malayan society. There was no such thing as a national school system or a common curriculum, but then there was scarcely even the idea of a

Malayan nation. The most serious effects of the Malayan education policy fell upon the Malays who needed rapid advancement, holding them back while providing the Chinese and Indians with the opportunity to advance.

## 6.11 CONTEMPORARY EDUCATIONAL DEVELOPMENT

Independence brought a major change in the way education was regarded by the Government. It became an item of investment rather than consumption and a major tool for the Government's policies of restructuring society and nation-building. The independent Government greatly increased expenditure on education and training from RM 86.3 million in 1955, to RM 575.78 million for 1971-75, and RM 1,282,593 million allocated for 1976-80<sup>213</sup>. Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz allocated a total of RM 14.5 billion, to education in the 2022 budget which was equivalent to 16% of the total government expenditure<sup>214</sup>. Malaysia has committed itself they will continue to prioritising education as the most important segment in the government expenditure.



Source World Bank, <https://www.macrotrends.net/countries/MYS/malaysia/education-spending>

<sup>213</sup> All figures refer to Peninsular Malaysia, SMP. p. 70, Table 5-1. pg. p. 241, Table 12-3.

<sup>214</sup> By New Straits Times - October 29, 2021 @ 6:05 pm

*Figure 25 Malaysia Education Spending*

The post-war years leading up to independence had seen a very rapid increase in the demand for education: the number of children in school had risen from 469,990 in 1947 to 1,121,523 in 1957, an increase of 139 per cent<sup>215</sup>. The demand for English education increased the most with enrolment growing by 225 per cent, compared to Malay, Chinese and Tamil schools where it grew by 161 %, 105 %, and 46 % respectively. There was seen to be a need to improve the vernacular schools, the quality of which was far behind English schools. Provision of places at the secondary level was very limited: in 1947 there had been only 16,549 students enrolled at the secondary level, by 1957 this had increased to 105,879 in English schools, 35,478 in Chinese, 2,315 in Malay and 440 in Tamil classes. But the schools could accommodate only 10 per cent of the primary enrolment and in the case of Malay 71 classes a mere 5% of primary enrolment.

The progress of education since independence has demonstrated the evolution of a system of national schools based on Malay as the only medium of instruction and a rear-guard fight on the part of the Chinese community, in particular, to preserve instruction in the Chinese language and literature. It has also seen a struggle to preserve instruction in English, as the language of business and international scholarship, but, on the whole, it has been a losing battle.

In 1956, Tun Abdul Razak, then Minister of Education, proposed the Razak Plan which formed the basis of the Education Ordinance Of 1957. This introduced a common syllabus for all schools in the Federation. It allowed for two types of schools - standard in the Malay medium, and standard type in Chinese, Tamil and English

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<sup>215</sup> Ministry of Education, Educational Statistics of Malaysia 1938 to 1967. pp. 32-47, Tables 4-19.

medium. Malay and English were to be compulsory subjects in all primary and secondary schools and Chinese and Tamil were to be taught where the parents of 15 or more children asked for them. In an attempt to discourage Chinese education, it offered better conditions and bigger grants to Chinese schools that changed over to teaching in English and by 1962 three-quarters of Chinese secondary schools had accepted this condition. One result of these developments was that secondary education in Malay was provided for the first time.

This was taken one step further in the Education Act Of 1961 which declared in the preamble: The education policy of the Federation. . . is to establish a national system of education which will satisfy the needs of the nation and promote its cultural, social, economic and political development. . . and for the progressive development of an educational system in which the national language is the main medium of instruction.

The Ordinance Act established free, universal primary education. In 1965 the examinations restricting entry to secondary school were abolished and nine years of universal education were provided. Enrolments expanded rapidly, almost quadrupling in secondary schools between 1957-67. Since then they have continued to increase at a very rapid rate, rising by 48 per cent in lower schools and 81 per cent in upper secondary schools between 1971-75. This rapid expansion resulted in a severe shortage of teachers. The Second Malaysia Plan estimated the shortage of graduate teachers in West Malaysia to be 3,599 in 1970. In 1975 the demand for graduate teachers was estimated to be 9,829, yet output from all the training institutions in the Plan period 1975-80, was only 5,348. Writing in 1961, Silcock claimed, the situation is

met by allowing large disparities in standards between urban and rural areas, and between English-medium and vernacular schools, to continue<sup>216</sup>.

In 1971, a survey found 16,355 primary teachers were underqualified<sup>217</sup>. At the secondary level, there was a wide disparity in levels of achievement between English and Malay medium schools. In Malay medium schools between 1967-72 11.2 per cent of candidates sitting the Higher School Certificate examinations received a full certificate in Science, and 31.3 per cent in Arts<sup>218</sup>, compared to 66.6 per cent in Science and 65.2 per cent in Arts in English medium schools. The shortage of teachers is still a major issue in Malaysia. Malaysia for some reason is not able to train enough teachers. To date, Radzi said, there is still a shortage of 4,932 English teachers even after the special one-off initiative that was rolled out by the government to resolve the shortage of teachers throughout the country.

The number of teachers in Primary Schools, Female data was reported at 161,032.000 people in 2016. This records a decrease from the previous number of 161,884.000 persons in 2015. The number of Teachers in Primary Schools: Female data is updated yearly, averaging 122,424.000 persons from Jun 1992 to 2016. The data reached an all-time high of 163,261.000 persons in 2011 and a record low of 75,543.000 persons in 1992<sup>219</sup>.

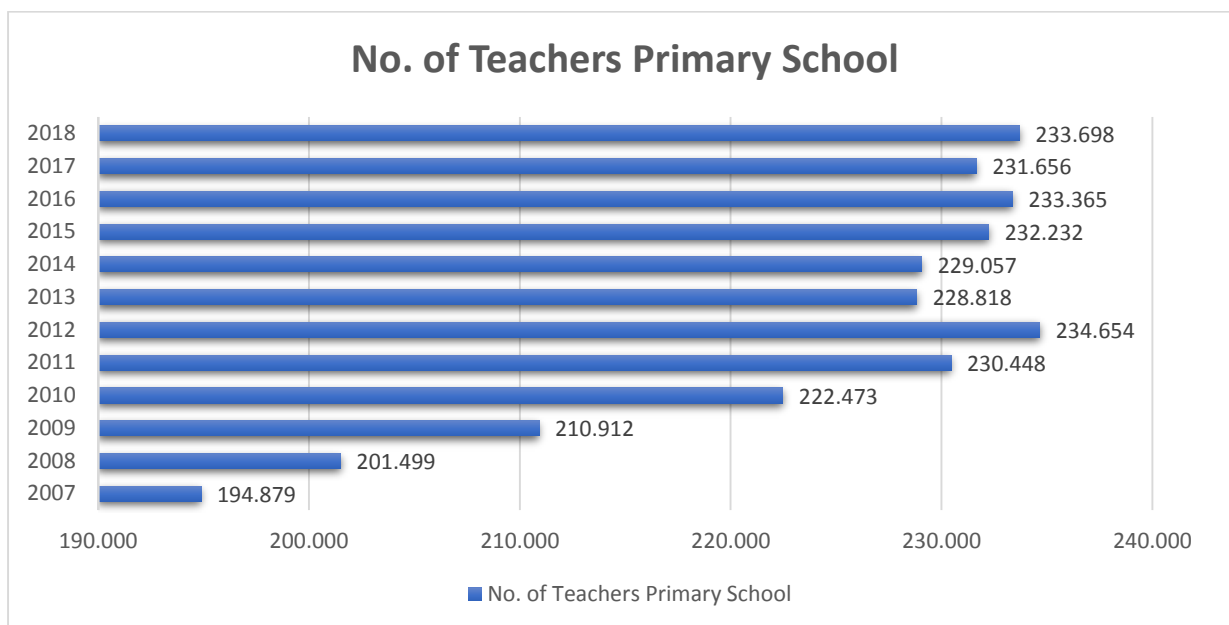
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<sup>216</sup> T. H. Silcock, "Economic Potential of Malaya," Readings in Malayan Economics. T. H. Silcock, ed., p. 100.

<sup>217</sup> New Straits Times, 8 February 1978.

<sup>218</sup> Quoted in The Education Planning and Research Division, Ministry of Education, Education in Malaysia. p. 5.

<sup>219</sup> Female data remains active status in CEIC and is reported by Department of Statistics. The data is categorized under Global Database's Malaysia – Table MY. G052: Education Statistics: Number of Teachers.



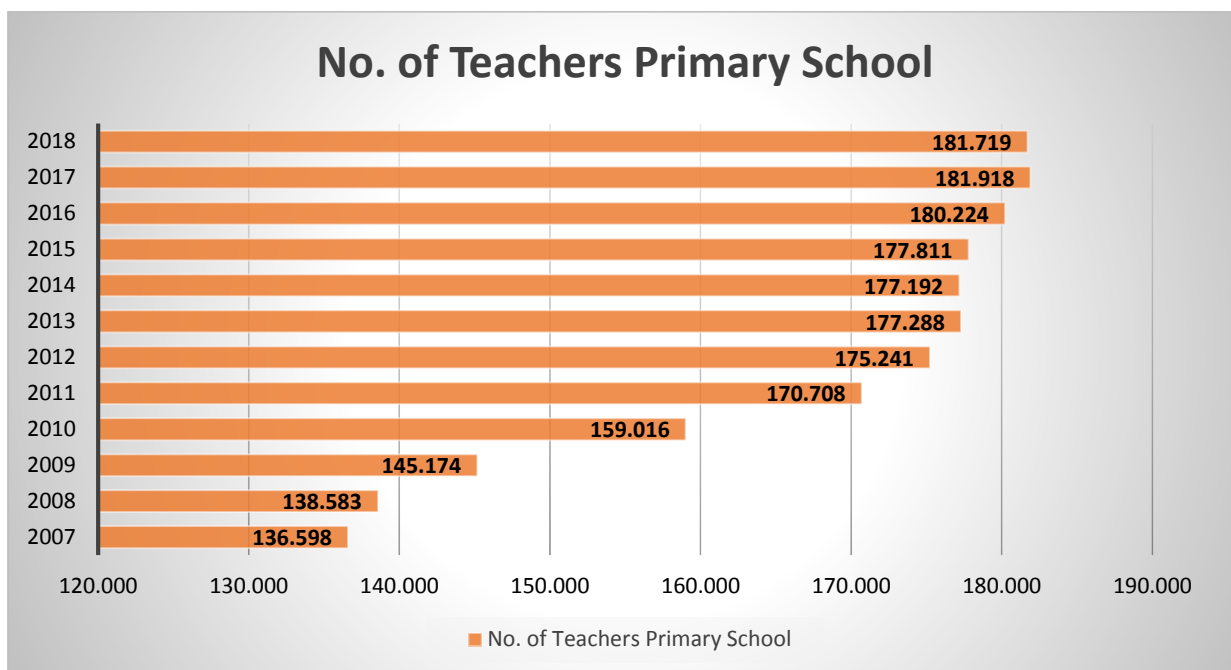
Source: CECDATA and is reported by the Department of Statistics Malaysia

Figure 26 Malaysia Teachers: Primary Schools from 1992-2018:

The number of Teachers in Secondary Schools data was reported at 181,719.000 persons in 2016. This records a decrease from the previous number of 181,975.000 Persons for 2015. The data on the number of Teachers for Secondary Schools data is updated yearly, averaging 132,298.000 persons from Jun 1992 to 2016. The data reached an all-time high of 181,975.000 persons in 2015 and a record low of 79,687.000 persons in 1992<sup>220</sup>.

<sup>220</sup> Secondary Schools data remains active status in CEIC and is reported by Department of Statistics. The data is categorized under Global Database's Malaysia – Table MY. G052: Education Statistics: Number of Teachers.





Source: CECDATA and is reported by the Department of Statistics Malaysia

*Figure 27 Malaysia Teachers: Secondary Schools, 2006-2016*

It was also found according to “The Dropout Report of 1973” confirmed English-medium schools were found to be larger, better endowed with physical plant had younger, better-qualified teachers; non-teaching expenditure per pupil was higher three times, on average than in Malay medium schools; and the children who attended them came from more affluent families<sup>221</sup>. As a result, pupils from English-medium schools achieved a higher level of education and did better on assessment tests.

One problem the Report drew attention to was that the rapid expansion of education in West Malaysia in one generation creates a situation where larger numbers of school children do not receive the informal preschool training that literate parents typically provide.

Yet despite the handicaps faced by Malay pupils they were found to be, on average, more highly motivated to succeed than either Chinese or Indian pupils. The

<sup>221</sup> Laporan Jawatankuasa di atas Kajian Pendapat Mengenai Pelajaran dan Masyarakat (Lapurcan Keciiran) [Dropout Report.] p. 34.

riots of 1969 resulted in major reassessments in many fields and brought about a significant reorientation in education. This took the form of a "New Educational Policy" which proposed the gradual introduction of the Malay language as the sole medium of instruction. As of January 1970, teaching in Standard One classes would be conducted wholly in Malay, except during English, Chinese or Tamil language sessions, and each year the use of Malay would be extended to a further year until the entire primary, secondary and tertiary school system would be converted to the use of the Malay language.

The object of this was to build a common national identity through the schools based on the Malay language and culture. It also had the effect of giving Malay children an advantage over Chinese and Indian children who first had to learn the Malay language before they could progress in their studies. This was in keeping with the current Government's thinking that the Malays should be given preferential treatment until the Malay community had caught up with the non-Malays. From 1970 a pass in the Malay language paper has been compulsory for the attainment of the Malayan Certificate of Education (MCE) a situation that threatened to produce an explosion when in 1972 over 14,000 non-Malay students failed their MCE solely because they failed to pass the Malay paper.

The problems of implementing this change have been enormous. It has required the re-training of about twenty thousand teachers and lecturers in the Malay language and the translation of an enormous number of textbooks and reference books. Despite the Government's policy of introducing Malay as the sole medium of instruction it has begun to realize that English also has a vital role to play. The Third Malaysia Plan states that "measures" will be taken to ensure that English is taught as

a strong second language. It goes on to say, "This is important if Malaysia is to keep abreast of scientific and technological developments in the world and participate meaningfully in international trade and commerce".

Rural schools that served the bulk of the Malays have been of very poor quality. They were often isolated and had multi-grade classes because of the small numbers in any one class. There has now been a move to improve rural roads and bring children together in large centralized schools, and to improve the standard of science and mathematics teaching particularly in the rural areas through the establishment of residential science schools. Vocational and technical training has lagged behind other developments in the field of education. The International Bank for Reconstruction and Development (IBRD) Report in 1963 mentioned "The need to improve technical education and training, especially in industrial skills, and more advanced agricultural techniques"<sup>222</sup>. The First Malaysia Plan was committed to creating a better balance between general academic education, on the one hand, and vocational, technical and science education, on the other.

There are now several secondary vocational schools providing training in motor mechanics, woodworking, building construction, sheet metal work, welding, electrical installation, maintenance, fitting and machining, radio, television and electronics servicing. In 1969 the Ungku Omar Polytechnic was opened in Ipoh with the aim of training engineering technicians and sub-professional personnel in Accountancy and Business Studies, and the Kolej Tunku Abdul Rahman in Kuala Lumpur offers

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<sup>222</sup> IBRD, Report on the Economic Aspects of Malaysia. p. 17.

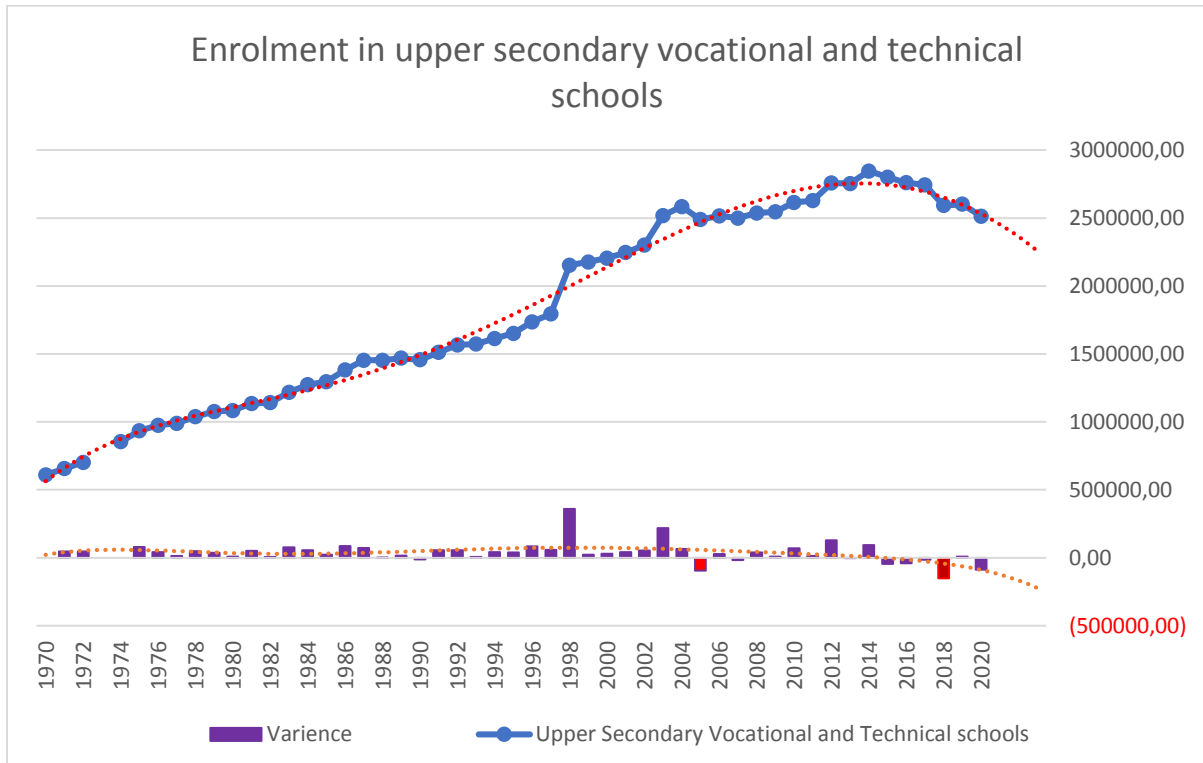
certificate and diploma courses in business studies, arts and science at the sub-professional level<sup>223</sup>.

Before the opening of these two institutions, the only post-secondary vocational or technical training was given by the Technical College, the College of Agriculture and the Mara Institute of Technology. The Technical College was established in 1906 primarily to meet Government requirements for technical personnel and provided three-year diploma courses in Architecture, Civil Engineering, Civil Survey, Electrical Engineering, Land Surveying, Mechanical Engineering, Quantity Surveying and Town and Country Planning. The College of Agriculture (established in 1931 for Malays only) provided three-year diploma courses for agricultural technicians<sup>224</sup>. However, in 1971, the College of Agriculture and 1972 the Technical College were upgraded to universities. Enrolment in upper secondary vocational and technical schools grew from 4,899 in 1970 to 14,338 in 1975, an increase of 193 per cent, and in tertiary level colleges, it grew from 4,993 to 16,827, in the same period an increase of 237 per cent. Nonetheless, there are severe shortages at the craftsmen, technical and professional levels and the Third Malaysia Plan gives particular emphasis on overcoming these to meet the needs of commerce and industry.

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<sup>223</sup> Courses are provided in Accountancy, Electrical Engineering, Mechanical Engineering, Civil Engineering and Business Studies.

<sup>224</sup> TMP. Table 22-1, pp. 385-386.



### Source Word bank

Figure 28 Enrolment in upper secondary vocational and technical schools

Nine more vocational schools are to be built and a polytechnic constructed in Kuantan. University education has also made advances. In 1957 a division of the University of Malaya was set up in Kuala Lumpur and in 1961 this became a university in its own right, established as the national university of the Federation of Malaya.

In response to the rising demand for tertiary education, four further universities have been established:

- The University Sains Malaysia (the Science University) in Penang in 1969.
- The Universiti Kebangsaan Malaysia (the National University of Malaysia) in 1970
- The University Pertanian Malaysia (the Agricultural University) in 1971. 4) The Universiti Teknologi, (the University of Technology) in 1972.

These courses covered the basic sciences, plant science, animal science agricultural economics, plant protection, crop and animal husbandry, farm management, extension and research techniques.

The Universiti Kebangsaan was established as the logical extension of the New Educational Policy and uses Malay as the main medium of instruction; the vast majority of its students are Malay. One of its main tasks is to develop the Malay language so that it can cope with modern developments in science and technology and so be fully used as the National Language. It both encourages members of staff to write textbooks in the national language and to translate foreign textbooks.

The Universiti Sains provides degree programs in the Pure Sciences, Applied Sciences, Social Sciences and Humanities. The Universiti Pertanian, which was formally Serdang Agricultural College, now provides degree courses in agricultural science. The Universiti Teknologi includes faculties of Engineering, Surveying and Architecture.

In the field of economics and business administration, there are courses at the University of Malaya, the Universiti Sains and the Universiti Kebangsaan. The University of Malaya offers a degree in Economics and Administration as well as a Diploma in Public Administration and Accounting. The Universiti Kebangsaan began offering a degree in Economics and Commerce in the Session 1974/75. However, the Malay language policy of the Universiti Kebangsaan presents several problems: first, there are virtually no books in Malay on these subjects, and second, the lingua franca of the business community is still usually English or Chinese. There had been a very rapid expansion of university places<sup>225</sup> - enrolments rose from 323 to 4,560 between

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<sup>225</sup> Ministry of Education, Educational Statistics of Malaysia 1938 to 1967. p. 69, Table 60.

1959-67 and, with the opening of the new universities, increased from 8, 148 to 14,254 between 1970—75, and 18,064 by 1978<sup>226, 227</sup>.

A major problem these universities have to face is a shortage of academic staff often with half the posts vacant, particularly in the fields of economics and business administration where the opportunities in the private sector are attractive, and even more so among Malays for Whom, there are now many other opportunities. For the most part, academic staff are, therefore, very young and at any time a relatively high proportion may be away on study leave completing higher degrees abroad. The move to introduce Malay as a medium of instruction in all universities first by duplicating all courses in Malay and English put additional strain on staffing and on those not yet fluent enough to deliver a university-level lecture in Malay.

## **6.12 HIGHER EDUCATION IN MALAYSIA**

### **6.12.1 A SNAPSHOT OF HIGHER EDUCATION INSTITUTIONS IN MALAYSIA**

Malaysia's commitment to education has gone through a range of transformations. The higher education sector is responsible for the operation of higher education institutions (HEI) in Malaysia and is under the jurisdiction of the Ministry of Higher Education (MOHE). The education sector has always enjoyed the highest national development budget which symbolizes the commitment of the Malaysian government towards education.

Malaysia's HEI (i.e. public universities, private higher educational institutions, polytechnics and community colleges) housed more than a million students in 2011, of which about 93,000 were international students from more than 100 countries. In

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<sup>226</sup> TMP. p. 401, Table 22-7. These figures refer to enrolments for degree courses only.

<sup>227</sup> Mid—Term Review of the Third Malaysia Plan. p. 203, Table 14—3.

contrast, there were about 89,686 Malaysian students (27,003 receiving sponsorship and 62,683 self-funded) who were studying overseas in 2011.

With a multi-ethnic population of about 28.3 million, Malaysia had 20 public universities, 50 private universities and six foreign university branch campuses; 403 active private colleges, 30 polytechnics and 73 public community colleges in 2011.

There are also various HEI from the UK, the US, Australia, Canada, France, and New Zealand which offer twinning and '3+0' degree programs through partnerships with Malaysian private higher education institutions. At present, some world-class universities such as RMIT University, Johns Hopkins University School of Medicine and the Royal College of Surgeons, Ireland have established their collaboration with the local PHEI.

Five of the 20 public universities in Malaysia have been assigned research university status with additional funding for R&D and commercialization of research. The remaining 15 public universities have been categorized as either comprehensive or focus universities. In the 2012 new year's speech, the Minister of Higher Education announced that five public universities have been given autonomy in administration, human resources, financial and academic management and student intake. They are Universiti Malaya, Universiti Kebangsaan Malaysia, Universiti Sains Malaysia, Universiti Putra Malaysia and Universiti Teknologi Malaysia. This move is aimed at encouraging excellence among local institutions of higher learning.

The quality of higher education is assured through the Malaysian Qualifications Agency (MQA) which undertakes the implementation of the Malaysian Qualifications Framework. MQA is also responsible for quality assurance and the accreditation of



courses and other related functions, covering both public and private higher educational institutions.

The provision of higher education is well-regulated. Below are some of the legislation:

- The Education Act 1996 (Act 550)
- The Private Higher Educational Institutions Act, 1996 (amended 2009)
- The National Council of Higher Education Act, 1996
- Malaysian Qualifications Agency Act 2007 (replacing the previous namely National Accreditation Board Act 1996 which has been repealed)
- The Universities and University Colleges (Amendment) Act, 1996 (amended 2009)
- The National Higher Education Fund Corporation Act, 1997 (Amendment 2000)

The internationalization of the higher education sector is a high priority for MOHE. Efforts have been made to improve the world ranking of Malaysian universities; to have 150,000 international students by 2015; to create more 'Malaysian Chairs' at universities abroad; and to collaborate and cooperate with world-renowned universities on research and academic matters.

The government will continue to create a friendly environment and invite more world-class foreign university branch campuses or faculties to be set up in Malaysia. Currently, there are six foreign universities with branch campuses in Malaysia. They are Monash University (Australia), The University of Nottingham (UK), Curtin University (Australia), Swinburne University of Technology (Australia), Newcastle University School of Medicine (UK) and the University of Southampton (UK).

Other initiatives undertaken by HEI include the establishment of Malaysian university branch campuses in other countries and increasing transnational education collaboration with overseas institutions. Malaysian higher education is also aggressively promoted in many parts of the world through road shows.

MOHE also aims to have 20 Research Excellent Centres which are of international standard by 2020. The nation has also targeted to achieve 100 researchers, scientists and engineers (RSE) per 100,000 workforces by the year 2020. The 10<sup>th</sup> MP (2011-2015) sets to improve the quality of academic staff by increasing the number of academics with PhDs in public universities, with a target of 75 per cent in research universities and 60 per cent in other public universities. To achieve this target, the implementation of the MyBrain15 program will be intensified to finance doctoral studies to increase the number of PhD holders to 18,000 by 2015.

Malaysia's first rating system, SETARA (Rating System for Higher Education Institutions in Malaysia) was implemented in 2009 to measure the performance of undergraduate teaching and learning in universities and university colleges in Malaysia. The SETARA result was measured using a six-tier category with Tier 6 identified as Outstanding and Tier 1 as Weak.

Subsequently, another rating system was introduced in 2011. My QUEST (Malaysian Quality Evaluation System for Private Colleges) was used to evaluate private colleges in Malaysia in terms of the quality of students, programs, graduates, resources and governance. The MyQUEST rating categorized an institution as either excellent, good, or weak. The institutions would also receive a rating based on their level of achievement which ranged from 1 star (poor) to 6 stars (excellent). These two rating systems serve as a reliable reference for students and parents in their selection of institutions and programs of study offered by various HEI.

The higher education sector is under the jurisdiction of the Ministry of Higher Education (MOHE). The establishment of this ministry on 27 March 2004 was a result of the restructuring of the Ministry of Education and marked an important part of history

in Malaysia, particularly in the development and expansion of the higher education sector. The establishment of MOHE is in line with the vision of the government in making Malaysia a centre of educational excellence and internationalizing Malaysian education. MOHE is the governing authority for the Malaysian higher education sector. It oversees HEI (both public universities and private higher educational institutions), community colleges, polytechnics and other government agencies involved in higher education activities such as the Malaysian Qualifications Agency, the National Higher Education Fund Corporation (Perbadanan Tabung Pendidikan Tinggi Nasional – PTPTN), the Tunku Abdul Rahman Foundation (Yayasan Tunku Abdul Rahman) and others.

***Some of MOHE key functions include:***

- Determining policies and the direction of the higher education sector to build an excellent and outstanding nation that is rich in knowledge, culture and civilization
- Acting as a catalyst to develop the sector that enables the nation to compete in the era of globalization
- Dealing with the challenges of the present global economic scene is in line with the government's aspiration to produce adequate human resources with knowledge and high moral values (National Higher Education Strategic Plan and Vision 2020).

***MOHE has its focuses on five core thrusts:***

- To create a strategic and systematic plan for higher education
- To reinforce the management system of higher education
- To increase the level of capacity, accessibility and participation in higher education
- To enhance the quality of higher education at par with international standards

- To internationalize Malaysian higher education

### **Structure of MOHE**

MOHE comprises four departments/sectors:

- The Department of Higher Education
- The Department of Polytechnic Education
- The Department of Community College Education
- The Management Sector
- The Development Sector

### **6.12.2 THE DEPARTMENT OF HIGHER EDUCATION**

The Department of Higher Education or popularly known as Jabatan Pengajian Tinggi was restructured and established on 27 March 2004 in line with the creation of the Ministry of Higher Education. The first restructuring exercise of this department was under the Ministry of Education on 1 October 1995. The Department of Higher Education is supported by several sectors, divisions and an administrative unit that is responsible for the development of both public and private higher education in Malaysia. It also ensures that the universities and colleges are of international standing. This Department is also involved in the marketing of Malaysian higher education internationally as well as being in charge of international student's welfare.

The sector designated with the jurisdiction over public higher education is known as the 'Sector of Public Higher Education management' while the sector designated with the jurisdiction over private higher education is known as the 'Sector of Private Higher Education Management.

### **6.12.2 DEPARTMENT OF POLYTECHNIC EDUCATION**

The formation of the Department of Polytechnic Education was a result of a restructuring exercise by the Department of Polytechnic and Community College Education (DPCCE) on 16 September 2009. The Department of Polytechnic Education has been entrusted to produce a generation of well-educated, skilled, creative, innovative, progressive and critical-thinking youths who are highly employable. Apart from public universities, polytechnic education offers an alternative route for school leavers with SPM qualifications to further their education at diploma and advanced diploma levels. Polytechnic education is currently under major transformation to produce highly skilled graduates in line with the National Higher Education Strategic Plan (PTPTN) and the National Key Result Areas (NKRA). Polytechnics provide an alternative route that sufficiently produces highly skilled and qualified human capital which will ensure the success of a new economy based on innovation and creativity.

### **6.12.3 DEPARTMENT OF COMMUNITY COLLEGE EDUCATION**

The re-organization of the Department of Polytechnic and Community College of the Ministry of Higher Education in 2009 has given rise to the birth of the Department of Community College Education (better known as JPKK). Its mission is to increase the socio-economic status of all levels of Malaysians through better access to education. This will be carried out through training programs and the use of a life-long learning approach. JPKK is tasked with providing vocational-based training (programs such as Sijil Modular Kebangsaan) leading to a certificate qualification for those who do not opt for the academic pathway. JPKK has taken aggressive measures to

increase student enrolment at TVET and enhance the overall training quality of up-skilling and re-skilling programs for the workforce involved in vocational fields.

#### **6.12.4 HIGHER EDUCATION LEGISLATION**

The legal regulatory frameworks that govern the provision of higher education in Malaysia are:

- The Education Act 1996
- The Private Higher Educational Institutions Act 1996
- The National Council of Higher Education Act 1996
- Malaysian Qualifications Agency Act 2007 (replacing the previous namely National Accreditation Board Act 1996 which has been repealed)
- The Universities and University Colleges (Amendment) Act 1996
- The National Higher Education Fund Corporation Act 1997
- The National Higher Education Fund Corporation (Amendment) Act 2000
- Private Higher Educational Institutions (Amendment) Act 2009
- Akta Universiti dan Kolej Universiti Pindaan 2009

##### **6.12.4.1 THE EDUCATION ACT 1996 (ACT 550)**

The Education Act 1996 covers pre-tertiary levels of education under the national education system which comprises preschool, primary, and secondary education as well as post-secondary education.

This Act contains some provisions that apply to the Ministry of Higher Education in the establishment of polytechnics and community colleges. The Private Higher Educational Institutions Act, 1996 & Act 2009 (amendment) This Act governs the establishment and operations of private higher educational institutions. It also makes provision for the establishment of private universities, university colleges, and branch campuses of foreign universities as well as the upgrading of existing private colleges to universities. In addition, the Act enables the liberalization of higher education in the

country to meet the increasing demand for tertiary education and a highly-educated and skilled workforce.

#### **6.12.4.2 THE NATIONAL COUNCIL ON HIGHER EDUCATION ACT, 199**

Under this Act, a national body was set up to determine policies and coordinate the development and rapid expansion of tertiary education in the country.

#### **6.12.4.3 MALAYSIAN QUALIFICATIONS AGENCY ACT, 2007**

The Malaysian Qualifications Agency Act, -- (*replacing the National Accreditation Board Act 1996 which has been repealed*), 2007 paves the way for the establishment of the Malaysian Qualifications Agency as a national quality assurance agency to implement the Malaysian Qualifications Framework (MQF), accrediting higher education programs and regulating the quality and standard of higher education providers of both public and private higher educational institutions in the country.

#### **6.12.4.4 THE UNIVERSITIES AND UNIVERSITY COLLEGES (AMENDMENT) ACT, 1996 & ACT 2009 (AMENDMENT)**

This Act seeks to corporatize the management and administration of public universities. With corporatization, these universities are given more administrative and financial autonomy to chart programs necessary for academic excellence.

#### **6.12.4.5 THE NATIONAL HIGHER EDUCATION FUND CORPORATION ACT, 1997**

The purpose of this Act is to establish a fund that provides financial assistance through study loans to students at higher educational institutions in Malaysia. It also provides for the establishment of a savings scheme to instil saving habits in children, from as early as Year 1 in primary school, intending to enable them to finance their own higher education in future.

All higher educational institutions operating in Malaysia are subjected to one or more of the above legislations, depending on whether the education provider is publicly or privately owned.

The legislation has made possible the following major enhancements in the Malaysian higher education system:

- the provision for the establishment of privately-run universities and systematic expansion of private education at the tertiary level
- the provision for fines and jail terms on operators who have flouted the provisions of the laws
- the provision for setting up of a quality assurance agency by the government to implement the Malaysian Qualification Framework as a basis for quality assurance in higher education and also as a reference standard for national qualifications
- the allowance for greater administrative and financial autonomy of public universities
- the establishment of student loans for greater access to higher education

The above Acts are reviewed from time to time to ensure that Malaysia achieves its aim of becoming a centre of educational excellence.

#### **6.12.4.6 MEDIUM OF INSTRUCTION**

English is used as the primary medium of instruction at most of the private higher educational institutions in the country. It is, however, only used for postgraduate studies at public universities as the bachelor's degree courses conducted at these universities are taught primarily in the national language, Bahasa Melayu.



### **6.12.5 PROVIDERS OF HIGHER EDUCATION**

Both public and private education providers play equally important roles in the provision of higher education and the development of human capital. Together, the public and private sectors provide abundant study options. HEI offer programs leading to the award of certificates, diplomas as well as postgraduate qualifications.

***Higher education providers in Malaysia can be grouped into two major categories:***

- Public higher educational institutions (government funded), which consist of:
  - Public universities
  - Polytechnics
  - Community colleges
- Private higher educational institutions, which consist of:
  - Private Universities
  - Private university-colleges
  - Foreign university branch campuses
  - Private colleges

#### **6.12.5.1 PUBLIC HIGHER EDUCATIONAL INSTITUTIONS**

The government-funded (public) higher educational institutions under the Ministry of Higher Education consist of:

- public universities which offer bachelor's degrees and postgraduate programs, with some offering programs at the diploma level and university foundation programs
- polytechnics and community colleges which offer certificate and diploma-level programs

- public colleges which offer certificate and diploma-level programs

### 6.12.5.2 PUBLIC UNIVERSITIES

Table 8 Public Universities of Malaysia

No.	Name of university	Date established	Location
1	Universiti Malaya (UM)	1-1-1962	Kuala Lumpur
2	Universiti Sains Malaysia (USM)	1969	Penang
3	Universiti Kebangsaan Malaysia (UKM)	18-5-1970	Selangor
4	Universiti Putra Malaysia (UPM)	4-10-1971	Selangor
5	Universiti Teknologi Malaysia (UTM)	1-4-1975	Johor
6	Universiti Teknologi MARA (UiTM)	26-8-1999	Selangor
7	Universiti Islam Antarabangsa Malaysia (UIAM)	10-5-1983	Selangor
8	Universiti Utara Malaysia (UUM)	16-2-1984	Kedah
9	Universiti Malaysia Sarawak (UNIMAS)	24-12-1992	Sarawak
10	Universiti Malaysia Sabah (UMS)	24-11-1994	Sabah
11	Universiti Pendidikan Sultan Idris (UPSI)	24-2-1997	Perak
12	Universiti Sains Islam Malaysia (USIM)	13-3-1998	Negeri Sembilan
13	Universiti Malaysia Terengganu (UMT)	15-7-1999	Terengganu
14	Universiti Tun Hussein Onn Malaysia (UTHM)	30-9-2000	Johor
15	Universiti Teknikal Malaysia Melaka (UTeM)	1-12-2000	Melaka
16	Universiti Malaysia Pahang (UMP)	16-2-2002	Pahang
17	Universiti Malaysia Perlis (UniMAP)	2-5-2002	Perlis

18	Sultan Zainal Abidin (UniSZA)	1-1-2006	Terengganu
19	Universiti Malaysia Kelantan (UMK)	14-6-2006	Kelantan
20	Universiti Pertahanan Nasional Malaysia, (UPNM)	10-11-2006	Kuala Lumpur

Public universities can be divided into five research universities, 11 comprehensive universities and four specialized technical universities (MTUN). The five public universities that have been designated as research universities are Universiti Malaya (UM), Universiti Putra Malaysia (UPM), Universiti Kebangsaan Malaysia (UKM), Universiti Sains Malaysia (USM) and Universiti Teknologi Malaysia (UTM). USM has also been awarded Apex university status. The four universities under the Malaysian Technical University Network (MTUN) are UTHM, UTeM, UMP and UniMAP.

At the beginning of 2012, five research universities (i.e. UM, UKM, USM, UPM and UTM) were conferred autonomy by the Minister of Higher Education to act with full accountability and responsibility on matters related to administration, academic management, student intake, institutional governance, finance and human resource management.

With this autonomy, the Board of Directors of these universities would now be empowered to make decisions that were once decided by MOHE. However, the performance of these five universities would be audited to ensure that the integrity and accountability of the universities would be kept in check under the Code of University Good Governance (CUGG) and the University Good Governance Index (UGGI).

In terms of student intake, these five universities are given preference to select from UPU (BPKP)'s list of applicants with Sijil Pelajaran Malaysia (SPM) and Sijil Tinggi Persekolahan Malaysia (STPM) certificates.

### **Polytechnics and Community Colleges**

- 36 polytechnics and 104 community colleges in the country

### **Teacher Education Institutes**

(this category is under the jurisdiction of the Ministry of Education)

- 27 teacher education institutes

### **Private Higher Educational Institutions**

All private-funded higher educational institutions come under the jurisdiction of the Ministry of Higher Education and comprise:

- Private universities, which award their degree qualifications, diploma and foundation studies
- Private university colleges, which award their degree qualifications, diploma and foundation studies
- Foreign university branch campuses, which award their degree qualifications, diploma and foundation studies
- Private colleges, which award their qualifications at diploma and certificate levels as well as 3+0 degrees, split-degrees and tutorial support for professional qualifications

#### **6.12.5.3 PRIVATE UNIVERSITIES**

List of 50 Private Universities in Malaysia (as of December 2021)

*Table 9 Private Universities in Malaysia*

No.	Name of university	Date Established	Location
1	Multimedia University (MMU), Cyberjaya	established in 1997	Cyberjaya / Melaka / Johor
2	Universiti Tenaga Nasional (UNITEN)	established in 1999	Putrajaya / Pahang

3	Universiti Tun Abdul Razak (UniRAZAK)	established in 1999	Selangor
4	Universiti Teknologi Petronas (UTP)	established in 1999	Selangor
5	International Medical University (IMU)	established in 1999	Kuala Lumpur
6	Universiti Selangor (UNISEL)	established in 2000	Selangor
7	Open University Malaysia (OUM)	established in 2000	Kuala Lumpur
8	Malaysia University of Science & Technology (MUST)	established in 2000	Selangor
9	AIMST University	established in 2001	Kedah
10	Universiti Tunku Abdul Rahman (UTAR)	established in 2002	Selangor / Perak
11	Universiti Kuala Lumpur (UniKL)	established in 2001	11 campuses in Kuala Lumpur and around the country
12	Wawasan Open University	established in 2006	Penang
13	Albukhary International University	established in 2006	Kedah
14	Al-Madinah International University (MEDIU)	established in 2006	Selangor
15	International Centre for Education in Islamic Finance (INCEIF)	established in 2006	Kuala Lumpur
16	Limkokwing University of Creative Technology	upgraded to a university college in 2003, and further upgraded to full university status in 2007	Putrajaya / Melaka
17	Management and Science University (MSU)	formerly KUTPM which was established in 2001 and upgraded to a full university in 2007	Selangor
18	Asia e University (AeU)	established in 2007	Kuala Lumpur

19	UCSI University	upgraded to a university college in 2003 and further upgraded to full university status in 2008	Kuala Lumpur / Terengganu / Sarawak
20	Quest International University	established in 2009	Perak
21	INTI International University (IIU)	upgraded to a university college in 2006 and further upgraded to full university status in 2010	Negeri Sembilan
22	Taylor's University	upgraded to a university college in 2006 and further upgraded to full university status in 2010	Selangor
23	Sunway University	upgraded to a university college in 2004 and further upgraded to full university status in 2011	Selangor
24	Manipal International University	established in 2010	Nilai
25	Perdana University	established in 2011	Selangor
26	HELP University	upgraded to a university college in 2004 and further upgraded to full university status in 2011	Kuala Lumpur
27	UNITAR International University	established in 2011	Selangor
28	Raffles University Iskandar (RUI)	established in 2011	Johor
29	Malaysia Institute of Supply Chain Innovation (MISI)	established in 2011	Selangor
30	Nilai University	upgraded in 2007 and further upgraded to full university status in 2012	Negeri Sembilan
31	SEGi University	upgraded in 2008 and further upgraded to full university status in 2012	Selangor
32	Asia Pacific University of Technology and Innovation (APU)	upgraded in 2004 and further upgraded to full university status in 2012	Kuala Lumpur

33	Binary University of Management and Entrepreneurship	upgraded in 2004 and further upgraded to full university status in 2012	Selangor
34	Infrastructure University Kuala Lumpur (IUKL)	upgraded in 2003 and further upgraded to full university status in 2012	Selangor
35	Asia Metropolitan University	upgraded in 2008 and further upgraded to full university status in 2012	Selangor/Johor (Two campuses: Cheras campus, Selangor and Johor)
36	Putra Business School	established in 2012	Selangor
37	Manipal Global NXT University	established in 2012	Kuala Lumpur
38	MAHSA University	upgraded in 2009 and further upgraded to full university status in 2013	Selangor
39	International University of Malaya-Wales	established in 2013	Kuala Lumpur
40	University Malaysia of Computer Science and Engineering	established in 2013	Putrajaya
41	Universiti Islam Malaysia, Cyberjaya	established in 2014	Selangor
42	DRB-HICOM University of Automotive Malaysia	established in 2015	Pahang
43	Asia School of Business	established in 2015	Kuala Lumpur
44	City University	upgraded in 2010 and further upgraded to full university status in 2016	Selangor
45	Meritus University	established in 2016	Kuala Lumpur
46	Universiti Sultan Azlan Shah	upgraded in 2012 and further upgraded to full university status in 2016	Perak
47	Universiti Islam Antarabangsa Sultan Abdul Halim Mu'adzam Shah	upgraded in 2006 and further upgraded to full university status in 2018	Kedah

48	Universiti Cyberjaya (University of Cyberjaya (UoC))	established in 2005 and upgraded to full university status in 2019	Selangor
49	Universiti Islam Pahang Sultan Ahmad Shah (UniPSAS)	established in 2005 and upgraded to full university status	Pahang
50	Universiti Teknologi Sarawak (UTS)	established in 2003 and upgraded to full university status in 2021	Sarawak

Source: mohe.gov.my, December 2021, my COURSE Guide

### 6.12.5.4 Private University-Colleges

Table 10 Private University-Colleges in Malaysia

No.	Name of university	Date Established	Location
1	International University College of Technology Twintech (IUCTT)  North Borneo University College, Sabah (formerly known as International University College of Technology Twintech, Sabah campus)	upgraded in 2013	Sabah
2	Kuala Lumpur Metropolitan University College (KLMUC)	upgraded in 2007	Kuala Lumpur
3	TATI University College	upgraded in 2007	Terengganu
4	Berjaya University College	established in 2007	Kuala Lumpur
5	Melaka Islamic University College	upgraded in 2009	Melaka
6	Linton University College	upgraded in 2010	Negeri Sembilan
7	UOW Malaysia KDU University College	upgraded in 2010	Selangor / Penang
8	Widad University College	upgraded in 2011	Pahang
9	KPJ Healthcare University College	upgraded in 2011	Negeri Sembilan
10	Lincoln University College	upgraded in 2011	Selangor
11	Southern University College	upgraded in 2012	Johor
12	Bestari University College	established in 2012	Terengganu
13	Veritas University College	established in 2013	Penang



	Formerly Vinayaka Mission International University College		
14	University Technology Sarawak	established in 2013	Sarawak
15	Tunku Abdul Rahman University College	upgraded in 2013	Kuala Lumpur / Penang, Johor, Perak, Sabah, Pahang
16	Geomatika University College	upgraded in 2013	Kuala Lumpur
17	Islamic University College of Perlis (KUIPs)	established in 2014	Perlis
18	University College Sabah Foundation (UCSF)	established in 2014	Sabah
19	Kolej Universiti Agrosains Malaysia	established in 2014	Melaka
20	Kolej Universiti Islam Pahang Sultan Ahmad Shah	established in 2015	Pahang
21	Kolej Universiti Poly-Tech MARA	upgraded in 2015	Kuala Lumpur
22	First City University College	upgraded in 2015	Selangor
23	New Era University College	upgraded in 2016	Selangor
24	Fairview University College	established in 2017	Selangor
25	International University College of Technology Twintech (IUCTT)	upgraded in 2003	Kuala Lumpur / Kelantan
26	Saito University College	upgraded in 2017	Selangor
27	Han Chiang University College of Communication	upgraded in 2017	Penang
28	Genovasi University College	established in 2017	Selangor
29	PICOMS International University College	upgraded in 2018	Kuala Lumpur
30	University College of Yayasan Pahang	upgraded in 2018	Pahang
31	Kolej Universiti Islam Antarabangsa Selangor (KUIS)	established in 1995 and upgraded	Selangor
32	i-CATS University College	upgraded in 2020	Sarawak
33	Netherlands Maritime University College (NMUC)	NMIT was established in 2011 and upgraded in 2021	Johor

34	Manipal University College Malaysia (MUCM)	MMMC was established in 1997 and upgraded in 2021	Melaka
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Source: mohe.gov.my, December 2021, my COURSE Guide

### **6.12.5.5 FOREIGN UNIVERSITY BRANCH CAMPUSES**

Students who wish to obtain a degree from a foreign university have the option of enrolling at a branch campus of a foreign university in Malaysia. Currently, they are ten foreign universities have set up their campus in Malaysia as of December 2021.

*Table 11 Foreign University Branch Campuses in Malaysia*

<b>No.</b>	<b>Name of Branch Campus</b>	<b>Location in Malaysia</b>	<b>Country of Origin</b>
1	Monash University Malaysia, established in 1998	Selangor	Australia
2	Curtin University, Sarawak Malaysia, established in 1999	Sarawak	Australia
3	University of Nottingham Malaysia Campus, established in 2000	Kuala Lumpur / Selangor	United Kingdom
4	Swinburne University of Technology, Sarawak Campus, established in 2004	Sarawak	Australia
5	Newcastle University Medicine Malaysia, established in 2007	Johor	United Kingdom
6	University of Southampton Malaysia Campus, established in 2011	Johor	United Kingdom
7	Heriot-Watt University Malaysia, established in 2012	Putrajaya	United Kingdom
8	The University of Reading Malaysia, established in 2013	Johor	United Kingdom
9	Xiamen University Malaysia Campus, established in 2015	Sepang, Selangor	China

10	Royal College of Surgeons in Ireland And University College Dublin Malaysia Campus, established in 2018	Penang	Ireland
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Source: mohe.gov.my, December 2021, my COURSE Guide

#### **6.12.5.6 PRIVATE COLLEGES**

There are about 331 active private colleges in Malaysia as of December 2021. These colleges award their qualifications at diploma and certificate levels as well as 3+0 degrees, split-degrees, and degree credit transfer programs and provide tutorial support for the preparation of professional qualification examinations. Students who wish to pursue a foreign university degree qualification entirely in Malaysia can opt to pursue a "3+0" degree program. The table below provides a list of some private colleges and private universities in Malaysia that conduct "3+0" degree programs in collaboration with foreign universities.

*Table 12 Private Colleges in Malaysia*

Examples of "3+0" Status Private Higher Educational Institutions (PHEI) and their University-Partners	
Name of PHEI	Awarding Body
SEGi College Subang Jaya	Univ. of Greenwich, UK Univ. of Southern Queensland, Australia Univ. of Sunderland, UK Univ. of Teesside, UK
SEGi University College	Univ. of Sunderland, UK Univ. of Teesside, UK
Southern College	Teesside Univ., UK Univ. of Wales, UK
Taylor's University	RMIT Univ., Australia Univ. of South Australia, Australia Univ. of The West of England, Bristol, UK Univ. of Toulouse, France
TPM College	University of Ballarat, Australia
PTPL College	Anglia Ruskin Univ., UK

Sunway College	Victoria Univ. Melbourne, Australia
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*(Note: This list is by no means exhaustive and serves as an illustration only.)*

Source: mohe.gov.my, December 2021, my COURSE Guide

Both the academic and skills pathway leading to desired qualifications are available to the students in the education and training system. Tertiary education in the national education system which is directly under the jurisdiction of MOHE comprises post-secondary education right up to higher education. Tertiary education in Malaysia offers a wide range of academic qualifications to pursue and it also includes skill training certification which is outside the domain of MOHE.

Post-secondary education or pre-university education (e.g. Form Six, matriculation program) is for students who have completed 11 years of education and takes one to one-and-a-half years. It prepares students for the examination leading to pre-university qualifications such as Sijil Tinggi Persekolahan Malaysia (STPM), GCE 'A' levels, and matriculation certificate.

A pre-university qualification is a basic entry requirement for a bachelor's degree at higher educational institutions. The providers of post-secondary education include some public universities and private higher educational institutions under MOHE. However, the main providers of post-secondary education are post-secondary schools and matriculation colleges under the jurisdiction of the Ministry of Education (MOE).

Higher Education covers certificates, diplomas, and undergraduate as well as postgraduate levels. The providers of higher education are colleges, polytechnics and universities. Undergraduate studies consist of bachelor's degree levels and professional studies while postgraduate studies consist of master's degrees and PhD levels. Higher education at certificate and diploma levels is for students from the age

of 17 with SPM qualifications (which is equivalent to GCSE 'O' levels) while the bachelor's degree level is usually for students from the age of 19 or 20 onwards with post-secondary qualifications such as the STPM (which is equivalent to GCE 'A' levels) or pre-university or university foundation qualifications. These degree programs normally take between three to five years. After obtaining a bachelor's degree, students can proceed to postgraduate studies.

**Higher education in the academic and professional fields is provided by:**

- Public-funded higher educational institutions which include public universities, polytechnics, community colleges and public colleges; and
- Private-funded higher educational institutions which include private universities, private colleges and foreign university branch campuses

MOHE is directly responsible for the operations and performance of public HEI, whereas private HEI are guided by MOHE policy guidelines and objectives.

The general entry requirements and duration of study at certificate, diploma, undergraduate and postgraduate levels for higher education (academic) can be grouped as below:

*Table 13 Higher Ed Qualification, Entry Requirements, Duration of Study*

Higher Education Qualification Levels, Entry Requirements and Duration of Study			
Higher Education (Academic qualification levels)	Type of Students	Estimated Age Group	Duration of Study
Certificate Level	For students with secondary school qualifications such as SPM	17 and above	1 to 1.5 years
Diploma Level	For students with secondary school qualifications such as SPM	17 and above	2 to 3 years
Bachelor's Degree Level	For students with post-secondary or pre-university qualifications such as STPM, GCE A-levels, etc.	19 and above	3 to 5 years
Master's Degree	For students with a bachelor's degree	Any adult	1 to 3 years

PhD (Doctor of Philosophy)	For students with a master's degree	Any adult	3 to 5 years
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(NOTE: The SPM (which is equivalent to GCSE 'O' levels) and STPM (which is equivalent to GCE 'A' levels) are the two recognized secondary and post-secondary qualifications awarded by the Malaysian government examination syndicate/board for further study in government-funded tertiary institutions.)

The qualifications awarded by all HEI (both public and private) in Malaysia registered under laws related to Malaysian education are governed by the Malaysian Qualifications Framework (MQF). The framework specifies that a program is required to achieve the following minimum credits before an academic qualification can be awarded, e.g. certificate (60 credits), diploma (90 credits), bachelor's degree (120 credits) and taught master's degree (40 credits). Master's degrees and PhD obtained by research do not have credit values. The various levels of higher education qualifications based on the MQF can be defined as follows:

#### Malaysian Higher Education Qualifications, Levels and Minimum Number of Credits

Table 14 Higher Education Qualifications, Levels & Minimum Number of Credits

Higher Education Levels	Higher Education Qualification	Minimum Credit Required for the Award of Qualification
8	Doctoral	No given Credit Value
7	Research master degree	No given Credit value
	Fully or partly taught master degree	40
	Postgraduate Diploma	30
	Postgraduate Certificate	20
6	Bachelor degree	120
	Graduate Diploma	60
	Graduate certificate	30
5	Advanced Diploma	40
4	Diploma	90

1-3	Certificate	60
	Skills Certificate	According to the skill and levels

Source: [www.mqa.gov.my](http://www.mqa.gov.my)

Besides pursuing an academic pathway to higher education qualification from certificate to PhD levels, SPM qualification holders or youths aged 16 and above have the option to pursue a Technical Education and Vocational Training (TEVT) program leading to the award of skills qualification. These programs allow students a pathway to acquire skills qualifications which cover Level 1, Level 2 and Level 3 of the Malaysian Skills Certificate; Level 4 (Malaysian Skills Diploma); as well as Level 5 (Malaysian Skills Advance Diploma). TEVT programs are under the jurisdiction of the Department of Skills Development, Ministry of Human Resources (MOHR), and are provided for under the National Skills Development Act 2006. The providers of skills training are from various ministries, government agencies and private sectors.

#### **6.12.6 HIGHER EDUCATION FUNDING**

Education at primary and secondary schools in Malaysia is free at government schools. Students studying at public universities need to pay tuition fees. However, the fees are highly subsidized by the government. Students at private institutions pay full fees. There are many types of financial aid readily available for Malaysian students who pursue higher education in the country. This funding is however limited to non-Malay students. These include scholarships and study loans from the public and private sectors. The government is the main provider of financial aid such:

- The Ministry of Higher Education (Scholarship Division)
- The National Higher Education Fund (Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN), Ministry of Higher Education)
- The Public Services Department (JPA) sponsorship program

- Various state foundations
- Government-linked companies
- Private sector and NGO - the private sector and non-government organizations (NGO) also provide funding in the form of scholarships, grants or study loans.

Fee waiver schemes are offered to Malays by many private higher educational institutions and many study loan schemes are offered by various organizations.

The biggest financial aid provider under the Ministry of Higher Education is Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN). Since its inception in 1997, PTPTN has approved loans amounting to RM 38.15 billion as of the beginning of 2011 with an estimated 887,995 borrowers.

Various scholarship schemes are also made available to international students through:

- The Malaysian Government on G-G arrangement
- The Ministry of Higher Education Malaysia (Scholarship Division)
- Government-linked companies
- Higher educational institutions
- Other commercial organizations

The national quality assurance agency of Malaysia is known as the Malaysian Qualifications Agency (MQA) which was established on 1 November 2007 under the Malaysian Qualifications Agency Act 2007. Its key function is to quality assure all programs and qualifications offered by higher education providers. MQA comes under the responsibility of the Ministry of Higher Education.

MQA was established to replace the following three quality assurance agencies, namely:

- Lembaga Akreditasi Negara (established under Act 556 in 1996), for private higher educational institutions
- The Quality Assurance Division of MOHE, for public universities



- The Quality Assurance Division of MOHE, for polytechnics and community colleges  
MQA is entrusted with implementing the national framework known as the Malaysian Qualifications Framework (MQF) to accredit higher educational programs and qualifications, to supervise and regulate the quality and standard of higher education providers, to establish and maintain the Malaysian Qualifications Register and to provide for related matters.

The implementation of MQF means that there will be a unified system to bind and interlink all the qualifications awarded in Malaysia (which includes higher education qualifications and Malaysian Skills Certificates – SKM Level 1 to 5) and serve as a reference point for all Malaysian national qualifications. MQF is an instrument that develops and classifies qualifications based on a set of criteria that are approved nationally and are at par with international good practices at the level of learning attained by the learners. This includes learning outcomes achieved and a credit system which is based on the learner's academic load. All the qualifications in the framework are based upon four classifications which are: (1) learning outcomes; (2) credit; (3) objectives; and (4) field of study.

MQF consists of eight levels of qualifications in four sectors of education.

The four sectors of education are the:

- skills sector
- the vocational and technical sector
- life-long learning sector and
- higher education (university) sector

The eight levels of higher education qualifications are:

- **Levels 1 to 3**

These are the levels for skills certificates awarded by the skills sector; vocational and technical certificates awarded by the Vocational & Technical Sector; and certificates (Level 3) awarded by the Higher Education sector.

- **Levels 4 and 5**

These levels are for diplomas and advanced diplomas (general degree) respectively awarded by the Technical and Vocational Sector, Skills Sector and Higher Education Sector.

- **Levels 6 to 8**

Level 6 is for the first tertiary qualification, i.e. bachelor's degree with honours while Level 7 is for master's degrees and Level 8 is for PhD / doctoral degrees. Under the lifelong learning category, there are graduate certificates and diplomas and postgraduate certificates and diplomas.

## **6.13 PLAN FOR MALAYSIAN HIGHER EDUCATION**

### **6.13.1 "STRATEGIC PLAN FOR HIGHER EDUCATION: LAYING THE FOUNDATION BEYOND 2020"**

The most significant strategic move undertaken by MOHE in the transformation of higher education is the launch of the national higher education strategic plan on 27 August 2007. This strategic plan, namely the "Strategic Plan for Higher Education: Laying the Foundation Beyond 2020" was formulated to meet the nation's human resource capital needs and transform higher education to make Malaysia an international hub of higher educational excellence. The transformation is divided into four distinct phases

- Phase 1: Laying the Foundation (2007-2010)
- Phase 2: Strengthening and Enhancement (2011-2015)
- Phase 3: Excellence (2016-2020)

- Phase 4: Glory and Sustainability (beyond 2020)

This strategic plan is designed to be comprehensive and focuses on seven strategic thrusts:

- Widening access and enhancing equity;
- Improving the quality of teaching and learning;
- Enhancing research and innovation;
- Strengthening institutions of higher education;
- Intensifying internationalization;
- Enculturation of lifelong learning; and
- Reinforcing the Higher Education Ministry's delivery system

#### **6.13.1.1 NHESP PHASE 1: NATIONAL HIGHER EDUCATION ACTION PLAN**

##### **2007-2010**

The first part of the plan details the 'institutional pillars' that represent the initiatives by the Ministry of Higher Education in assisting all higher educational institutions in producing human capital with a first-class mentality. The five pillars are:

##### **6.13.1.2 GOVERNANCE**

This applies mainly to public universities where clear definitions of parameters of responsibility for the university's Board of Directors (which has replaced the University Council), Vice-Chancellors and Senates. Concerning university management reforms, the government has implemented the legal framework to transfer administrative powers to universities with increased self-governance. The public universities will be expected to be more accountable for their actions as they deliver strategic objectives that are in line with those of the ministry such as becoming more competitive, retaining the best academics and contributing significantly towards research.

#### **6.13.1.2 LEADERSHIP**

To achieve the transformation envisioned by the government, there is a need to: identify and define the required leadership roles at higher educational institutions; enable outstanding educational leaders to emerge; entrust key leadership roles to Chancellors; institutionalize key leadership processes in the areas of selection, development, evaluation and renewal; and develop a succession plan for a pipeline of talents.

#### **6.13.1.3 ACADEMIA**

Every higher education institution must create an environment that fosters a culture of excellence to attract the ablest staff and enrich the local academic environment and have greater collaboration with corporations and international institutions. There must also be opportunities for career advancement and recognition of achievements.

#### **6.13.1.4 Teaching and Learning**

To introduce holistic programs that produce confident students with a sense of balance and proportion. Their perspective should be enriched by other experiences as well. The academic staff is expected to be leaders in the field of teaching and to focus on the innovative delivery of curricula. Institutions need to have a dynamic and relevant curriculum and pedagogy. Academic staff will also be expected to undergo enrichment programs and demonstrate professionalism and competence in their ability to teach. To have multilingualism in the curriculum and the use of English in teaching and learning continues to be encouraged. The Malaysian Qualifications Framework has also been set up to benchmark the quality of higher education.

#### **6.13.1.5 RESEARCH AND DEVELOPMENT**

Efforts will be intensified to increase the number of researchers, scientists and engineers (RSE) at a ratio of 50 RSE per 10,000 workforces. Passion and dedication towards research will also be inculcated and increased collaboration and funding enhanced to improve R&D output e.g. commercialization of at least 5% of R&D efforts and producing five world-renowned R&D centres of excellence to create internationally-acclaimed research universities.

The second part of the National Higher Education Action Plan involves a 'critical agenda' approach designed to transform Malaysian education to become more competitive. It entails the following:

#### **6.13.1.6 APEX UNIVERSITIES**

These are the nation's centres of academic distinction that will aim to achieve top global ranking. Apex universities will be given more autonomy and will have the best leaders, faculty, students and facilities to allow them to focus on becoming the best. The student population will reflect the plural demographic profile of the country and will be admitted based on merit. International students will make up 20% of the student enrolment. USM is the first university to be granted Apex status.

#### **6.13.1.7 MYBRAIN 1**

The government will accelerate the production of high-calibre human capital at the doctoral level. In doing so, it will create a pool of 100,000 high-quality graduates with doctoral degrees within the next 15 years. Top-class human capital is essential to promote economic growth, trigger industrial development and explore new areas of research that can sustain a nation's competitive advantage over others.

#### **6.13.1.8 ACADEMIC PERFORMANCE AUDIT**

All higher educational institutions will have streamlined quality assessment procedures to facilitate the monitoring of quality by MOHE. An independent assessment body will focus on academic audits of the institutions. There will be a creation of a higher educational institutions rating system to rank the institutions.

#### **6.13.1.9 LIFELONG LEARNING**

A national committee for lifelong learning will be established under the National Advisory Council on Education and Training to support the nation's human capital development needs. The government aims to increase the number of adult learners so that by 2020, 33% of the workforce will have tertiary education. The government will also establish alternatives route for access to and equity in tertiary education for rural and urban poor, taking into consideration disadvantaged individuals and communities.

#### **6.13.1.10 GRADUATE TRAINING SCHEME**

Opportunities will be given to students taking general courses to acquire specific career skills to prepare them for the workplace. The government will provide avenues for students to enhance their employability through training prospects which will become foundations for lifelong learning.

The third part outlines the support given in implementing the transformation of MOHE. There will be a shift in the way the ministry interacts with higher educational institutions. From just being a regulator and enforcer of government policies, the ministry will also assume the role of facilitator and partner in enhancing the higher education ecosystem. The ministry plans to enhance its delivery system through the following efforts:

- Governance and management: efficiency, effectiveness and integrity
- Culture: professionalism, high performance and teamwork
- Financial resources: efficient allocation in achieving objectives
- Human resources: synergy of new, existing and old expertise
- Info-structure: timely availability of information and analysis

To implement these changes, a program governance structure has been outlined by the ministry. Part of the agenda includes project and program management best practices. The program structure involves a steering committee that reports to MOHE. The steering committee will consist of representatives from other ministries, higher educational institutions, the corporate sector and eminent scholars. Assisting the steering committee is an advisory panel and drives and spearheads the transformation in the Program Management Office. The Program Management Office will consist of a Program Management Director and four units viz. project delivery unit, process and monitoring unit, monitoring and reporting unit, and communication unit.

Project teams will also be put together to carry out the planning and design of a specific initiative which could be a pillar or a critical agenda program. Led by a project manager, the team will comprise individuals from various institutions and agencies, consultants and other experts. At the higher education institution level, mini Project Management Offices will also be implemented to provide support for implementation planning and execution.

#### **6.13.1.11 NHESP PHASE 2 (2011-2015): STRENGTHENING AND ENHANCEMENT**

Phase 2 of the NHESP has been designed as a result of discussions and negotiations between every CAP project team to ensure the success of the planned

agenda. The Action Plan for Phase 2 is closely linked to the achievements of each CAP implemented in Phase 1 and the overall key objectives of the "National Higher Education Strategic Plan Beyond 2020". There are improvements of the NHESP by taking into consideration recent government policies, with specific reference made to the following documents:

- Tenth Malaysia Plan (10<sup>th</sup> MP)
- Malaysian Economic Model
- Government Transformation Program Roadmap (GTP)
- Economic Transformation Program (ETP): A Roadmap for Malaysia

In Phase 2, the seven core thrusts (in Phase 1) continue to be emphasized in the plan. All 23 CAP planned for Phase 2 plays a role in the achievement of the seven core objectives. In other words, performance and outstanding achievement for all CAP is imperative in the achievement of all the core thrusts. During the launch of Phase 2, the Minister of Education highlighted the focus for this stage, i.e.

- Strengthening efforts to produce human capital
- Enriching creativity and innovation
- Maximizing the ecosystem of higher education
- Taking advantage of globalization
- Transforming leadership among the leading institutions of higher learning

In the efforts to produce human capital, the plan will focus on strengthening the 5C's in the development of talent among students which was launched by the ministry previously. The 5C's are critical thinking and problem solving, effective communication



skills, collaboration and team building, creativity and innovation, and being culturally literate. The development of human capital will also focus on enhancing intellectual capital. Research, development and innovation aimed at increasing knowledge, discovery and commercialization of new products will also be a priority in Phase 2. Among the steps that will be taken to boost R&D and innovation are to encourage a pioneer mindset among researchers; encourage innovative research in line with the requirements of the nation; translate findings to products or platforms that can be commercialized; and enrich the knowledge repository of the country.

All five research universities have been instructed to intensify efforts to spearhead high-impact research platforms. Under the 10<sup>th</sup> MP, research funds such as the Fundamental Research Grant Scheme (FRGS), Exploratory Research Grant Scheme (ERGS), Long-Term Research Scheme (LRGS) and Prototype Development Research Grant Scheme (PRGS) are expected to enliven the landscape of R&D and increase commercialization. In the context of the Higher Education Centre of Excellence (HiCOE), more HiCOE will be established based on mutual understanding and collaboration. The six existing HiCOE should also begin collaboration with world-renowned research institutes during this phase. Meanwhile, the role of Malaysia's Top Business School (TBS) will be doubled. The corporatization of TBS is the newest element in strengthening its role. The niche unique to TBS in Malaysia is the emphasis on the development of 'human governance'. At the same time, MOHE will assess several business schools to be upgraded to TBS by 2015.

MOHE has acknowledged the role of PHEI in developing the potential of the nation. As such, the collaboration between public and private institutions should be intensified particularly in research, development and commercialization as well as the

sharing of best practices in terms of corporate management, income generation and others. PHEI need to be restructured such that they do not rely on student tuition fees alone as a source of income. Alternative income through R&D&C, executive programs and other academic services need to be explored.

#### **6.13.1.11.1 THE WAY FORWARD**

The tremendous growth of the Malaysian higher education sector over the last two decades has helped to put Malaysia on the international playing field in terms of providing higher education to the increasing number of both Malaysian and international students. It has also contributed towards the intensifying of research in this region. The "Strategic Plan for Higher Education: Laying the Foundation Beyond 2020" outlines the measures and strategies that will continue to make Malaysia an international centre of educational excellence. Further, to secure a better future for Malaysia in this globalized and ever-changing world, the Ministry of Higher Education has outlined several priorities that will be implemented over the next 10 years. The government has clearly outlined the strategic thrusts in this strategic plan to make Malaysia an international centre of educational excellence by 2020. Among the top aims are to ensure that Malaysians will have greater access to quality higher education that is affordable. This will be achieved by optimizing the resources of existing public and private higher education institutions. In addition, higher education institutions such as polytechnics and community colleges will be upgraded to shed the image that such institutions offer merely skill-based courses.

It is hoped that greater access to higher education will result in a larger proportion of the younger generation that is dynamic and progressive. The Ministry hopes that the next generation will be daring enough to face challenges, take risks,

and learn to embrace adventure and exploration. HEI have the task of producing graduates of high quality who will have a high level of employability. The curriculum produced by institutions of higher learning needs to be in line with the needs of the global marketplace.

The ministry also plans to intensify investments in science and technology and increase the potential and credibility of the country's research centres. Malaysia aims to be a centre of excellence for knowledge and innovation as well as gain an international presence. The government has identified the need for a knowledge economy to fuel the growth of the nation. Substantial investment is required in knowledge-intensive activities such as R&D, licensing and intellectual property. Malaysian internationalization-friendly policies have successfully convinced several reputable foreign universities to set up branch campuses or faculties in the country as well as many international students have Malaysia as a preferred choice. MOHE launched the Internationalization Policy for Higher Education in 2011. This initiative aims to accelerate the inflow of international students into the country.

#### **6.14 MALAYSIA'S SCHOOLS WIDEN ETHNIC DIVIDES**

Branded "indoctrinating factories for Malay children" by human rights lawyer Siti Kasim, Malaysia's national school system is dividing the country along ethnic lines. Ethnic segregation has become a major problem in Malaysia's education system even though the institutional role of education should serve as a unifying force for the country's multi-ethnic society. Furthermore, the country's education system, which is heavily influenced by Islamic teaching from first grade right up to university, has become a source of tension and youth radicalization.

The debate rages about whether Malaysia's vernacular schools should continue. The country's education system has not been decolonized. For instance, parents from each of the three major ethnic groups—Chinese, Indian, and Malay—prefer to send their children to vernacular schools, where their languages and cultures are taught. Research suggests that Malaysians are unlikely to make friends outside their ethnic groups at schools due to the ongoing segregation of different ethnic communities at educational institutes. This lack of diversity denies young Malaysians the opportunity to develop interethnic friendships. It creates metaphorical barriers between ethnic groups. In this way, existing political, economic and social inequalities among the diverse ethnic groups in the country have found their way into the country's education system. In Malaysia, politicians rely on ethnic voters for support and have never pushed to stop these cultural boundaries from penetrating the education system.

A recent study entitled "Ethnic Boundary among Students in Malaysian Primary Schools and Social Interaction": A Conceptual Framework found that the existence of ethnic boundaries via vernacular schools has enhanced stereotypes in Malaysia and fuelled racial biases in the country. "The education system that divides the students according to their mother tongue and ethnic difference, less effective means of cultivating integration and mutual understanding among students," noted the study.

The country's political elite doesn't appear to be worried about the issue as politicking continues to dominate the debate. The segregated education system in Malaysia has become one of the causes of ethnic polarization in the country. To foster greater ethnic integration, the Malaysian education system must be desegregated as soon as possible. Complicating the issue is the Islamization of the Malaysian education system, leaving the country with a prejudiced, intolerant and radicalized

youth. Faith is now an essential part of schooling in Malaysian education. For instance, many Malay parents are unaware that their children are receiving four hours of Islamic-related teaching per week. The teaching of Islamic education is not only mandatory for Muslim students but at times also enforced on non-Muslim students. Non-Muslim parents have complained that their children are made to sit in Islamic teaching classes and at times are not even allowed to take alternative subjects.

Such indoctrination at schools is impacting students' behaviour. It promotes rigidity and does not encourage lateral thinking. Former minister Zaid Ibrahim had this in mind when he lamented how the country's schools and universities concentrate too much on politics and religion to the detriment of promoting reading, writing and thinking. He complained that "the culture of having an intellectual and pluralistic approach to understanding the world, including religious tenets, had not taken root in Malaysia. Such an approach is frowned upon and considered blasphemous."

Such an approach in schools could lead Malaysia's students towards extremism. Malaysia's security agencies fear that extremist ideologies are gaining ground among university and school students and militant groups like the so-called Islamic State (IS) may use the opportunity for recruitment purposes. Their concerns are not without justification. Since 2014, police in Malaysia have arrested over 420 people for being affiliated with IS. At least 40 of them were college or university students. In January 2017, two students from Al-Madinah International University were detained by police for channelling funds for IS. To date, eight secondary school students have been arrested for assisting the group's militant activities in Malaysia.

The proliferation of Islamic teaching in schools has fostered other conservative attitudes. Malaysia's authorities plan to indoctrinate school children against trans

gender rights. With the introduction of a so-called Social and Reproductive Health Education program, the Ministry of Education aims to “warn” all school children about what it perceives as the threats and dangers of being lesbian, gay, bisexual or trans gender (LGBT). Such a move would, in theory, curb the growth of the LGBT community in the country. It is a backwards step. Malaysia needs to allow its young people to ask tough questions about sexuality, religion and the role of different ethnic groups in the country’s development. Schools should not be a place to drive wedges between the country’s different racial communities and enforce religious teachings. The creeping Islamization of Malaysia’s education system is fast becoming a national security challenge. As the approach is being pushed at the policy level, Malaysia is sitting on a ticking time bomb. The growing sense of alienation and despair among Malaysia’s students is fast becoming a threat to both the country’s stability and its students.

Enrolment in tertiary education in 1975 would be 65.1 per cent of the total of awarding three scholarships to Malays for everyone to a non-Malay. In 1969-70, 88.6% of the Malay students at the University of Malaya were on public scholarships or bursaries, compared with 22.8% of Chinese students, and 20% of Indian students<sup>228</sup>. To rectify the remaining imbalances in the fields of Science and Technology the Campus Report recommended in 1971: First. . . Universities should decide and state clearly that it is university policy to ensure as far as possible that the racial composition of the student population not only in the University as a whole but on a faculty-by-faculty basis should reflect the racial composition in the country. Secondly, the University authorities should ensure that faculties with poor Malay representation. . . should make every conscious effort to obtain the admission of Malay students. It is

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<sup>228</sup> Chai Hon—Chan, Education and Nation Building in Plural Societies: The West Malaysian Experience. p. 50.

clear to us that more Malay students had the required qualifications than were admitted. They could have, therefore, been admitted if the University authorities had been directed to provide for a proper racial balance in the different faculties.

Thirdly, in each faculty, students who come from rural areas where the facilities for the study of science are limited should be given special assistance and tuition. . . . Turning to the criteria for admission, we wish to state first of all that the criteria should not only be academic. Fourthly, we, therefore, recommend that the criteria for admission should include other factors besides the H.S.C. results and that the University authorities should give weightage to those from rural areas. Fifthly, we recommend that the scholarship awarding authorities should award more scholarships in the sciences to Malay students to ratify the present racial imbalance in these faculties <sup>229</sup>.

Such preferences are enshrined in Article 153 of the Constitution of Malaysia which states that not only shall Malays be given preferences in the award of scholarships but that provided they have the minimum entry qualifications, preference should be given to them for university places. In implementing this policy, it is difficult to avoid a drop in academic standards and an increase in the number of non-Malay students with good HSC results who cannot get into local universities<sup>230</sup>. For the affluent, foreign universities have provided an alternative. Of the Malaysian students in tertiary-level institutions in the United Kingdom, Australia and New Zealand in 1975, 80% were non-Malays<sup>231</sup>. However, the Government has now decided to impose racial

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<sup>229</sup> Malaysia, Report of the Committee Appointed by the National Operations Council to Study Campus Life of Students in the University of Malaya. pp. 44-45

<sup>230</sup> In order to cope with this problem, the University of Malaya provided a one-year pre—science course for Malay students with weak HSC results. In 1977 it started a special two-year course for rural Malay students to prepare them for admission to its Science, Medicine, Dentistry and Engineering Faculties. New Straits Times, 15 July 1976.

<sup>231</sup> TMP. p. 399, para. 1375.

balance quotas on the number of students studying abroad. The emphasis on giving special consideration to rural Malays, who will tend to be more traditional in their outlook, will present special problems to the companies who ultimately employ them. Although higher education in itself tends to be a modernizing influence, rural Malays will be closer to the attitudes and values of the village than their urban counterparts, and they will need to adapt to the values of modern commercial life. The result of the historical bias of the educational system has been severe shortages of professionally and technically qualified staff. A total of 4 % of the unemployed in 1973 were categorized as "professional, technical and related workers: administrative, executive, managerial workers"<sup>232</sup>. The products of the colleges and universities.

## 6.15 ESTIMATED MANPOWER REQUIREMENTS

Table 15 Number of employment and share of the employment

No	Sector/subsector	Total Employment 2010	Total Employment 2020	Total Final Demand 2010 (Rm Million)	The share of employment in 2010 (%)	Total Final Demand 2020 (Rm Million)	The share of employment in 2010 (%)
	Agriculture, forestry & fishing	1,614,900.00	1,542,189.00	36,076.00	28.95	221,305.00	9.60
	Mining and Quarry	57,200.00	14,949.00	42,932.00	1.03	30,247.00	0.09
	Manufacturing	2,108,500.00	2,862,343.00	58,946.00	37.79	842,042.00	17.83
	Construction	1,082,700.00	2,014,343.00	70,817.00	19.41	257,381.00	12.55
	Professional Business	343,797.00	872,061.00	20,853.00	2.58	83,809.00	5.43
	Health	179,427.00	214,432.00	28,746.00	1.42	67,207.00	1.34
	Education	193,788.00	180,499.00	55,617.00	1.68	103,043.00	1.12
	ICT	213,986.00	641,984.00	69,915.00	2.31	270,675.00	4.00
	Others	269,496.00	987,697.00	387,526.00	4.83	962,689.00	6.15
	Total Employment (Overall sectors)	6,063,794.00	9,330,761.00				

Source; Labour Force Survey \$ Projected figure (Input-output Table)

Table 16 Share of employment projected of the services sectors

Sector/Subsector	Employee Categories (%)			
Agriculture, forestry & fishing	1	2	3	4
Mining and Quarry	6.09	5.00	6.57	82.35
Manufacturing	9.02	7.67	8.27	75.05

<sup>232</sup> United Nations, Statistical Yearbook for Asia and the Pacific, 1971. p. 255.  
Table 4.15



Construction	12.78	9.39	7.37	75.24
Professional Business	4.90	5.05	4.83	85.22
Health	24.66	19.06	20.64	35.63
Education	32.32	9.65	26.70	31.33
ICT	58.70	7.77	13.91	19.62
Others	40.59	24.04	16.11	19.26
Agriculture, forestry & fishing	23.49	17.27	16.55	42.69

Note (1) Managerial, professional executive, (2) technical, associate, professional & supervisory, (3) Clerical, (4) service, sales, craft, operators, assemblers, elementary workers

Source; Projected Figures (input-output table)

This data gives some indication on the Malaysia Manpower forecasting and requirement in the service's sub-sectors that strongly deal with labour demand. The input-output analysis enables analysts to see the economy in general equilibrium that exists due to the impact of a policy change. Manpower inventory and analysis provided valuable information about presenting, and future labour needed in any skills, which have been highlighted in the Mid Review of Eleventh Malaysia Plan (2016-2020). The urgent requirement for skilled labour is emphasized especially in the service sector to increase capacity and productivity. However, the forecast may not be completely accurate, but it is essential as it provides tools of aid in terms of recruitment, selection and training processes.

Meanwhile, Malaysia still faces a host of issues in the battle to maintain recent growth, ranging from brain drain to inadequate skills level of graduates, unfortunately, these awkward position faces tough adjustment in the labour market and must outsource in the services sector, especially to the low-skilled labour. As Malaysia's economy is converting to higher-value-added and knowledge-intensive activities<sup>233</sup>, the four services subsectors that have been forecasted in this study are equally important as Malaysia has transformed from agriculture to one of that is service sector

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<sup>233</sup> (Tin et.al, 2011)

and is the largest contributor to the GDP (EPU, 2015). To endure high skill, more policies prone to higher innovation are needed in terms of industrial growth. Perhaps, in contrast, experienced workers are highly demanded in the ICT subsector for the year 2020.

One of the more relevant findings to emerge from this study is that, on average, skilled and medium-skilled workers are going to enhance the development of the service's sub-sectors as forecasted for the year 2020. It is noteworthy that more educated, and skilful Manpower is required to assist in the growing services sectors in Malaysia for the year 2020.

More research is required as this study has limitations due to the projection of Manpower being solely based on the final demand. Meanwhile, the study could be better if the research could undertake in wider projection as data constraint occurs only represents Malaysia. However, the relevance of adopting the Manpower requirement in the service's sub-sectors is supported by the current data using an Input/output table. Correspondingly, the substitution effect across the occupational types is not adequately dealt with in this study. The rationale for using this method by linking the Manpower requirements with the output sectoral is assumed that the growth of the sectors will be proportional to the growth of the demand of each occupation within the sectors (Willems, 1998).

The Third Malaysian Plan recognized this problem of orienting the educational system to the national manpower needs, especially in science and technology and it forms one of the main objectives of the Plan in the field of education<sup>234</sup>. The Government intends progressively to reduce the intake into the liberal Arts and put

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<sup>234</sup> TMP. p. 391, para. 1333.

emphasis on the fields of engineering, science, medicine, agriculture and business studies. It is anticipated that the output of degree holders in these fields will increase from 45.5% of the total in 1975 to 54.4% in 1980. The small numbers of Malays in the Faculties of Science and Technology are, predictably, reflected in the racial distribution of employment in these fields, despite substantial progress between 1957 and 1973 there are still very few Malay chemists, engineers or doctors.

The Government itself found difficulty in recruiting the calibre of staff, it required<sup>235</sup>. Considering the bias of Malays towards Government employment and the fact that many Malay scholarship holders are bonded to serve the Government, the difficulties experienced by the business community are going to be even greater.

The problem companies are faced with in recruiting, training and developing their managerial staff reflects the historical evolution Of Malaysian society and the educational system, as well as the political and social priorities of the Government.

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<sup>235</sup> The TMP states: "Given the shortage of skilled and experienced personnel, the rapid expansion of manpower in the public sector has perforce led to some fall in productivity due to the recruitment of relatively inexperienced staff and lack of proper supervision." *ibid.*, p. 42, para. 156.

## **CHAPTER 7**

### **7.0 THE MALAYSIAN ECONOMY**

To understand the development of the Malaysia and its managers it is fundamental to understand the economy. Understanding the development of the economy one will understand the development of the Malays manager and the reasoning of the government and why some policies was implemented. However, the political power was in the hand of the Malays the economy was in the hand of the Chinese and foreigners. This chapter will examine the economic context in which the industry operates, to look get a sense of the management required for these industries, and in particular, those factors which affect the training and development of managers. It will look at the historical development of the economy, the evolution of Government policy towards private enterprise, recent developments within each of the main industrial groups, and the organizational pattern of these groups.

### **7.1 REVIEW OF THE HISTORICAL DEVELOPMENT OF THE ECONOMY UP TO INDEPENDENCE**

Before British intervention, the economy of the Malay Peninsula consisted mainly of peasant farming and fishing with a very small amount of tin mining carried out by Malays. However, as European interest in the Far East increased, Malaya's key position on the trade routes brought it to European attention and coastal ports were the main concern and target.

The research was restricted to incorporated industry and the sampling was based on the Government's Financial Survey of Companies. The latter omitted peasant agriculture and fisheries, and very small-scale industry in the form of individual proprietorships and partnerships, banks, insurance companies, airlines and

shipping companies. It also excludes the very large number of parastatal organizations established since 1969. Since there are these gaps in the coverage of the study the review of the economy will not dwell on the missing sectors.

The study focused on Peninsular Malaysia with some mentions of Sarawak and Sabah, and as far as possible this chapter will confine itself to the position there. However, in some cases, the official figures are not broken down into Peninsular and East Malaysia, for this reason, some of the data applies to Malaysia as a whole. In assessing the data, it should be borne in mind that Peninsular Malaysia contains 82 per cent of the population of Malaysia and generates 85 per cent of the GDP<sup>236</sup>. Note that if there is a reference to the dollar, all dollars refer to Malaysian dollars unless stated to the contrary.

With the extension of European influence to the Straits Settlements, the demand for tin increased and the Malays<sup>237</sup> came to an arrangement with Chinese miners to extract the tin. In 1848 the discovery of rich tin deposits in Larut led to a tin rush and the Chinese<sup>238</sup> flocked to the region. Fighting broke out between the Chinese clans over control of the tin deposits reducing the region by 1862 to a state of anarchy, so threatening the tin trade. As a result, in 1874 Britain intervened to restore order.

*'So complete was the ruin brought about by this most disastrous warfare, that the country became almost depopulated - villages were demolished, thousands of people were massacred, the destruction of property was enormous, the land laid waste*

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<sup>236</sup> Rf: TMP. p. 201, Table 10-1.

<sup>237</sup> H. C. Chai, *The Development of British Malaya, 1896-1909*. p. 98. According to L. K. Wong, "without any known exception, the early Chinese miners came at the invitation of the Malay chiefs. L. K. Wong, *The Malayan Tin Industry*. p. 21.

<sup>238</sup> In 1848 there were 3 Chinese in the district of Larut; in 1862, 20—25, 000 Chinese miners; and by 1872, 40, 000 Chinese miners had flocked to the district Of La rut. Y.H. Yip., *The Development of the Tin Mining Industry of Malaya*. p. 58.

*and not only did Larut itself thus suffer but the returns of the value of imports at Penang during 1872 and 1873 showed a decrease of nearly 1,000,000 dollars, owing to the cessation of the importation of tin to that island from Larut*<sup>239</sup>.

### **7.1.1 TRADE**

The initial economic emphasis at the beginning of the period of British rule in the Malay States was thus on trade. The large merchant houses long established in Singapore and Penang, with their well-developed contacts with local producers, on the one hand, and with western markets, on the other, were able to extend their activities to the Malay states concentrating initially on the export of tin and import of manufactured goods. They were well placed to take advantage of the later development of the rubber<sup>240</sup> industry and were responsible for floating many rubber companies. They provided an important link between the financial resources of London and the developing economy of Malaya, and in this way, they extended their interests into the production of tin and rubber and assured themselves a virtual monopoly over the export-import trade<sup>241</sup> that persisted up to about 1920. Even though the Chinese began to make inroads into the export trade after that, British trading companies retained their control over large sectors of the rubber industry<sup>242</sup>.

While the large merchant, or agency, houses controlled export-import trade, it was the Chinese that collected the produce for export and provided the wholesale and retail outlets for imports. As Puthuchery put it "Chinese capitalists are in the main compradores of European capital. Indians were also active in trade, particularly in the

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<sup>239</sup> L. Wray, "Some Account of the Tin Miners and Mining Industries of Perak, Perak Museum Notes, no. 3, Taiping 1894, p. 9. Quoted in Y. H. Yip, op. cit., pp. 58-59.

<sup>240</sup> J.C. Jackson, Planters and Speculators. p. 245.

<sup>241</sup> J. J. Puthuchery, Ownership and Control in the Malayan Economy. P. 24.

<sup>242</sup> *ibid.*, p. 25. Puthuchery states, with reference to 1953, "It is fair to estimate that the 12 big agency houses do between a quarter and a third of both the export and the import trade of the country. t ' *ibid.*, p. 50.

import and retail of textiles, drugs and patent medicines. Some of the agency houses extended their interests into shipping, banking and insurance, and by the end of this period, very few had begun to diversify into manufacturing. They thus played a key role in the development of the commercial sector of the Malayan economy.

### **7.1.2 TIN**

While the protection of trade was one of the main reasons for British intervention, tin was the commodity in the trade in which Britain was particularly interested. One of Malaya's most valuable natural resources has been the rich deposits of tin found particularly in an area along the west coast running parallel to the central mountain range from Kedah in the north to Kuala Linggi in the south. Much of it has been washed down from the granite rocks in the mountains and is found in alluvial deposits on the coastal plains. As a result, it is relatively accessible and of high quality which has given Malayan tin a considerable cost advantage over that of other tin producers<sup>243</sup>.

The value of Malayan tin had long been appreciated but the turning point for the industry came as a result of two main factors. First, British intervention stabilized the internal situation and provided official support and encouragement for the expansion of the tin trade, and second, the growth of demand in Europe and North America<sup>244</sup>. These factors gave considerable impetus to tin mining; by 1883 Malaya had become the world's largest tin producer and by 1895 output of Malayan tin had risen to 55% of the world's production. Tin had been and remained for some time the

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<sup>243</sup> 10 In the sixteenth century the Portuguese tried to monopolize the tin trade and later the Dutch tried to do likewise by concluding treaties with local Malay chiefs. L. K. Wong, op. cit., p. 3.

<sup>244</sup> From the latter part of the 19th century on, the world consumption of tin ore increased rapidly. The most important single use was in the manufacture of tin plate used in canning, oil barrels and roofing. The best kind of tin ore for the manufacture of tin plate was alluvial tin because of its great purity. Tin was used in an increasing number of machine parts in the motor, electrical and mechanical industries for which the demand was steadily growing, and in the manufacture of dyes for the textile industry. L. K. Wong, op. cit., pp. 119 and 212.

monopoly for the Chinese. They brought knowledge of mining and smelting technology with them from China and adapted it to local conditions. They used highly labour-intensive methods, the equipment used was relatively simple and mining operations could be started with limited capital outlay. In some cases, mines were opened on a cooperative, profit-sharing basis. This gave the Chinese the advantage of maximizing limited investment resources, keeping overheads to the absolute minimum, and enabling flexibility in abandoning mined-out sites and moving rapidly to new ones. This pattern of labour-intensive methods, low-budget operation and almost exclusively Chinese workforce has persisted and characterizes contemporary Chinese tin mining in the peninsula. Initially, European companies found it impossible to compete with the Chinese<sup>245</sup>. However, by 1910 many of the richest deposits had been worked out and new techniques were required to cope with the lower-grade ore. The introduction of the tin dredge in 1912 met this.

Swettenham wrote of the Chinese contribution to the tin industry: . . . it was the Chinese who began the work of opening up the tin mines, who have continued it ever since, and whose efforts have succeeded in producing more than half of the world's tin supply. Their energy and enterprise made the Malay States what they are today, and it would be impossible to overstate the obligation which the Malay Government and people are under to these hard-working, capable and law-abiding people<sup>246</sup> need and gave the European companies an advantage that changed the pattern of the tin

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<sup>245</sup> "Usually, European mining is done by companies. there is the manager and the sub-manager, the accountant, the engineer, the smelter. . . Machinery is bought, houses are built, in fact the capital of the company is spent. . . and then, it is found that the tin raised is infinitesimal in value when compared to the rate of expenditure, and that the longer the work goes on the greater will be the losses. This is usually discovered when the paid-up capital is all but exhausted. The company is wound up and the State gets a bad name with investors, and the only people who really enjoy themselves are the neighbouring Chinese miners who buy the mine and the plant for an old song and make several large fortunes out of working on their own ridiculous and primitive methods." F.A. Swettenham, *About Perak*. p. 34.

<sup>246</sup> F.A. Swettenham, *British Malaya*. pp. 231—2.



mining industry. The dredges were large, complex, costly pieces of equipment and it was the European companies alone that had access to the financial, technical and organizational resources to operate them<sup>247</sup>. They required large tracts of land to operate economically and British land policies favoured Europeans<sup>248</sup>. Not only did the Chinese miners lack the technical expertise necessary, but they were also reluctant to reorganize their enterprises on the joint stock basis necessary to raise the capital involved.

The European companies were generally managed by mining agencies, firms that specialized in the management of tin mines, providing secretarial functions and technical management. Financially, these companies were closely integrated with interlocking ownership and directorships that made it a tightly knit industrial group. All but one of the dredges in Malaya in 1954 were operated by European—owned and controlled Tin companies. About half of these were locally incorporated and Yip Yat Hoong calculated foreign ownership as 78 per cent of total shares<sup>249</sup>. Chinese mining concerns, on the other hand, were almost entirely individual ownerships and partnerships and their capital came from relatives, friends or the clan<sup>250</sup>. Their management practices remained traditional and their methods relatively simple - mostly gravel pumping. Nonetheless, they retained more than one-third share in the total production of tin<sup>251</sup>.

The significance of tin in the early development of Malaya was enormous. In the last decades of the nineteenth and the first decades of the twentieth-century tin

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<sup>247</sup> With the introduction of the tin dredge came the joint-stock company and the participation of Western banks to finance the huge investment involved.

<sup>248</sup> G. D. Ness, *Bureaucracy and Rural Development in Malaysia*. P. 32.

<sup>249</sup> Yip Yat Hoong, *op. cit.*, p. 352, Table V-3.

<sup>250</sup> J.J. Puthucheary, *op. cit.*, p. 84.

<sup>251</sup> *Production of Tin-in-Concentrates in Malaya by European and Chinese Mines*

was by far the single most important revenue producer with duty on tin accounting for up to almost half of the total revenue of the Federated Malay States<sup>252</sup>. Chai Hon Chan states: “the success of British rule in Malaya was due almost entirely to a thriving tin industry”. From the export duty of tin, the Government derived the bulk of its revenue to pay for Civil List and general administrative charges, for an expensive road and railway system, for schools and medical services, and for numerous other public risks which made for stable and efficient government<sup>253</sup>.

*Table 17 Production of Tin-in-Concentrates in Malaya*

Year	European		Chinese		Dulang Washing	
	000 tons	% of Total	000 tons	% of total	000 tons	% of total
1930	40.9	63	23.1	36	1.0	1
1935	26.7	66	13.2	32	0.9	2
1940	57.7	72	22.0	27	1.0	1
1945						
1950	33.7	59	21.2	37	2.5	4
1955	36.4	60	23.7	39	1.1	2

Source: Federation of Malaya, Bulletin of Statistics Relating to the Mining Industry (1950), p. 8, Table 9, and 1956 p.5, Table 6. Note: There is a slight discrepancy between the 1950 and 1956 Bulletin statistics. The 1950 Bulletin has been used for all figures in this table except those for 1955.)

### 7.1.3 RUBBER

The development of the rubber industry in Malaya was the product of a combination of official encouragement, British entrepreneurship, suitable physical conditions, and a rapid rise in world demand brought about by the coincidental rise of the motor car industry. Early British efforts in agriculture had met with little success. The first planters were amateurs for whom agriculture was a<sup>254</sup>part-time activity and it

<sup>252</sup> FMS, Manual of Statistics Relating to the Federated Malay States, 1924. p. 270 and p. 276.

<sup>253</sup> Chai Hon-Chan, The Development of British Malaya. p. 163.

<sup>254</sup> J.C. Jackson, op. cit., p. 91.

inevitably suffered from ignorance and neglect. The professionalization of farming began in the 1870 and 1880 with the arrival of coffee planters from Ceylon. The introduction of coffee planting prepared the way for the future development of rubber in that it brought about the extension of large-scale agriculture and the proprietary estate began to give way to ownership by companies.

In 1877 Brazilian rubber seeds were brought to Singapore Botanic Gardens from Kew Gardens in London. Plants and seeds were distributed to Government officers in the Malay States and handed out to planters. As the price of coffee fell and that of rubber rose the first pioneer plantings were made. In 1905—1908 rubber prices soared and the planting community began to switch to the rubber on a large scale<sup>255</sup>. By 1908, rubber was the main crop of the plantation industry in Malaya.

Since the communications network was concentrated in the tin-bearing states of Selangor, Perak and Negri Sembilan, it was here that rubber planting tended first to be concentrated. The cultivation of rubber raised two main problems: the first, was the problem of capital; the second, of labour. The problem of a labour force to work the plantations was a serious one for rubber is a highly labour-intensive industry. The solution found was to import Tamil labour from India. Financing was a problem since rubber trees take seven years to come into production and the methods used in Malaya favour fairly large estates. Considerable investment was required and the returns were slow. London was the best source of such investment capital and the private joint stock company met this need.

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<sup>255</sup> Rubber increased from 38, 000 acres in 1905, to 100, 000 acres in 1906, and by 1926 2,250,000 acres were planted with rubber - more than half the total world acreage. Dun J Li, *British Malaya, An Economic Analysis*. P. 60.

The agency houses in the Straits Settlements channelled such funds into the planting industry and in the process acquired increasing financial and management interests themselves. Several agency houses took on the role of supervising the management of the estates of European-owned rubber companies and marketed the product as well. As managing agents, they were responsible for the recruitment, training and supervision of managers and labourers for the estates. Allen and Donnithorne give an excellent description of the rationale of the managing agency.

The managing agency system is in essence a method of industrial and commercial organization designed to reduce the risks of foreign investment in countries where business expertise and managerial skills are scarce. It is based upon a division of function between the firm in the metropolitan country which owns the business properties and the firm which manages them in the colonial territories. Under this system, relatively small concerns can engage experienced managing agents to administer their estates or factories, and investors are encouraged to subscribe capital for a diversity of companies in specialized undertakings abroad. Thus, the scarce managerial resources are mobilized in the services of numerous proprietary companies, and specialization in investment is combined with a cooperative using the expertise available in the country of operation.

These agency houses linked together the commercial, mining and agricultural interests in Malaya with the technical and managerial know-how and financial resources of Britain. The success of the managing agency is testified to by the fact that it is still the most important form of management in the plantation industry in Malaysia. The large amounts of capital required to open up an estate and Government preference for European firms ensured that the estate side of the rubber industry was

European-dominated<sup>256</sup>. The Chinese initially preferred crops that required little investment and gave an immediate return on that investment<sup>257</sup>. With the growing success of rubber, the Government actively discouraged the old Chinese style of cultivation, and many Chinese moved into rubber. Nonetheless, the reluctance of the Chinese to float public companies, and their reliance on private finance limited the size of their estates<sup>258</sup>.

The Government gave official encouragement to the planting industry and in particular to the European planters who were regarded as "the backbone of the country. . . deserving of the utmost „encouragement that which Government can give them<sup>259</sup>. In 1904 a scheme of Government loans to bona fide planters was introduced, the vast majority of these went to Europeans <sup>260</sup>. The Tamil Immigration Fund was established by the Government to provide free passage for Tamil labourers to come to Malaya to work on the rubber estates. Transport and communication facilities were provided in the form of roads and railways and in Selangor, all land with rail or road frontage was reserved for estates, the vast majority of which was European-owned. Despite, possibly because of, its advantages the estate sector does not appear to have been quite as well managed as one might have expected<sup>261</sup>. One commentator observed: On the eve of the Second World War, Malaya's rubber industry still comprised far too many individual units of uneconomic size and continued to support at ruinous expense an absurdly large number of superfluous directors. Too few estates

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<sup>256</sup> 28 Writing with reference to 1953, Puthuachery states, "The 1.6 million acres owned by European companies are mostly in large units: 92% is in estates of more than 1, 000 acres. Asian—owned estates are generally small. Only 16% of Chinese-owned estates and 13% of Indian-owned estates are more than 1, 000 acres. J

Puthuachery, op. cit., p. 26. 29 J.C. Jackson, op. cit.,

<sup>257</sup> G. C. Allen and A. Donnithorne, *Western Enterprise in Indonesia and Malaya*. p. 52.

<sup>258</sup> In 1953, 95 per cent of Asian—owned estate rubber was owned by individuals, families, partnerships, or private limited companies. Federation of Malaya, *Rubber Statistics Handbook*, 1953. p. 38, Table 11.

<sup>259</sup> Annual Report of Lower Perak, 1906. p. 6, quoted in J. J. Jackson, op. cit., p. 234.

<sup>260</sup> J.J. Jackson, op. cit., p. 237.

<sup>261</sup> V. Thompson, *Post-mortem on Malaya*. p. 98.

had replaced their obsolete trees with higher-yielding stock; and many were in none too good a position to compete profitably with Asian smallholders, whether inside or outside the country.

#### **7.1.4 MANUFACTURING**

During the period of British rule, the Malayan economy developed along typical colonial lines with primary commodities being developed to supply industry in the colonial power, and local manufacturing growing up, only as was needed to serve the two main export industries. There was little industry stimulated by tin and rubber other than a light engineering industry to supply equipment<sup>262</sup>. Besides this, there was the manufacture of foodstuffs and tobacco, handicrafts, processing commodities such as timber, rice and fish, and miscellaneous manufactures such as bricks, soap and newspapers<sup>263</sup>.

The sector was small and static: it employed 7 per cent of the working population in 1947, and 6 per cent in 1957<sup>264</sup>. The majority of enterprises were very small: IBRD estimated in 1955 that the average firm had 20 employees, the majority less than 10<sup>265</sup>. While European capital was concentrated in the mines, plantations and trading houses, it was Chinese capital that dominated the manufacturing sector<sup>266</sup>. In the Federation in 1955, 80-90 per cent of industrial employers and 75 per cent of wage earners were Chinese. The problem the manufacturing industry faced was a small domestic market, competition from the lucrative tin and rubber industries for

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<sup>262</sup> J.T. Thoburn, "Exports and Economic Growth in West Malaysia, Oxford Economic Papers, XXV, 1 (1973), p. 98—100.

<sup>263</sup> IBRD, *The Economic Development of Malaya*. pp. 418-419.

<sup>264</sup> Federation of Malaya, 1957 Population Census. No. 14, p. 31.

<sup>265</sup> IBRD, *The Economic Development of Malaya*. p. 422.

<sup>266</sup> Manufacturing was dominated by the Chinese, with the exceptions of smelting, which was a European preserve, and the manufacturing activities of the two agency houses, Borneo Company and Sime Darby. J. J. Puthuchery, *op. cit.*, pp xviii-xix, pp. 55-56.

investment capital, and official disinterest. It was not until the beginning of the Second World War that official policy towards manufacturing changed and then in response to the need for defence materials. However, in the period immediately before the Japanese occupation, shipbuilding was "the only important new industry born of the war"<sup>267</sup>. This Virginia Thompson puts down to (1) 'the difficulty of building up industrial centres overnight' (2) 'the traditional distaste of British manufacturers for developing rivals within the imperial frame' and (3) 'the reluctance of colonial Businessmen to expand output on a scale that would be unprofitable to them after the war'.

### **7.1.5 PALM OIL**

Palm oil production is vital for the economy of Malaysia, which is the world's second-largest producer of commodities after Indonesia. If ever there was a commodity so intimately connected to the history of this nation, it would have to be palm oil. First introduced here from foreign shores, the commodity has since become a crucial part of the bedrock of the country's economy, socio-development and political stability. Palm oil trees were introduced to British Malaya by the British government in the early 1870 as ornament plants from Eastern Region and The Oil River Protectorate, Nigeria, West Africa. The first commercial palm oil cultivation was done in Selangor in 1917 at Tennamaram Estate. In the early stage of development, the government focused on increasing its palm oil output by rapidly increasing the land area for palm oil cultivation.

Oil palm plantations currently occupy over 5 million hectares, while palm oil accounts for almost 6% of the country's Gross Domestic Product (GDP). Today, Malaysia is the second largest producer of palm oil in the world, after Indonesia.

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<sup>267</sup> V. Thompson, *op. cit.*, p. 117.

According to the Malaysian Palm Oil Council (MPOC), our country currently accounts for 29% of world palm oil production and 37% of world exports. In 1917, Fauconnier planted oil palm seeds at Tennamaram Estate in Batang Berjuntai, Selangor. This became the first local commercial oil palm plantation. "It's a success story which Malaysia is correct in celebrating. The industry has expanded in directions in which Henri Fauconnier, the first person to plant oil palms here commercially, could never have imagined," said Datuk Henry S. Barlow, the chairman of New Britain Palm Oil Ltd, a wholly-owned subsidiary of Sime Darby Plantation. "Palm oil has expanded from basically a cooking oil in its unrefined form to an ingredient of practically any product you buy off the supermarket shelves, here or anywhere else in the world." The oil palm first came to Malaysia's shores in the 1870, after Malaya received its first batch of oil palm from the Royal Botanic Gardens in Kew, England; this was planted in the Singapore Botanic Garden. Its appearance made it suitable for use as an ornamental plant. In 1917, however, a young Frenchman named Henri Fauconnier planted some oil palm seeds at the Tennamaram Estate in Batang Berjuntai, Selangor. This became the first local commercial oil palm plantation.

In the 1920, trading companies such as the Guthrie Group (now part of the Sime Darby Group) and the United Plantations Group started growing the crop on a large scale. By 1936, there were 34 oil palm estates in the country (four times the number in 1924), taking up 26,300 ha of land. Large-scale planting of oil palm by the Federal Land Development Authority (FELDA) has become a successful model as a poverty-eradication program for developing countries. Since 1956, FELDA has provided 112,635 of the landless poor in Malaysia with a livelihood.



The success of Malaysian palm oil cultivation can be attributed to the country's political stability, its modern infrastructure and facilities, and many beneficial government policies. Many organisations supporting the crop's cultivation were formed (such as the Incorporated Society of Planters in 1919, and the Palm Oil Research Institute of Malaysia in 1979) as well as increased research and development into oil palm breeding, genetics, and crop physiology. The country's compatible climate and the existence of earlier cultivation techniques contributed to the crop's success. "We are a tropic region, which means advantages like easy access to water and sunlight. The yield of palm oil in Nigeria, oil palm's home country, is half of what we achieve because it has dry seasons," said Ong. "The success of growing oil palm in this country was also due to it having an estate tradition which dated back to the early growers of rubber at the turn of the 20th century. They had brought their accounting systems and discipline from growing coffee in (what was then) Ceylon here," Barlow said.

Another significant development came in the 1950, when the Government decided to focus on agricultural diversification and industrialisation, to end its dependence on rubber and tin. In 1956, the First Malaya plan identified oil palm as the best alternative to rubber, and from the 1960 onwards, the Government committed itself to encourage oil palm cultivation, mostly among smallholders. In 1960, the country had 55,000 ha of oil palm and produced 92,000 tonnes of palm oil. Six years later, Malaysia overtook Indonesia, Nigeria and the Belgian Congo as the world's largest exporter of palm fruit oil. The 1970 saw an expansion of oil palm cultivation which until then had primarily been confined to Peninsular Malaysia. While yields in East Malaysia were previously low due to poor fruit sets, the introduction of the

pollinating weevil from Cameroon to Sabah in 1981 resulted in spectacular gains. “The industry here grew rapidly with the setting up of the Sabah Land Development Board which organised land settlements in which settlers grew oil palm. The arrival of the Federal Land Development Authority during the era of the Berjaya government (1976-1985) resulted in an exponential growth in oil palm acreage,” said Palm Oil Industry Cluster Sabah CEO Datuk Dr Pang Teck Wai. “The first commercial planting started in 1958 at Mostyn Estate and the first oil palm research was started in Sandakan in 1962. The entry of the FELDA and Sabah government’s oil palm-based land settlement schemes laid the groundwork for the rapid expansion of oil palm.” Large-scale oil planting soon took off in Sabah. In 2000, the crop area exceeded a million hectares. This was followed by an increase in oil palm growth in Sarawak in the 1990 and 2000. By 2010, Peninsular Malaysia, Sabah and Sarawak accounted for 52%, 29% and 20% respectively of the planted oil palm area in the country.

Things were not always rosy for oil palm. One of the greatest threats to Malaysian palm oil came in the 1980, with the American Soybean Association (ASA)’s Anti Palm Fruit Oil Campaign which spread untruths about the consumption of palm oil. Malaysian palm oil pioneers such as Ong, then Minister of Primary Industries Tun Dr Lim Keng Yaik, and then Malaysian Oil Palm Growers Council Chairman Tan Sri Borge Bek-Nielsen worked tirelessly to debunk this campaign. “It was a very fierce battle. The ASA was even using cartoon characters like Mickey Mouse to condemn palm oil, spreading messages like ‘palm oil poisons Americans’! And we had to fight them with very limited information,” Ong recalled. “We decided not to follow their approach. They were attacking us through advertisements, calling us names and using slogans. We had limited resources but decided we would do our research and publish

our results. We got external experts in Europe, China and Australia to conduct studies, and the results were peer-reviewed and published in American journals.” Their efforts paid off, and the ASA called for a truce in 1989. Greater awareness of environmental and social issues worldwide made many realise that the industry must not only be profitable but also sustainable. The late 1990 and 2000 saw many environmental non-governmental organisations (NGOs) criticising the palm oil industry for its contributions to deforestation, global warming, and the destruction of the habitats of endangered animals such as the Orang Utan and Asian rhino.

The year 2003 saw the inaugural meeting of the Roundtable on Sustainable Palm Oil (RSPO) in Kuala Lumpur which drew 200 participants from 16 countries. The future of Malaysian palm oil certainly looks very promising. However, there are a few challenges that the industry needs to face to continue being relevant in the future. The oil palm industry may face a few challenges but the future of Malaysian palm oil looks promising. The boom in the palm industry came with its own set of problems, the increase of foreigners and migrant workers. About 80% of estate labour is non-Malaysian, with imported migrant labour. “Another challenge is the anti-palm oil lobby. The market is not an issue because the global demand for palm oil is unlikely to be met any time soon. On the other hand, the demand for renewable raw materials translates into high demand for oil palm biomass and palm oil<sup>268</sup>.

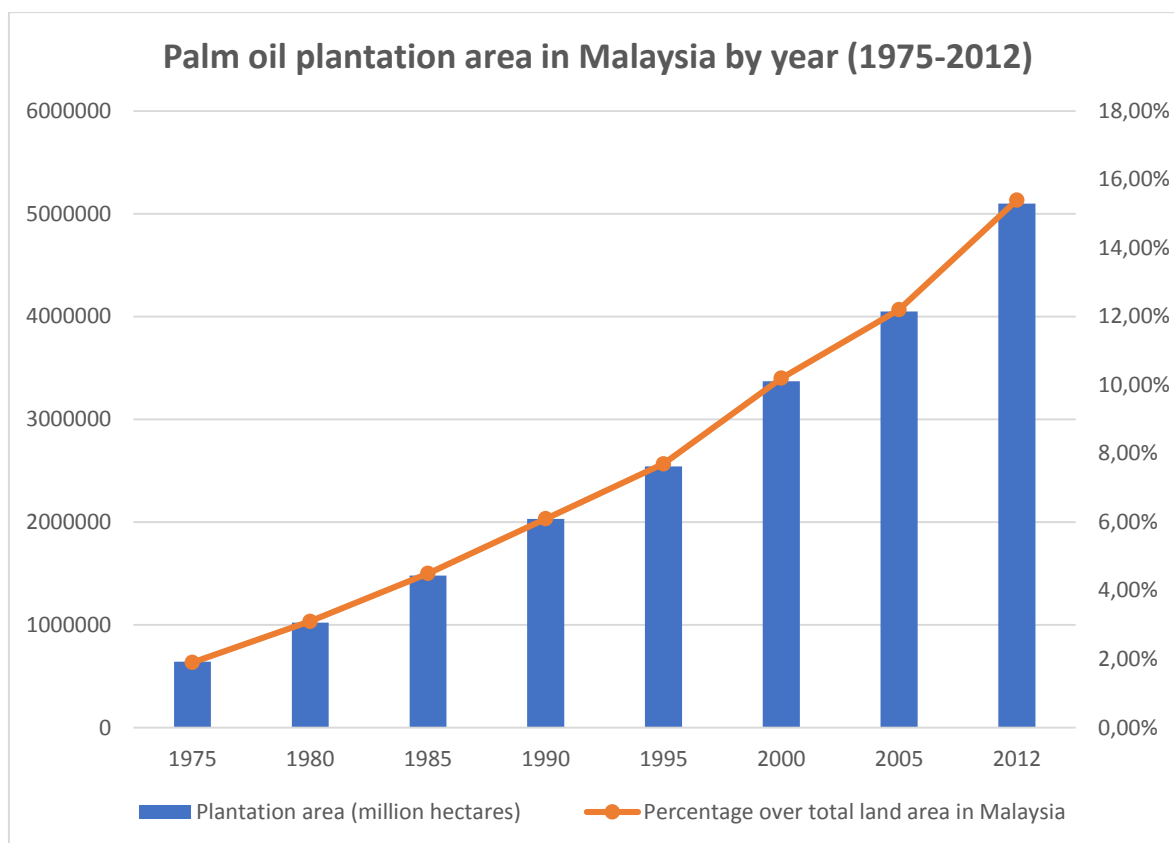
In the early 1960, palm oil cultivation increased significantly under the government diversification program to reduce Malaysia's dependency on rubber and tin<sup>269</sup>. The FELDA land settlement schemes were introduced surrounding most of the

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<sup>268</sup> Source: The Star Online – <https://www.star2.com/palmoil/2017/05/18/100-glorious-years-of-palm-oil-in-malaysia/>

<sup>269</sup> Basiron, Yusof (2013). "Malaysian Supply and Demand of Palm Oil: Challenges and Opportunities until 2020". Malaysian Palm Oil Council

palm oil plantation fields to eradicate poverty among the local people. In the same period, Malaysia also became the world's largest palm oil exporter. In the 1980, the government nationalized three major palm oil companies, which are Guthrie, Golden Hope and Sime Darby.<sup>270</sup>



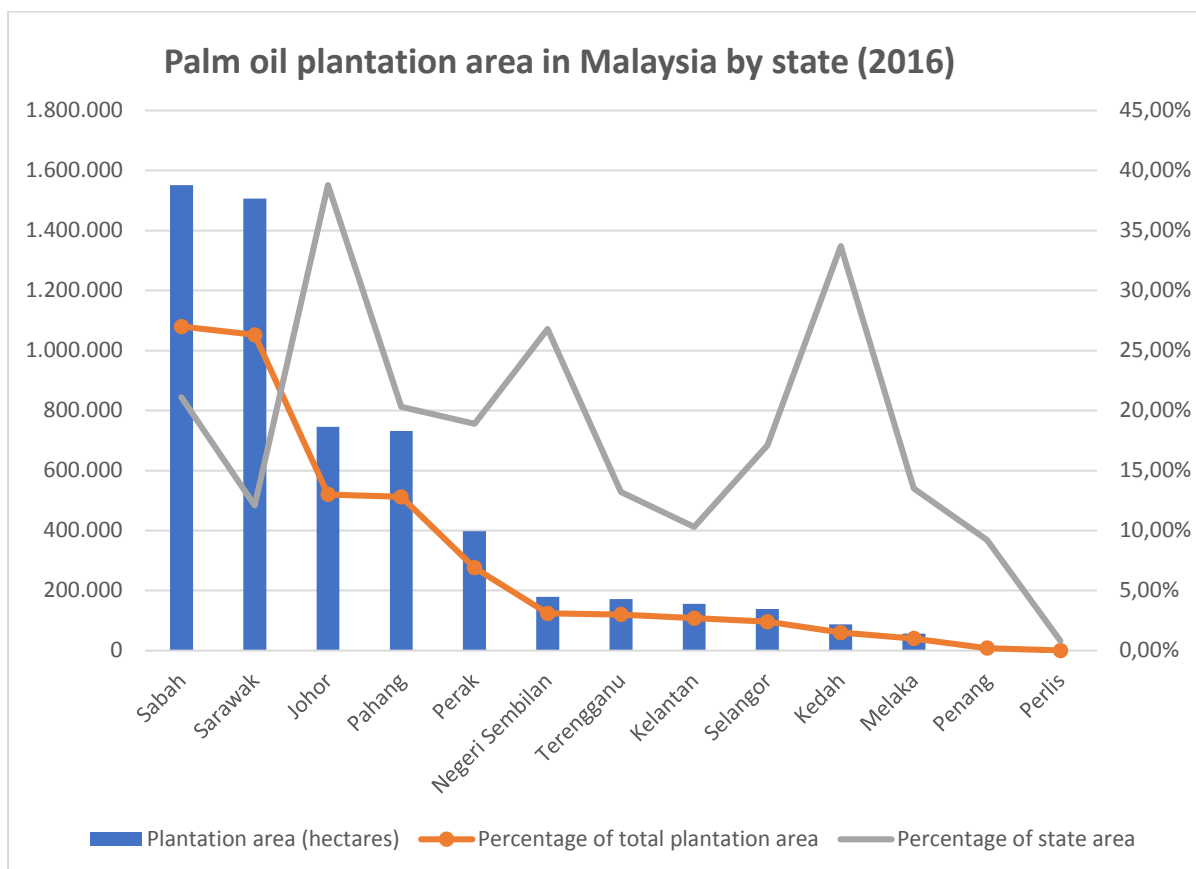
Source: Malaysian Palm Oil Council

Figure 29 Palm oil plantation area in Malaysia by year (1975-2012)

As of 2016, palm oil plantations accounted for total land use of 57,400 km<sup>2</sup> in Malaysia.<sup>271</sup>

<sup>270</sup> "Palm Oil Industry in Malaysia" (PDF). World Bank. 24 June 2009. Retrieved 30 March 2018.

<sup>271</sup> Kushairi Din, Ahmad (17 January 2017). "Malaysian Oil Palm Industry Performance 2016 and Prospects for 2017" (PDF). Malaysian Palm Oil Board. Archived from the original (PDF) on 10 August 2018. Retrieved 30 March 2018.



Source: Malaysian Palm Oil Council  
 Figure 30 Palm oil plantation area in Malaysia by state (2016)

### 7.1.6 THE TRADITIONAL SECTOR

While the modern sector of the economy flourished, the traditional sector languished. While revenue was poured into roads, railways, waterworks and modern cities that served the foreign commercial establishment, the rural sector was all but ignored. Not only were the Malays unwilling to provide labour for the mines and plantations but they were unwilling to change their traditional practices to provide the agricultural counterpart of that economy. Consequently, the country never attained self-sufficiency in food and Malaya was a net importer of rice throughout most of the century. Fish alone appeared on the market and was widely distributed throughout Malaya. To the Malayan peasant, farming or fishing was a way of life, not a commercial undertaking.

The British administration, unable to co-opt the Malay peasantry into the modern economy, became increasingly reluctant to disturb their agrarian lifestyle and so made a policy of preserving it, and although the Chinese were ready and willing to go into rice cultivation, and the British would have gladly seen it become an economic concern<sup>272</sup>, it was feared that the competition would be fatal to Malay enterprise. So, all land suitable for the growing of padi was set aside as Malay Reservations and to ensure that they would not be seduced into growing the easier and more remunerative rubber it was legislated that padi land should be used for growing rice and rice alone.

Haynes, Secretary for Agriculture, wrote in a Memorandum on Rice Cultivation: 'Our trusteeship for the Malay people demands that we administer the country on lines consistent with their welfare and happiness, not only for today but for the future ages'<sup>273</sup>. That end will be attained rather by building up a sturdy and thrifty peasantry living on the lands they own and living by the food they grow than by causing them to forsake the life of their fathers for the glamour of the new ways which put money in their pockets today but leave them empty tomorrow, and to abandon their rice-fields for new crops which they can, not themselves utilize and the market for which depends on outside world conditions beyond their orbit.<sup>274</sup>

Such policies bound the Malay to a subsistence economy at a period when the rest of the country was rapidly developing. The product of this period of development in Malaya was the creation of a second, modern economy alongside the indigenous,

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<sup>272</sup> Clifford wrote in despair in his report on Pahang in 1897 indolent, are the people of this State, and so wedded are they to their Old antique ted methods of cultivation, that I cannot but think that if Pahang is ever to produce rice in sufficient quantities for its requirements, the planning must be entrusted to immigrants from other countries. " H. Clifford, "Annual Report by the British Resident of Pahang for the Year 1897 Reports on FMS for 1897. p. 61.

<sup>273</sup> A.S. Haynes, "Memorandum on Rice Cultivation," in FMS, Federal Council Proceedings, 1933. Appendix No. 28, p. C293

<sup>274</sup> United Nations, ' 'Export Instability in the Primary Exporting Countries, Readings in Malayan Economics. T.H. Silcock, ed., P. 110

peasant economy. One was efficient, rapidly growing and highly profitable. It was linked to the world economy but as a supplier of raw materials to the industrialized nations, not as an industrial power itself, and consequently, it was vulnerable to the vagaries of commodity prices. It was heavily reliant on two main exports - tin and rubber, which during 1948—56 together made up 83 per cent of the value of total exports. It had been built almost entirely on imported capital and, therefore, was in the hands of foreigners and immigrants. Both groups were interested in transferring their profits back to their homelands and this meant a steady drain of the wealth created by the new economy out of the country.<sup>275</sup>

Not only was a second economy established alongside the first, but the two had almost no contact with each other. They were physically separate: the modern sector concentrated in the towns and on the west coast, the traditional in the north and east; the modern almost entirely immigrant, and the peasant sector, was almost entirely indigenous. Within the modern sector, the races were again divided: tin being the preserve of the Chinese and rubber tapping that of the Tamils. The verdict of one who knew Malaya well was that "The British produced in Malaya a plural society with no corporate soul:" it was a glorified commercial undertaking rather than a State.

Despite, or indeed because of, these social problems that were to be so important in the future, the economy thrived. The IBRD mission that visited Malaya in 1955 reported: By Asian standards, the Malayan economy has reached a relatively advanced stage, not only in the level of per capita income but also in structure: it is a more varied and complex economy than is characteristic of most underdeveloped countries. Power, transport, communications and other basic facilities are reasonably

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<sup>275</sup> In 1957, the level of remittance of profits by foreign companies was equivalent to 6.3 per cent of national income. J. G. Butler, "The Contribution of Exports to Growth: A Study of Economic Policies in Malaysia. P. 122.

well developed, a considerable foundation of the secondary industry has been established; there is a substantial nucleus of skills and enterprise; standards of public administration are high, and institutional patterns and habits of commerce and finance are correspondingly advanced. Industrial, commercial, professional and governmental activities outside the fields of the primary industry now probably account for nearly half the national income; they, as well as primary raw material and food production, can be expected to continue to expand. Accordingly, further economic development will undoubtedly follow a broader and more varied pattern than prevailed until fairly recent times.

## **7.2 GOVERNMENT ECONOMIC POLICY SINCE INDEPENDENCE**

Inherent in the economic situation bequeathed by the British to Malaysia were a host of socio-economic problems that had a deciding influence on the direction of the independent Government's economic policy.<sup>276</sup> The Government's response to these problems can be divided into two stages - pre- 1969 and post—1969.

The basic strategy of the Government during the first stage has been termed capitalist, conservative and open. The Government adopted a policy of development through private enterprise with limited Government interference, freedom to repatriate capital and to remit profits, guarantees against expropriation, and the continued provision of a supportive infrastructure. That is, it continued the same basic approach as the British administration. One commentator account for this as follows: Malaya achieved independence in a fairly smooth and friendly manner, in conditions in which the main distraction was a communist insurrection mounted mainly by the Chinese with aims conditioned not by Malaya but by the general pattern of South-East Asia.<sup>277</sup>

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<sup>276</sup> IBRD, *The Economic Development of Malaya*. p. 20.

<sup>277</sup> V. Purcell, *Malaya - Communist or Free?* p. 12 and p. 39.



Part of the political motive power behind the Alliance is anti-colonialism and a desire to maintain Malaya's independent status. But because of the recent successful anti-communist war, and the fact that the Alliance leaders are mainly Malay aristocrats working with Chinese businessmen, its anti-colonialism is distinctly more right-wing and more sympathetic to the West, than that of its powerful neighbours, Indonesia and India<sup>278</sup>.

A major plank of the Government's early economic policy was the development of the country's two main revenue earners - tin and rubber. The IBRD mission that visited Malaya in 1955 was convinced of the long-term importance of the rubber industry and considered replanting with high-yielding plant material "to be the country's highest and most urgent development priority",<sup>279,280</sup> and that a major deterioration in the rubber industry "could only mean something near „eventual disaster for the Malayan economy. The First Five-year Plan, 1956-60, gave high priority to the replanting of rubber producers, both smallholders and estates, and to prospect for, and the development of, new deposits of minerals.

By the Second Five-Year Plan, 1961—1965, there was considerable concern over the future of rubber. While on the one hand, the Plan stated, "There is every reason for confidence that"<sup>281</sup> rubber will continue to compete in world markets, it also stressed the danger of dependence on rubber. This reassessment was reflected in the main objectives of the plan which included widening . . . the variety of Malayan production, emphasizing the development of other suitable agricultural products in

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<sup>278</sup> T. H. Silcock, "Communal and Party Structure", *The Political Economy of Independent Malaya*. T. H. Silcock and E. K. Fisk, eds., P. 24.

<sup>279</sup> IBRD, *The Economic Development of Malaya*. p. 30

<sup>280</sup> T. H. Silcock, "General Review of Economic Policy, *The Political Economy of Independent Malaya*. T. H. Silcock and E. K. Fisk, eds pp. 251.

<sup>281</sup> *Second Five Year Plan, 1961-1965*. p. 15

addition to rubber, and giving every reasonable encouragement to industrial expansion which in the long—term offers perhaps the greatest promise for sustained development and diversification of the Federation economy. One of the main innovations of the independent Government was its commitment to industrialization. It was hoped that through the introduction of manufacturing industries it would be possible to diminish the country's reliance on the export of primary products, provide employment for the country's very rapidly growing population, and provide the impetus for rapid economic growth.

The First Malaysia Plan, 1966-1970 (FMP) articulated Government policy in the industrial field thus: As in the past, responsibility for the manufacturing operations themselves will be left to the private sector. The Government's role will be to maintain a favourable investment climate; to provide industrial estates and transport, power and communication facilities; and to grant tax and other inducements<sup>282</sup>. The main direct Government action was taken concerning the traditional sector of the economy. After years of neglect and resulting poverty, the Government made a special commitment to improving the lot of the rural population, the vast majority of whom were Malay. It particularly concentrated on raising the output per family of peasant farmers, fishermen and foresters by providing more land, irrigation supplies, improved seed grain, and cooperative marketing and credit facilities. It was also committed to improving basic social services in rural areas, especially in health and education. However, its programs made slow progress partly through a lack of skilled managerial staff, and partly because of the relatively small scale on which it was carried out compared to the size of the need.

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<sup>282</sup> EMP. p. 9, para. 26.

The result of these policies was that the dynamic modern sector grew at an even faster pace than before and the gap between it and the traditional sector grew ever wider. Regional disparities increased as did social disparities. The Chinese and, to a lesser extent the Indians, had the capital and business experience to invest in the growing economy and so they derived the greatest benefits<sup>283</sup>. European and American investment increased and so the position of foreign interests in the economy grew stronger. Since generally the Chinese and Indians had received a better education, and a far higher proportion of them had studied in English schools than Malays, they were brought into European companies as managers. Malays did not have the capital, the experience, or the education to take advantage, of the growth of the economy and thus racial inequalities grew ever larger. As a result, there was a complete reassessment of the Government's economic policies and a significant change in priorities and methods. These were articulated in the New Economic Policy (NEP) first put forward in the Second Malaysia Plan (SMP). The NEP shifted the main focus of Government policy from economic growth, to the attainment of its social objectives. Economic growth is still considered of vital importance but as a means to the attainment of the Government's social goals rather than as an end in itself. It is this major shift in official policy that forms the backdrop to the study and is one of the most important factors influencing management development in Malaysia. The period of this study coincides with the SMP, 1971-1975. The situation studied in 1971 was both a product of the colonial and pre- 1969 policies and strongly influenced by the changes

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<sup>283</sup> "Independent Malaya actually opened up for them / the Chinese/ more and better avenues for the acquisition of wealth stated Dr Mahathir, currently Deputy Prime Minister, in his polemic against Government policy written in 1970 just after the '69 riots. Mahathir bin Mohamad, op. cit., p. 42

in Government policy taking place at the time; by 1975, the full effects of the NEP were being felt.

The NEP has two main aims: (1) to eradicate poverty among all Malaysians, and (2) to restructure Malaysian society so that the identification of race with economic function and geographic location is reduced and eventually eliminate both of these objectives to be realized through the rapid expansion of the economy over time<sup>284</sup>. As part of the second objective, the Government is committed to raising the share of the Malays and other indigenous people in the ownership of productive wealth including land, fixed assets and equity capital. The target was that by 1990, they will own at least 30% of equity capital with 40% being owned by other Malaysians and 30% by foreign investors. In 1970 in Peninsular Malaysia foreign ownership of share capital of limited companies was 63.3% of the total, with other Malaysians holding 34.3 per cent, and Malays and Malay interests, 2.4 per cent; by 1975 the comparable figures were estimated to be 54.9 per cent, 37.3 per cent and 7.8 per cent.

The restructuring target concerning management was that Malays should form 30 per cent of the managerial staff at all levels and in all categories of staff<sup>285</sup>. Again, attainment is to come through growth<sup>286</sup>. However, the historical imbalances in management are slow to overcome. For instance, in 1970 Malays were severely underrepresented among administrative and managerial workers, and sales workers in the secondary sector, while Chinese were substantially overrepresented in these fields, in 1976, the Government reported 'In Peninsular Malaysia, the employment of

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<sup>284</sup> TMP. p. 7, para. 27.

<sup>285</sup> The TMP refers to the restructuring of employment patterns to reflect the racial composition of the country, which would suggest a higher target of around 50 per cent. Since there seems to have been no clear restatement of the target as 50 per cent it shall be assumed that the lower target is still operational.

<sup>286</sup> TMP. p. 30, para. 107.

Malays in the manufacturing sector increased significantly during the SMP period although the increase took place at the lower levels of the occupational hierarchy'.

The private industry tends to be naturally reluctant to relinquish control over its enterprises and the Government has developed several ways to encourage compliance. Foreign companies have needed to seek Government cooperation to obtain work permits for their expatriate staff, import licenses for equipment and the like. There has therefore been a ready means of applying Government pressure on a limited but effective scale. Companies to apply for the various tax concessions that went with pioneer status were required to conform to very specific Government conditions. They included a stipulation that Malaysians must have 51% of equity holdings. They also include a personnel policy designed to foster the development of Malaysian management: All approved projects are required to employ Malaysians at all levels. Foreign personnel are allowed entry for employment where there are no qualified Malaysians available to do the job. In such cases, the company has to formulate a proper training program to train Malaysians within a reasonable period with the view to eventually replacing such foreign personnel. However, to enable foreign investors to look after their investments and interests, a certain number of key posts are allowed which can be permanently held by foreign personnel. This number depends on the size of the investment involved.

The regulations sometimes also state that a specified per cent of the output must be exported, and 50% of the jobs at all grades must be reserved for Malays. All new manufacturing companies have been required to seek approval for their operations since 1<sup>st</sup> January 1972 and the Ministry of Trade and Industry has been empowered to impose equity conditions on them in line with the NEP

objectives<sup>287</sup>. In 1974 the Government introduced regulations to control takeovers and mergers of companies which would only be allowed if they led to a more balanced Malaysian ownership and control, and greater economic benefits to Malaysians in terms of employment, growth, exports and training<sup>288</sup>. A Foreign Investment Committee was set up to implement the new regulations. In 1975 the Government provided itself with a much more comprehensive form of control through the Industrial Coordination Act (ICA). This Act required the licensing of all manufacturing establishments to ensure the orderly development of manufacturing activities in Malaysia. It also provided that, 'The Minister, in issuing a license, may impose such conditions as he may think fit and such conditions may be varied either on the application of the manufacturers or the Minister's own motion'<sup>289</sup>.

At the time no mechanism was provided for an appeal against the Minister's decision, an aspect of the Act that particularly aggrieved the business community. Elaborating on this in an address to an investment seminar in 1975, the Minister of Trade and Industry stated: the policy of Malaysian and Bumiputra participation is also relevant in the area of employment, training of workers, distribution of products and the utilization of professional services, appropriate citations will be imposed relating to these factors. This suggested that the Government could, and might insist on immediate compliance with racial balance targets for a firm to be granted a license to operate. It also meant that companies' training activities could be examined. The ICA affected both the foreign business community and the Chinese and Indian firms which

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<sup>287</sup> Jamil Jan, "Malaysia Experience with Multinational Corporations, Malaysia and the Multinational Corporations. s. Chee and S. M. Khoo, eds., p. 80.

<sup>288</sup> 68 Wong Sul Ong, "Malaysia announces wide-ranging takeover controls Financial Times, 21 February 1974

<sup>289</sup> Industrial Coordination Act. Section 4 (4).

until then had managed to operate without close Government scrutiny. It is thus a major tool whereby Government policy can be enforced.

A second important change in the exercise of Government control was the Petroleum Development Act (PDA) of 1974 and its Amendment (PDAA) of 1975. The most significant feature of this Act was its introduction of the concept of management shares. This was to be a special class of shares which would only be issued to the Government's petroleum corporation, Petronas. These would be sold to Petronas at the price of ordinary shares but would entitle the holder to five hundred votes for each management share on "any resolution relating to the appointment or dismissal of a director or any member of the staff of the relevant company. ' For a very small investment, the Government would acquire effective control of the petroleum companies which appeared to many companies to be akin to nationalization,<sup>290</sup>.

The PDAA extended the authority of the Act to include the marketing and distribution of petroleum and its products, thus bringing the entire Petrochemical industry in Malaysia under its umbrella. Since then the concept of management shares has been withdrawn and the ICA has been amended to include an Advisory Council. However, at the time of the survey, these were matters of considerable concern throughout the business community. Indeed, the ICA remains a very sore point, particularly with the Chinese business community. To achieve the targets, it set for itself in the NEP the Government decided to break with the previous policy and become directly involved in the industry. For this purpose, it set up several parastatal bodies, the principal one being PERNAS, the state trading corporation<sup>291</sup>. Through the

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<sup>290</sup> Address by the Minister of Trade and Industry entitled "Industrial Development Opportunities for Investment" at the Investment Seminar in Kuala Lumpur on 28 October, 1975

<sup>291</sup> Petroleum Development (Amendment) Act, 1975, Section 3.

activities of PERNAS and the other parastatal bodies, companies have been set up often as joint ventures, to provide opportunities for Malays to enter the business. While this is a large and important area of management development it, unfortunately, lies outside the scope of this study.

Despite the sharp controls the Government has placed on the private sector it continues to rely heavily on foreign investment. The Third Malaysia Plan states: The Government will continue to ensure that foreign investment is attracted into the country for the significant contributions it can make to income and employment creation. It seeks, in addition, the skills and technology which accompany foreign investment'. This is an important adjunct to Malaysia's efforts in the development and modernization of the economy. The widening access to international markets that foreign entrepreneurship provides for the country's exported goods is another important contribution that Malaysia will continue to value.

Under the TMP it is expected that the private sector will be the main source of gross capital formation, whereas under the SMP it was the Government that was the principal source. The investment target of the TMP is RM 22.9 billion in real terms (1970 prices) and RM 44.2 billion in current prices, which amounts to an increase of 49.3%; of this 40.3% or RM 9.2 billion is expected to come from the public sector and the 59.7% or RM 13.7 billion from the private sector.

The apparent Government hostility to foreign investment<sup>292</sup> which marked 1974-75, and the sudden imposition of tight Government control over the private sector had a profoundly demoralizing effect, an effect that was particularly felt in 1975-76, in the aftermath of the ICA and PDA. One result was that real private investment declined

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<sup>292</sup> An example of this hostility is the statement made by an officer Of the Penang Development Corporation: "We of Southeast Asia are familiar with the MNC of old - the East India Co., the Dutch co.



by 25.0% in 1975. In 1976 the official attitude became more conciliatory. This trend has continued and has expressed itself in such concrete measures as the abandonment of the concept of management shares, the institution of an Advisory Council to oversee the working of the ICA, and the moderate approach taken in the implementation of the ICA. This change in attitude is tacit recognition of the crucial role the private sector is expected to play in the achievement of the economic and closely linked to that, the social targets of the TMP. The attainment of the rapid growth anticipated by the TMP presupposes, the merchant adventurers; and we are also aware of the times when activities of the MNCs included plundering, pirating, cheating, and espionage, all of which were considered legitimate and fair game. The MNCs have nowadays merely taken on new and subtle forms<sup>293</sup> the existence of both internal and external factors conducive to it, neither of which appeared to exist in 1975, although since then both the internal investment climate and the conditions of world trade have improved. If the rate of growth even approximates the targets it will involve the rapid expansion of the managerial cadre and an enormous effort to develop a managerial cadre to cope with the needs of the private sector.

The emphasis the Government has placed on racial balance in management has made compliance with these targets a matter of urgency. Yet educational standards have tended to decline and the rapid social changes taking place in the Malay community mean that many potential candidates may be the first generation to have left the traditional life of the village. This has implications for the company's recruitment and selection policies, as well as the training provided for recruits. The pressure to correct racial balance at all levels of management has meant that many

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<sup>293</sup> Anwar Fazal, in *Malaysia and the Multinational Corporations*. S. Chee and S.M. Khoo, eds., p. 101.

companies have felt obliged to implement a program of accelerated promotion for Malays, which has in turn brought a host of problems related to the development of such managers and repercussions on the morale of existing staff.

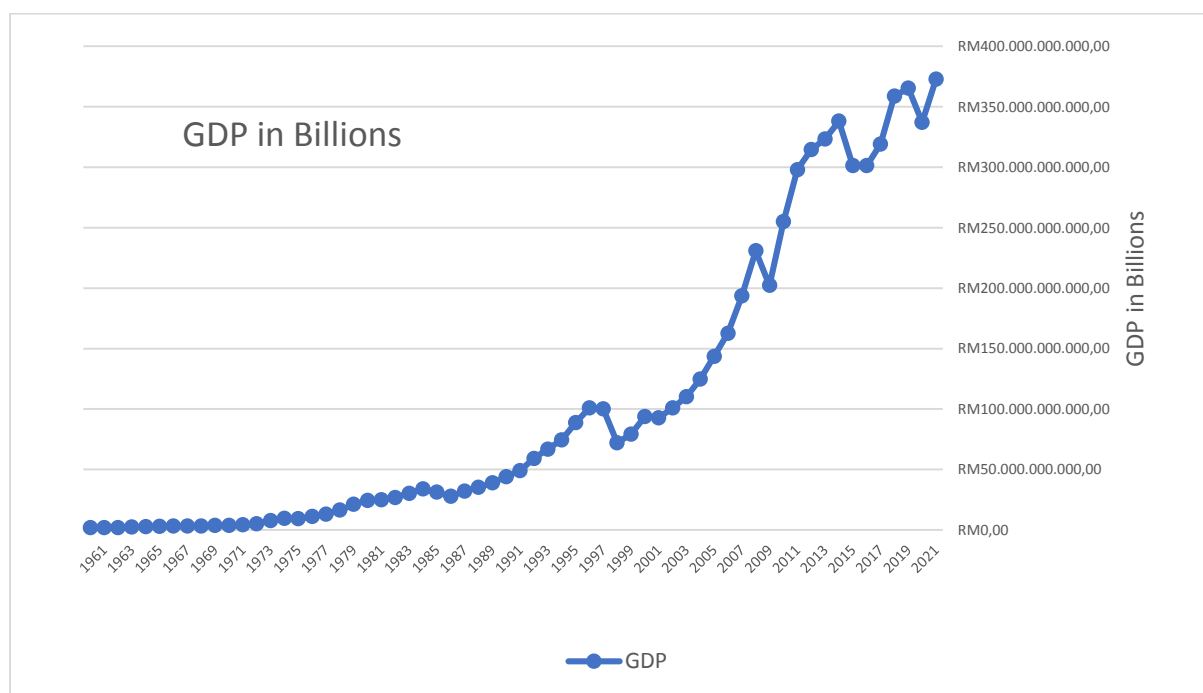
The emphasis on the manufacturing industry has created a new set of management requirements for technically and professionally trained staff - engineers, chemists, technicians, and the like. The Government looks to the manufacturing industry, as a leading growth sector, to play a major role in correcting racial balance in management, yet it is in science and technology that there is a shortage of trained Malays. One of the main problems of the Government's NEP is that it entails two conflicting objectives. On the one hand, there is the Government's social objective to bring the Malays up to the educational, social and economic standard of other Malaysians and integrate them into the modern economy of the country in a very short space of time: on the other, there is the economic imperative of rapid economic growth out of which the social objective is to be achieved.

However, pressure for the attainment of the former tends to retard the latter, and vice versa. It is impossible completely to restructure the social and economic order of the country without disrupting and slowing down the rate of growth of the economy, but if the economy is given free rein and social factors are not paramount the fact that the modern sector is growing at a faster rate than the traditional will mean that the gap between the two will grow ever wider. Before 1969, it was the economic objective that was given precedence; since 1969 it has been the social objective. The Government has had to conduct a careful balancing act to achieve its objective while minimizing the necessary dislocation of the economy.

## 7.21 BASIC DIMENSIONS OF THE ECONOMY

Malaysia is a relatively prosperous country. The income per capita rose by 40% in the sixties, by 1975 it had reached RM 1,304 billion, and by 1978, RM 1,644 bill<sup>294</sup>. The country is comparatively rich in resources, both physical and manpower, and this has enabled it to achieve a growth rate in GDP in real terms of 7.4 per cent per annum between 1971-75, and rising to 8.7 per cent per annum in 1976—78<sup>295</sup>. Malaysia's GDP per capita for 2018 was RM 11,380, a 10.92% increase from 2017 and continuing an upward trend with GDP per capita for 2019 was RM 11,433, a 0.46% increase from 2018, and for 2020 was RM 10,412, an 8.93% decline from 2019. The Malays GDP recovered and GDP per capita for 2021 was RM 11,371, a 9.21% increase from 2020.

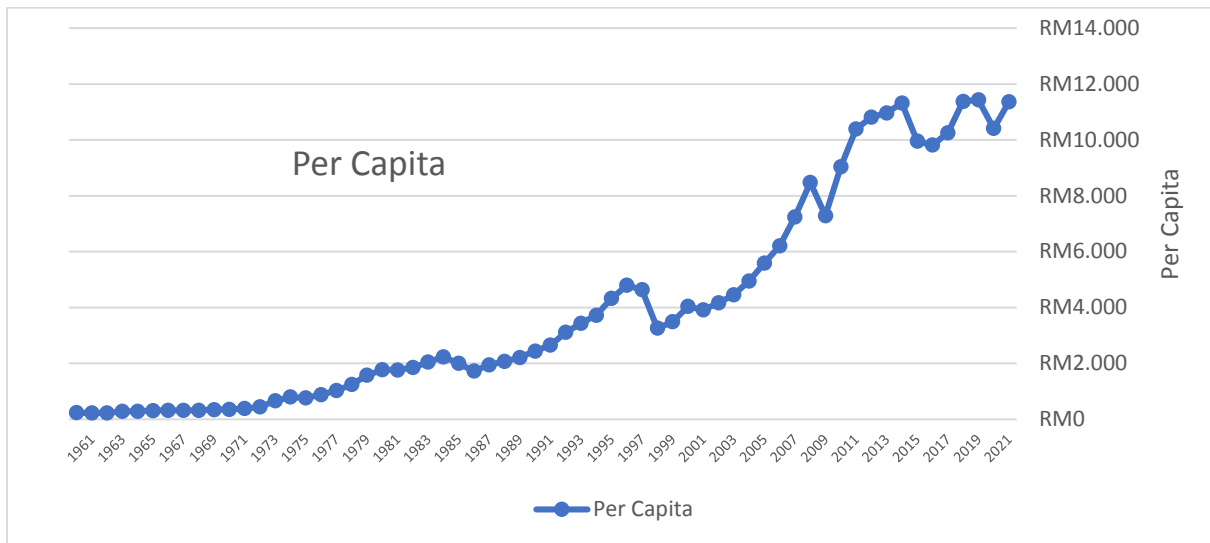
### Malaysia GDP - Historical Data



Source Department of Statistics Malaysia  
Figure 31 Malaysia GDP in Billions 1960-2021

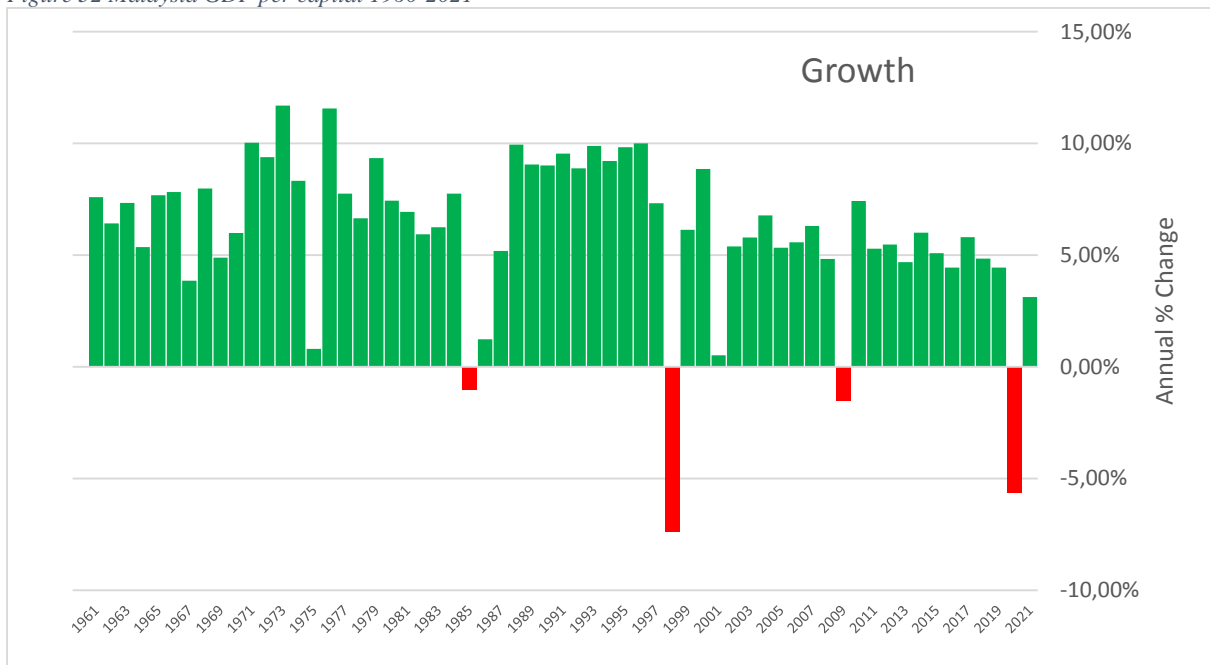
<sup>294</sup> 76 Mid-Term Review of the Third Malaysia Plan 1976-1980. p. 1, para. 2.

<sup>295</sup> Mid-Term Review of the Third Malaysia Plan 1976-1980. para 1.



Source World Bank & Department of Statistics Malaysia

Figure 32 Malaysia GDP per capital 1960-2021



Source; - World Bank & Department of Statistics Malaysia

Figure 33 Malaysia GDP Growth 1960-2021

Malaysia's balance of payments is regularly in surplus, and the Malaysian currency has remained remarkably stable. The country accumulated RM 1.9 billion in external reserves over 1971-75, giving the dollar 164.9% backing in 1975, and providing reserves to sustain six months of retained imports. Norris the economy was unduly burdened by external public debt, which represented 11% of GNP in 1975, with debt servicing taking up only 3.4% of external earnings.

Malaysia has suffered far less from inflation than some developed countries. Between 1963-70 consumer prices in the OECD countries rose by roughly 30 per cent, in the USA by 25%, in the UK by 35 per cent, and in Peninsular Malaysia by<sup>296</sup>. However, in the seventies, the effect of inflation in the developed countries began to be felt in Malaysia and as a result, from the second half of 1972 domestic prices began to rise sharply and this trend accelerated in 1973<sup>297</sup>. By 1975 the rate of inflation had been brought under control and the consumer price index was up by only 4.5%; in 1976-78 it was lower still at 4.1% per annum<sup>298</sup>. Despite the overall rate of growth of the economy during 1971-75, there were considerable fluctuations. 1971 was a year of mild recession which was followed in 1973, by a boom year with commodity prices rising sharply.

By the end of 1973, the tide began to turn in the developed economies, particularly in the aftermath of the oil crisis, and commodity prices were beginning to fall. In Malaysia, the first half of 1974 saw a surge in investment but by the end of the year production and sales were down and by 1975 the full impact of the world recession was being felt<sup>299</sup>. This pattern needs to be borne in mind in assessing the data on management development in the following chapters since it applies to the two years 1971 and 1975 when companies were affected by the recession and are, therefore, likely to understate the picture. This recovery after the recession was however short-lived with the start of the 1997 Asian financial crisis. The financial crises

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<sup>296</sup> R Chander, "Price Stability and Inflation in Malaysia, Malaysian Economic Development and Policies. S. Chee and S. M. Khoo, eds. p. 112.

<sup>297</sup> The consumer price index for Peninsular Malaysia, based on 1967, rose on average 1.6 per cent in 1971, 3.2 per cent in 1972, 10.5 per cent in 1973 and 17.4 per cent in 1974. Yet this still compare very favourably with the rate of inflation in 1973 in other countries in the region with Indonesia experiencing a rise of 27 per cent, the Philippines 12 per cent, Singapore 25 per cent and Thailand 15-16 per cent. TMP. p. 129, Table 7—3. S.Y. Lin, 'The Inflation Syndrome and Its Implications for Policy, Malaysian Economic Development and Policies. S. Chee and S. M. Khoo, eds., p. 92.

<sup>298</sup> 85 Mid—Term Review of the Third Malaysia Plan 1976—1980. 21, para.

<sup>299</sup> 86 Private investment increased by 22.3 per cent between 1973—74. TMP. p. 15, para. 58.

in Asia have brought all economic and human capital in management development to a dead stop.

### **7.3 ASIAN FINANCIAL CRISIS AND MALAYSIA'S RESPONSES**

The Asian economic crisis had been preceded by a series of crises dating back to the stock market crash in 1929 and the Great Depression in the 1930. The signs of impending economic doom surfaced in the mid-1990, but most people regarded the Latin American crisis and the earlier economic slowdown in Japan as isolated events. The crisis rapidly spread throughout Southeast Asian countries, affecting South Korea especially seriously. The value of local Asian currencies in the region collapsed with the Thai baht, the Indonesian rupiah and the Malaysian ringgit going into a freefall.

As it was reported, three-quarters of the value of Indonesian and Thai financial assets had been devalued due to the plummeting of the combination of stock prices and currencies. In Thailand, more than two million workers were jobless in 1998. In Indonesia, "stagflation" threatened to double the prices of goods and merchandise and pushed nearly one-half of the population into poverty. One of the reasons why the Southeast Asian "miracle" economies collapsed had been an export boom halt that occurred at a time when short-term loans were due. This was mainly caused by heavy borrowing from abroad. Most of the afflicted countries had run budget surpluses or minimal budget deficits in recent years; at the same time, private-sector borrowing increased heavily. For instance, loans to Thai corporations from international banks doubled from 1988 to 1994, with half of the debt being short-term loans falling due within a year.

Southeast Asian countries export a large variety of manufactured goods from autos, computer chips and steel to textiles. When the economic crisis hit, foreign

investors fled with their capital. This led to a tightening of domestic spending, falling bank rates, and rising unemployment. Thus, the Southeast Asian miracle has become a story of tremendous human suffering. The cause of the economic crisis in Southeast Asia was not due to misaligned exchange rates, mistaken domestic policy, or lack of transparency in the banking sector. It was attributed to a combination of an excessively rapid rise of capital inflows and the falling global demand for exports from the region that arose from a global economy changing the market rules. In 1996, a net of US \$78 billion flowed into the region from foreign countries in the form of foreign bank loans and short-term portfolio investments, such as stocks.

However, in 1997, that turned into a US \$38 billion outflow, particularly from the country's most hit by the crisis, such as Indonesia, Malaysia, South Korea, Thailand and the Philippines. According to Jan Kregel, an economist, by the end of 1997, the Southeast Asian economies suffered "the equivalent of a massive bank run on the region without any lender of last resort"<sup>300</sup>. This sudden fall of the Southeast Asian economies has caused many companies in Thailand and Indonesia to be put on the receiving end. Besides, both countries had to undergo austerity measures administered by the IMF in return for emergency loans to help to repay some foreign debts. Malaysia chose to independently administer similar austerity measures. The IMF's short-term economic prescriptions have, regrettably, failed to deliver in Asia. The higher interest rates imposed under the IMF plans have choked businesses, while budget cuts have deflated economies.

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<sup>300</sup> Financial Markets and Economic Growth, Merton H. Miller First published: 12 April 2005  
<https://doi.org/10.1111/j.1745-6622.1998.tb00498.x>

The plan, which seemed virtuous and good in the long run, hardly helped the countries recover from the crisis<sup>301</sup>. Karlderimis (2004) in the *Journal of Contemporary Eastern Asia*, Volume 11, No. 1 argued, although the Asian Financial crisis had given the IMF a legitimate interest in their operation related to the international monetary system, the legitimate interest, however, does not equate to a power to regulate. He argued that the reform failed because the IMF had fractured the incipient democracy of the developing countries and plunged the countries into chaos. Malaysia's Response to the Asian Financial Crisis in September 1998, the Malaysian Prime Minister Tun. Dr Mahathir Mohamad announced a new economic program meant to stop the outside world from controlling the movement of the national currency, the ringgit.

Subsequently, the Malaysian Government announced that all ringgit held outside of Malaysia had to be returned, which meant that ringgit trading would be done entirely within the country's borders. Foreigners were no longer allowed to sell stocks and repatriate funds unless a year has passed since the time of purchase. Thus, the ringgit was officially fixed at an exchange rate of RM 3.8 to the U.S. dollar. According to Dr Mahathir, this plan was meant to isolate Malaysia's economy from the international currency speculators and traders whom he blamed for causing the country's economic crisis. After the announcement, Malaysia's stock prices fell steeply, but the value of the ringgit remained steady.

Dr Mahathir's strategy was supported by well-known economist and Nobel laureate, Paul Krugman, who endorsed the concept of capital controls, as it allowed

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<sup>301</sup> The Asian Economic Crisis and Malaysia's Responses: Implications for the Banking Sector  
Balakrishnan Parasuraman, Beatrice Lim, Fumitaka Furuoka, Catherine Jikunan & Lo May Chiun  
Chapter First Online: 01 January 2012



Malaysian authorities to lower interest rates to counteract the recession without causing the ringgit to collapse. A strong reason to formalize the controls was that the international community had continued to be very reluctant in declaring currency trading as an illegal activity.

Although the experts at international financial institutions were aware that currency speculation might cause potential harm to the economy of a weaker country, they had chosen to allow the speculation of currency, claiming that it was part and parcel of the free market economy. Malaysia imposed currency controls because it felt that adopting the IMF formula of raising interest rates and shutting off lending would only worsen and prolong the impact of the crisis. The strategy of currency controls was aimed essentially at eliminating offshore trading of the Malaysian ringgit, especially in the Singapore foreign exchange market.

According to Prime Minister Mahathir, the implementation of the monetary policy control was done to ensure the safety of the Malaysian economy and to help Malaysia recover from the economic crisis. The measure discouraged short-term capital flows by obliging investors to keep their capital in the country for at least one year to allow Malaysia to better adjust to the global financial system. Dani Rodrik and Ethan Kaplan of Harvard University in the paper entitled "Did the Malaysian Capital Controls Work?" had done a comparison between Malaysia's capital controls with that of South Korea and Thailand, when these two countries were undergoing their IMF programs, with assumptions that changes in the external environment were allowed. They concluded that the Malaysian capital controls lead to a faster economic recovery with smaller declines in employment and wages and a better turnaround in the stock market.

In their analysis, Rodrik and Kaplan pointed out that some of the more pessimistic predictions about the consequences of capital controls were not correct, as it became clear that Malaysia was recovering from the economic crisis, unlike South Korea and Thailand where interest rates had fallen to a single digit, while offshore ringgit deposits were paying rates in the range of 20% to 40%<sup>302</sup>. In addition to that, South Korea and Thailand -- both of whom received financial assistance from the IMF and other multilateral institutions - were subjected to very strict structural reforms. Interest rates in these two countries had to be raised, and their fiscal policies tightened.

Financial markets in South Korea and Thailand had to be opened to foreigners and local banks and financial institutions, while those in deep financial trouble had to be closed. In response to the crisis, Tun Mahathir had to cancel a few “mega” projects, among which had been a plan for a bridge linking Malaysia and Indonesia, as well as the massive and controversial Bakun dam project in Sarawak. In the meantime, a group of Malaysian companies launched a global public relations campaign to win back foreign investors’ confidence and push up the Kuala Lumpur Stock Exchange composite index.

As part of the recovery package, Malaysia has incorporated an asset management company known as Danaharta to purchase loans from financial institutions to recapitalize its banking sector, and a Corporate Debt Restructuring Committee to help companies resolve their debts without intervention from the courts. Some of the less informed investors were concerned about the Malaysian Government’s unorthodox policies, as they had an impression that currency controls would limit the movement of their capital and profits. However, this was not the case,

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<sup>302</sup> Business Times, February 21, 2001

as explained by the United Nations Conference on Trade and Development (UNCTAD) expert, Jan Kregel, who maintained that Malaysia's move was aimed essentially at eliminating offshore trading of the ringgit, especially in the Singapore foreign exchange market, and, in fact, formalizing the controls will help alleviate investors' concerns<sup>303</sup>. Economic Recover without IMF loans Kregel agreed with Malaysia's selective capital controls programs, as the model has proved successful in protecting the Malaysian economy. He has further elaborated that the measure has allowed Malaysia to incur much lower costs than many of its neighbours in adjusting to the new environment.

A firm confirmation of the measures' validity came in September 1999, when capital controls were lifted with only RM 5.2 billion of funds leaving the country<sup>304</sup>. The crisis is a story of a market failure. Stanley Fischer, the economic director of the IMF, admitted at a regional meeting in Hong Kong that markets are not always right, as sometimes the inflows are excessive and sometimes they may not be sustained too long, and markets sometimes tend to react too late (Miller, 1998). Southeast Asian capital markets failed in three critical ways.

Firstly, there was too much capital inflow due to the prospect of continued double-digit growth. In search of new places to invest, financial capital continued to flow into the real estate sectors, even when financial instability was widespread and obvious. Secondly, the capital markets and the banking system failed to convert the funds into more productive usage. Too little money had been spent on productive investments that could be able to sustain the export boom. Instead, a lot of money had

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<sup>303</sup> Business Times, September 21, 2000

<sup>304</sup> Business Times, September 20, 2000

been pumped into the real estate sector. Thirdly, too much capital rushed out due to the excessive inflow of capital earlier on.

Malaysia's unconventional methods of tackling the financial crisis have now been accepted by several experts. Besides, the measures proved that different countries might require different policies. Kalderimis (2004) supported that, IMF conditionality is a flawed regulatory measurement where it should not be permitted to entrench itself as a part of a new investment framework<sup>305</sup>.

### **7.3.1 MALAYSIA IN TURMOIL: GROWTH PROSPECTS & FUTURE COMPETITIVENESS**

Malaysia went through extraordinary times. In an unprecedented departure from its long tradition of macroeconomic orthodoxy, Malaysia imposed comprehensive capital controls on September 1, 1998.<sup>306</sup> This sharp policy break has as its background an equally sharp economic collapse. Output in 1998 is expected to contract by more than 6 per cent, a drastic change from the average annual growth rate of 8.7 per cent in the 1990-97 period, where the lowest growth was 7.7 per cent in 1997. Furthermore, a quick rebound from the collapse does not look likely. In mid-December 1998, Prime Minister Mahathir Mohamad predicted that the 1999 growth rate would be 1 per cent. Many private observers are considerably more pessimistic, the Economist Intelligence Unit (EIU), for example, has predicted that growth would be negative 2.9 per cent in 1999 and 0.7 per cent in 2000. Such pessimism about Malaysia's economy is unprecedented.

Equally unprecedented events are also occurring on the political front. At the end of June 1998, Mahathir substantially reduced the scope of economic management

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<sup>305</sup> Journal of Contemporary Eastern Asia, Volume 11, No. 1

<sup>306</sup> Dwight Heald Perkins and Wing Thye Woo, Harvard University and University of California at Davis

by Deputy Prime Minister Anwar Ibrahim, who was also the Minister of Finance, by appointing Daim Zainuddin, a former Minister of Finance, to take charge of economic development. Then on September 2, 1998, Mahathir dismissed Anwar from the government because Anwar was morally unfit to be a political leader. Anwar is now in court facing charges of corruption and sodomy. Mahathir has also accused his once-designated successor of treason. There have been numerous demonstrations by Anwar's supporters since September, some of which turned violent. All of these actions are unprecedented in the political succession process in Malaysia, where external collegiality had been the norm.

Both extraordinary events are the products of many factors, and there is causation between the two events. The foremost contributing factors are the political struggle for power between Mahathir and Anwar, and their differences in economic policies. Furthermore, Mahathir had foreseen that Anwar's expulsion would lead to violent street demonstrations that would, in turn, induce large capital outflow given the extreme nervousness among investors amid the Asian financial crisis. Hence, the imposition of capital controls preceded the firing of Anwar.

If the capital controls were not already in place when the street demonstrations began, the Malaysian Ringgit (MR) and the Kuala Lumpur stock market would most likely have gone into a free fall in the manner that the Indonesian Rupiah and the Jakarta stock market did in May 1998 just before Soeharto stepped down from the presidency. Such a free fall, as we shall explain, would have bankrupted many powerful groups within the United Malay National Organisation (UMNO) . . . the dominant party within the governing Barisan Nasional coalition. . . and weakened Mahathir's grip on UMNO.

The fact that capital controls might also allow the government to undertake expansionary fiscal and monetary policies to boost employment and the stock market without worsening the balance of payments significantly was another important reason why they were adopted. The short-term interest rate dropped from 11.06 per cent on June 10, 1998 (when Anwar was in charge of economic matters) to 6.58 per cent on December 16, 1998; and the stock market index has risen from 489.9 to 543.0 over this period.

These two extraordinary events in Malaysia raise the need for a fresh look at two questions that have usually been answered optimistically: (1) What is the short and medium-term outlook for Malaysia's economic growth? (2) What is the underlying international competitiveness of Malaysia's economy at the present, and how is it likely to evolve in the future?

To answer these two questions adequately, it is necessary to keep in mind that nearly three decades ago, Malaysia's political leaders took a large gamble. The gamble was that the nation could simultaneously restructure its economy to increase the ownership share of Malay-Malaysians (bumiputras) in the industrial and modern service sectors, and continue to enjoy rapid increases in per capita income for all. By any reasonable standard, this gamble was won. The economy achieved a large degree of restructuring and growth continued at an annual average per capita rate of between four and five per cent per year over two and a half decades. If per capita GNP (measured in Purchasing Power Parity) in Malaysia continues to grow at four per cent per year, Malaysia by the year 2020 will have a per capita GDP nearly equal to that of the United States in 1993.

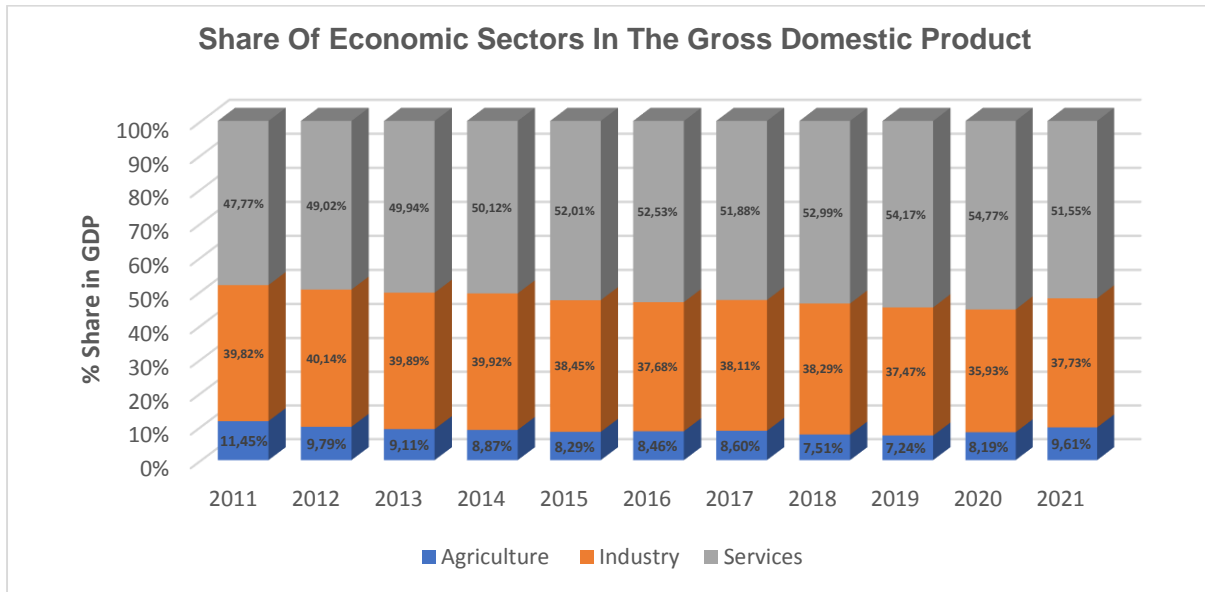
Success in the past, however, does not guarantee success in the future. The achievements of the 1970-1996 period were partly due to effective national leadership, but there was also a substantial element of luck involved. Malaysia had an unusually

rich natural resource base on which to begin its restructuring, and, just as the restructuring got underway, that resource base got even richer with the development of the offshore extraction of petroleum and natural gas. With petroleum and timber channelling large funds into government and private coffers, Malaysia could make mistakes and still do well. As it turned out, Malaysia did not make that many mistakes so it did very well. Natural resources, however, are not going to carry the Malaysian economy into the future because its share in output and exports has shown a clear downward trend in the last fifteen years.

To answer the questions of what are Malaysia's growth prospects; and whether the Malaysian industrial and modern service sector will remain internationally competitive into the future, we turn to examine the economic policies, business organizations and business leaders that have produced past successes.

#### **7.4 COMPOSITION OF THE ECONOMY**

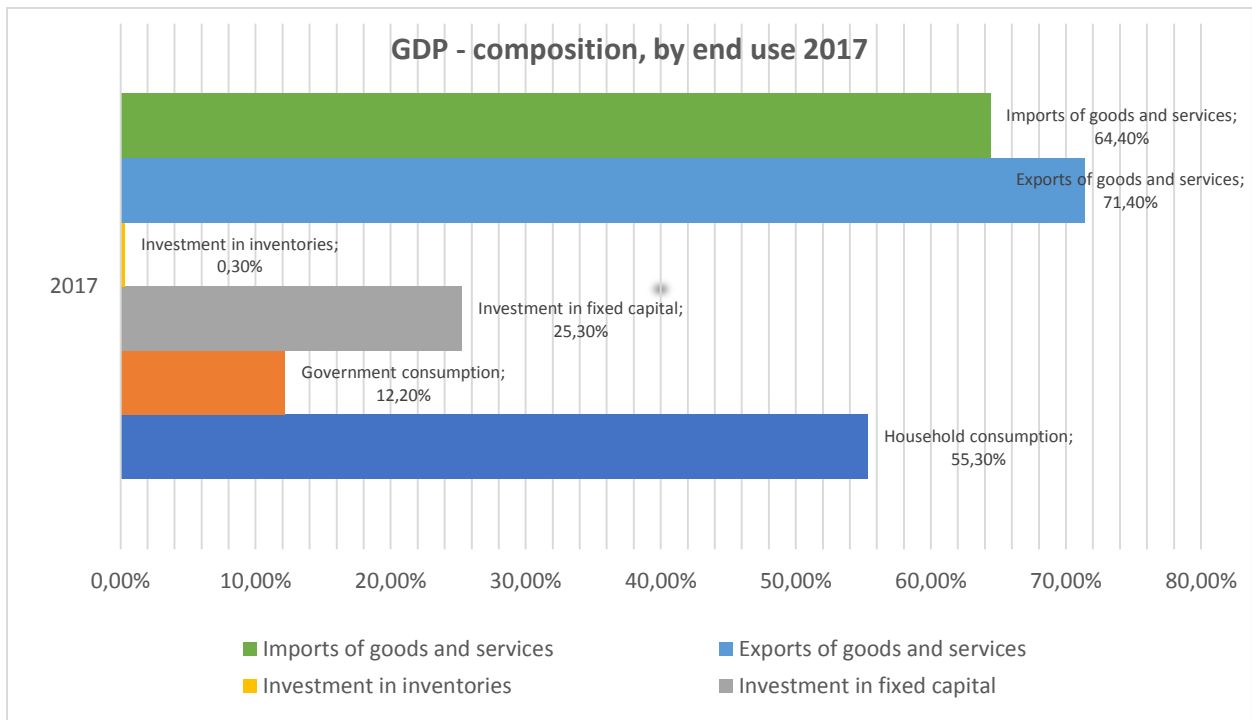
Turning now to the composition of the economy. This statistic shows the share of economic sectors in the gross domestic product (GDP) in Malaysia from 2011 to 2021. In 2021, the share of agriculture in Malaysia's gross domestic product was around 9.61%, the industry contributed approximately 37.73% and the services sector contributed about 51.55%.



Source Department of Statistics Malaysia  
 Figure 34 Share of Economic Sectors in The Gross Domestic Product

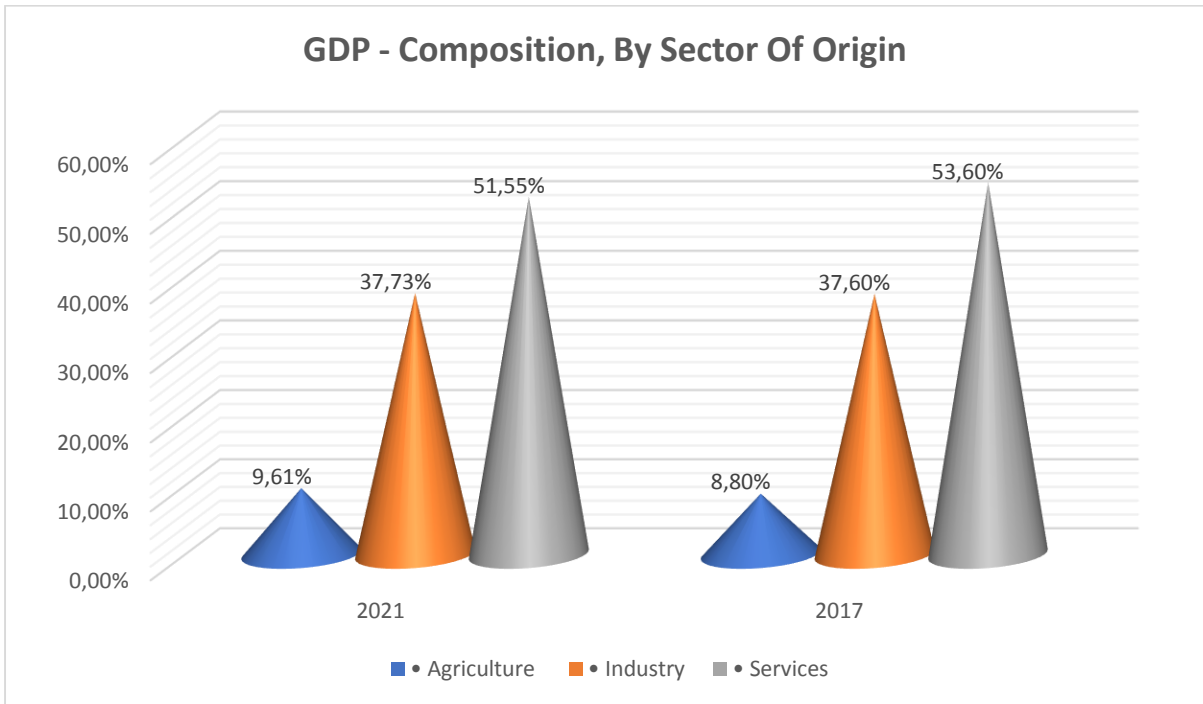
#### 7.4.1 GDP - COMPOSITION, BY SECTOR OF ORIGIN 2017

Malaysia's GDP composition has changed from dominant agriculture to Services. This is directly relevant to the empowerment of the Malay population and has engorged this. Most of the services in the government section and not in the private sector



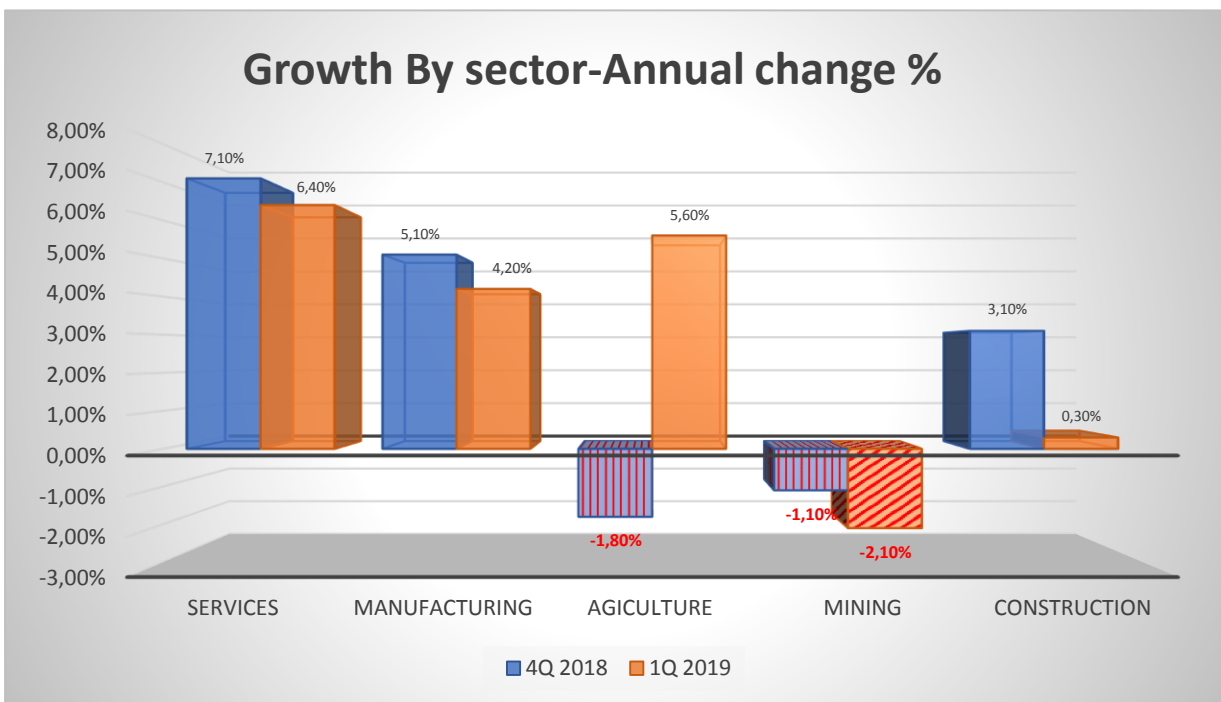
Source Department of Statistics Malaysia  
 Figure 35 GDP – Composition, by Sector of Origin 2017



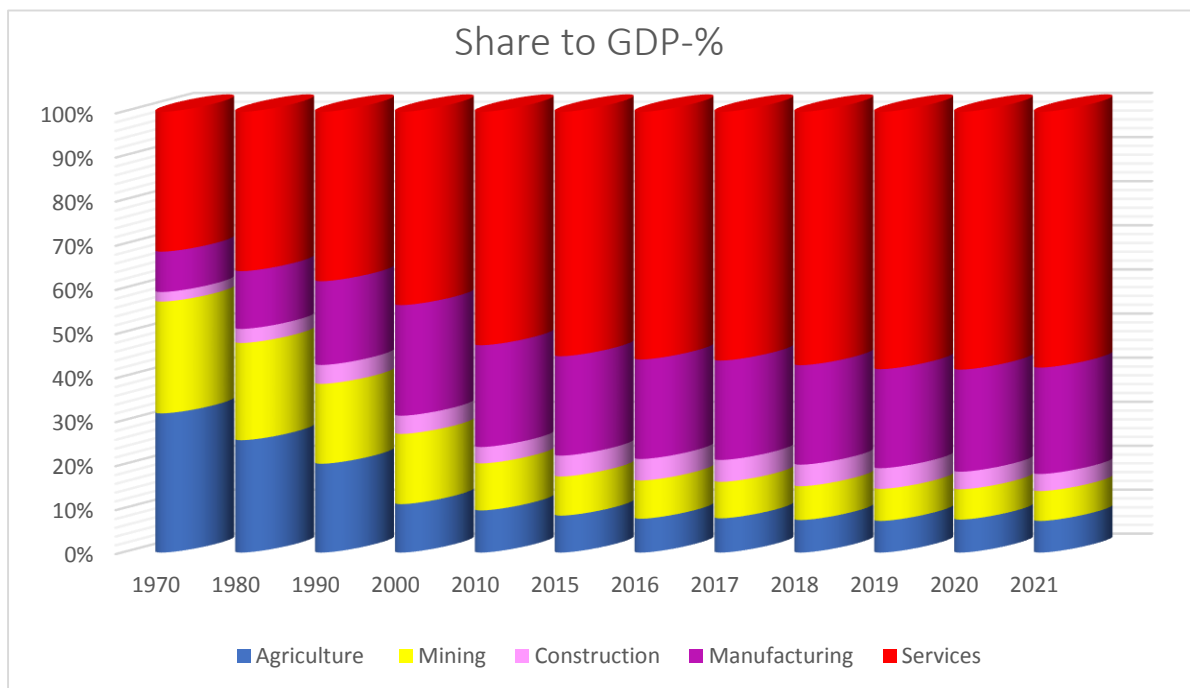


Source Department of Statistics Malaysia  
 Figure 36 GDP – Comparison, By Sector, 2017 vs 2021

Slower growth in most sectors of the economy



Source: Department of Statistics Malaysia  
 Figure 37 Structure of production 1979 to 2021



Source: Department of Statistics Malaysia

Figure 38 Share to GDP %-1970 to 2021

Before 1975, Agriculture is the dominant sector although its relatively low growth rate means that it is slowly being superseded by the more dynamic manufacturing and service sector. Mining which was once the largest revenue earner in the economy has been declining as tin is exhausted, but, petroleum has taken over as the main source of growth in the industry and accounts for the 11% growth rate in 1976-78. Manufacturing is a sector of increasing importance expanding at a rate well above that of overall GDP. The large service sector increased from 30% of GDP in 1971 to 36.6% in 1975. The petroleum bubble burst with the collapse of the petroleum industry. The second half of 2008 was marked by a deepening economic recession, accompanied by a severe financial crisis. Oil sank to the low \$ 50 per barrel by January 2009 before rebounding to nearly \$95 by year-end as the global economy recovered.

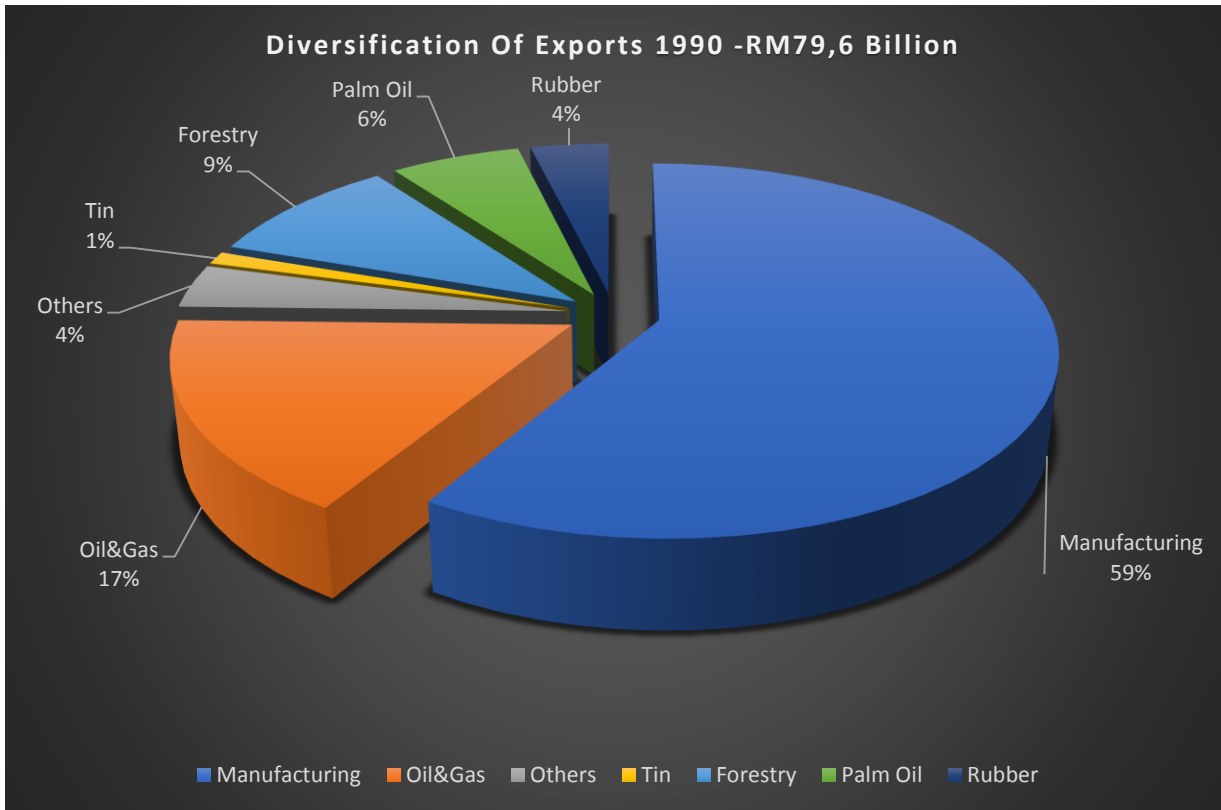
One of the chief characteristics of the Malaysian economy is its openness<sup>307</sup>. It is an economy based on the export of primary commodities, reinforced by policies that have encouraged active foreign participation with few controls on the foreign exchange after the Asian Financial crisis. Malaysia has gone through phases from a “free for all” to an extreme policy that deters growth and investment to a more open and easy policy in the twentieth century. Exports continue to provide the impetus for growth, accounting for 41 % per cent of GDP at market prices between 1970-75<sup>308</sup>. Although manufactured goods have been claiming an ever-larger share of export earnings, primary commodities continue to be the mainstay of the economy.



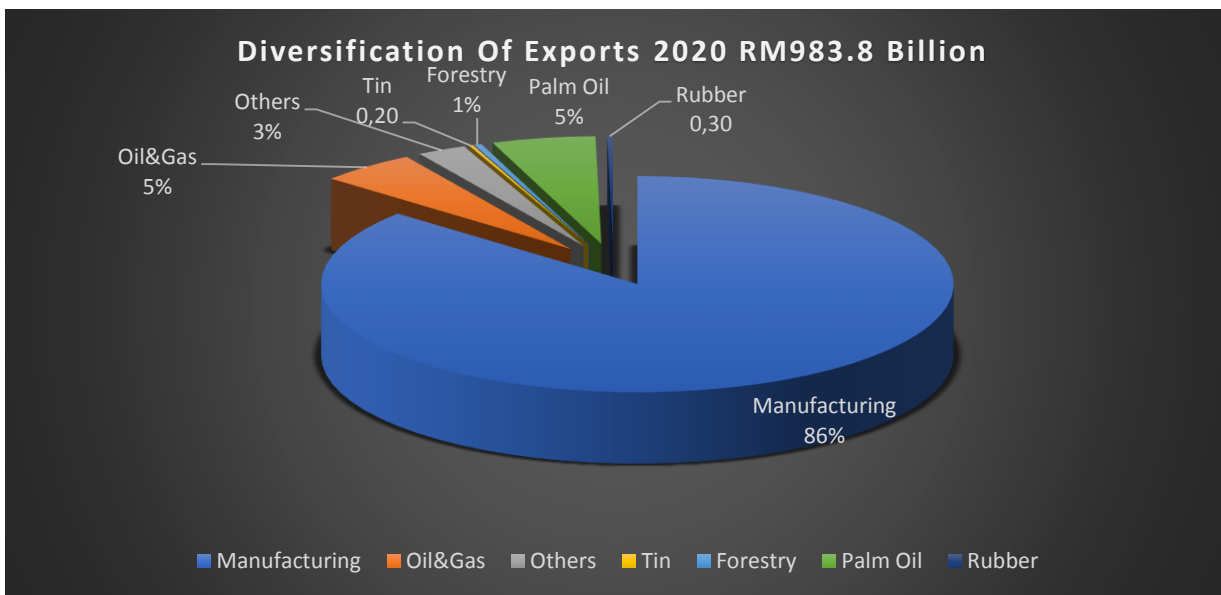
Source: World Bank national accounts data, and OECD National Accounts data files.  
 Figure 39 Exports of goods and services (% of GDP)

<sup>307</sup> See W. Kasper, Malaysia, A Study in Successful Economic Development. p. 63.

<sup>308</sup> TMP. p. 19, para. 68.



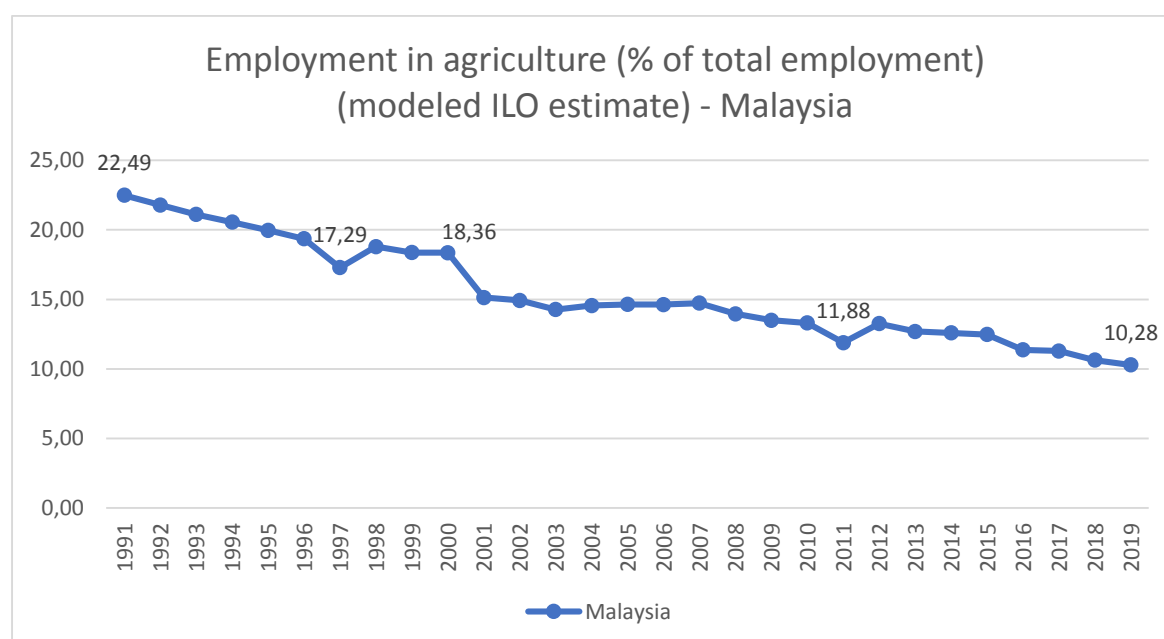
Source: - Department of Statistics Malaysia  
 Figure 40 Diversification of Exports, 1990 (% Of Total)



Source: - Department of Statistics Malaysia  
 Figure 41 Diversification of Exports, 2020 (% Of Total)

It is to be noted in employment terms agriculture is the dominant sector absorbing just under half of the employed labour force in 1975, declining slightly in 1978. Although the absolute number of people employed in agriculture has increased,

proportionately there has been a decrease from 50.3 per cent of the employed labour force in 1970 to 46.2% in 1975, to 43.9% for Malaysia as a whole in 1978.



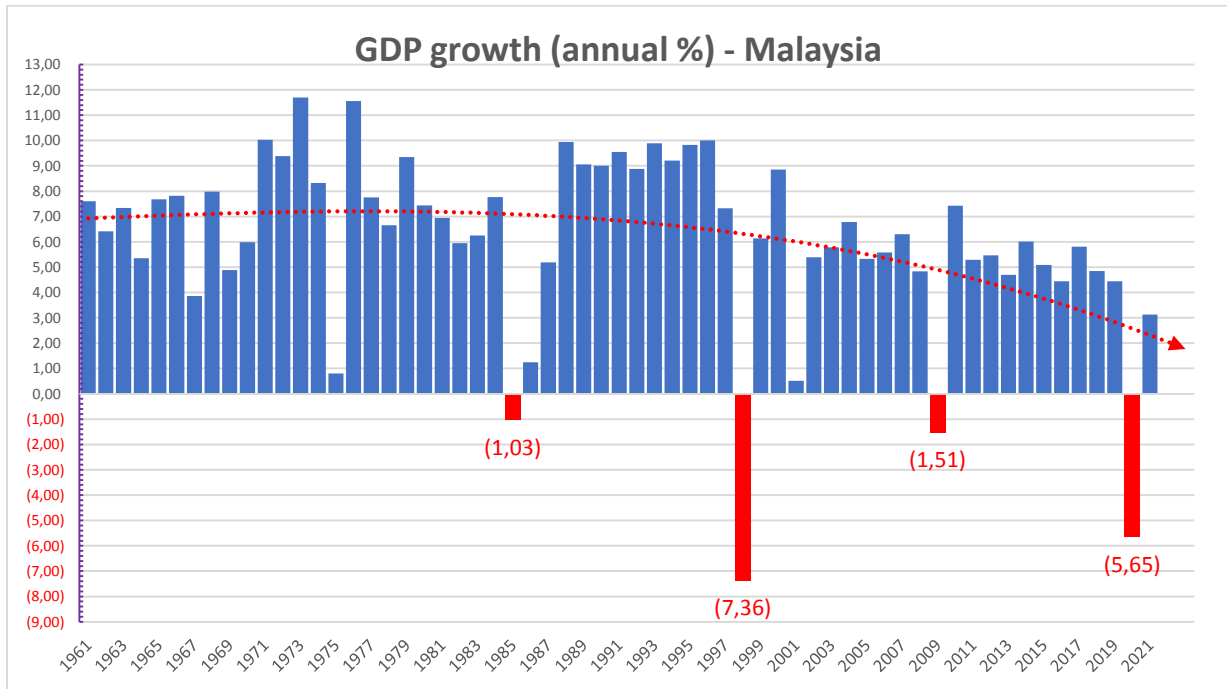
Source: The World Bank Group

Figure 42 Employment in agriculture (% of total employment) - Malaysia

Manufacturing employs over 10% of the labour force and its share is growing rapidly, and the tertiary sector utilities, transport, commerce and services employ more than one-third. Agriculture has lost traction and other sectors have dominated the market. The impact of the agricultural sector has put Malaysia in a position where it has to import main food commodities.

It was predicted that the economy will grow at the high level of 8.1 per cent of GDP per annum<sup>309</sup> (at factor cost in 1970 prices), with the fastest growing sector being manufacturing which is expected to continue growing at over 12% per annum and private investment by 10% per annum.

<sup>309</sup> 90 Mid-Term Review of the Third Malaysia Plan 1976—1980. 22, para.



Source World Bank

Figure 43 GDP growth 1961-2021(annual %) – Malaysia

## 7.4.2 AGRICULTURE

Agriculture, including forestry and fisheries, was the most important sector of the Malaysian economy accounting for 29.8% of GDP in 1975, contributing 45.5% of foreign exchange earnings, and employing 43.9% of the total workforce. However, it was growing more slowly than any other sector and by 1978 its share had declined slightly to 25.0% of GDP and 44.0 per cent of employment<sup>310</sup>. Despite this, it is expected that by 1990 will still be the second-largest sector in terms of contribution to GDP and the largest in terms of employment<sup>311</sup>. The recession and Asian financial crisis however did reduce Agriculture to a mere 9.1% contribution to GDP.

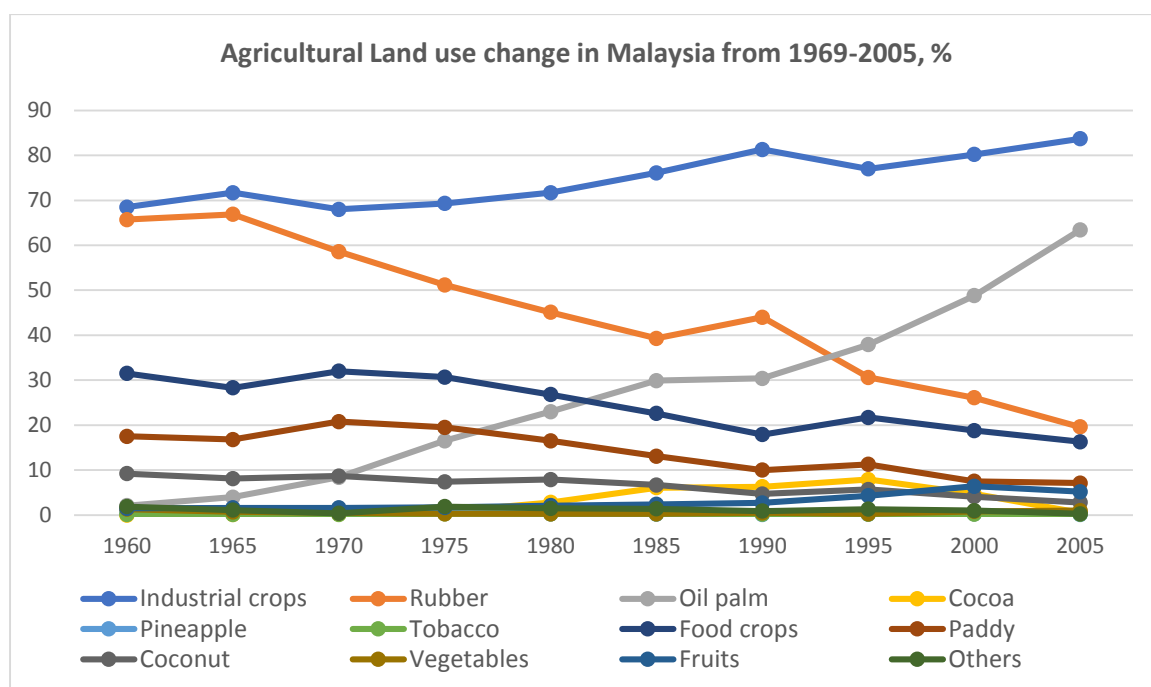
The rubber used to be the dominant crop, followed by oil palm and padi. The sector comprises a large number of peasant cultivators who grow padi and some who also grow cash crops such as rubber, estates specializing in cash crops largely for

<sup>310</sup> Mid-Term Review of Third Malaysia Plan. pp. 125, para. 299.

<sup>311</sup> TYE. p. 58, Table 4-4.

export, and more recently, large Government land development schemes often run on a cooperative basis. It is the estate sector that is the concern of this study and upon which this description will concentrate<sup>312</sup>. This sector is dominated by two perennial crops, rubber and oil palm, although other crops such as coconuts, and more recently, cocoa are also found. Being perennial, rubber and oil palm involves long-term investment, and are relatively inflexible in responding to changes in supply and demand. Both crops are highly labour-intensive.

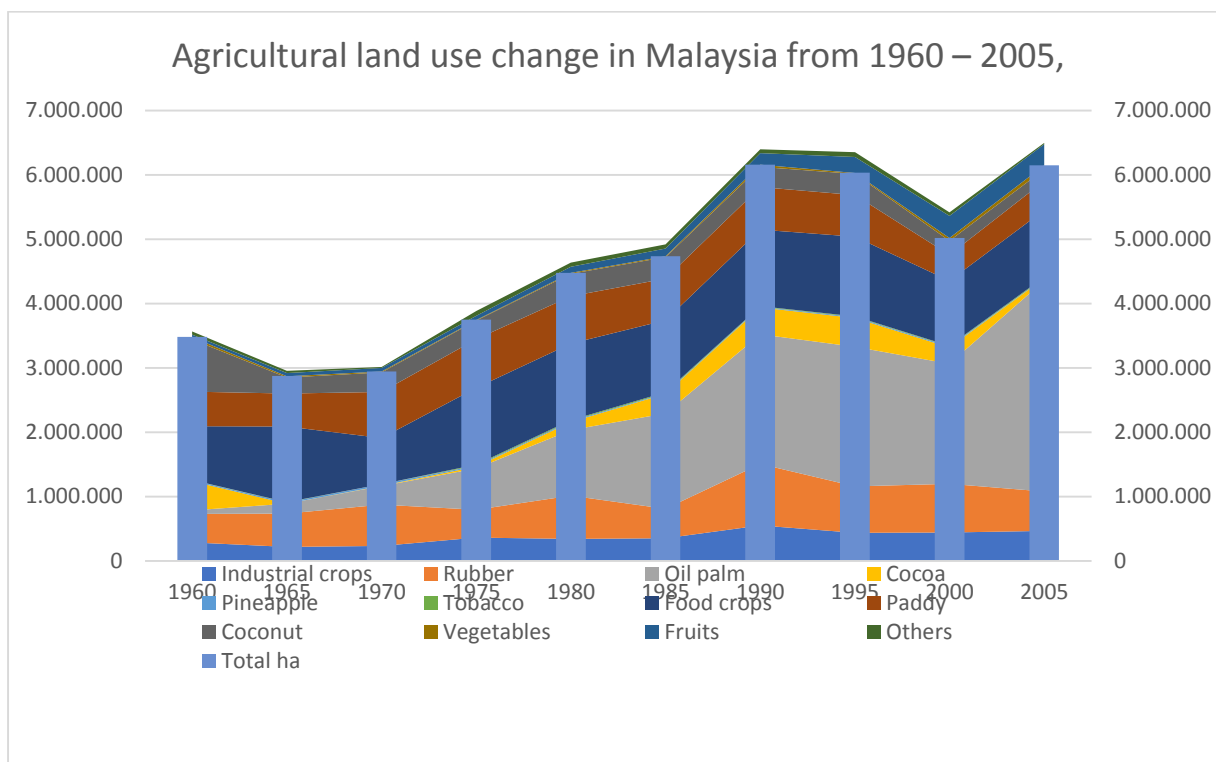
Agricultural Land use change in Malaysia from 1969-2005, %



Source: Arshad FM et al 2007

Figure 44 Agricultural Land use change in Malaysia from 1969-2005, %

<sup>312</sup> Over one million acres of land were opened up by the Government during 1971—1975 and a further 647, 000 acres during 1976-78. TMP. p. 288, para. 900; Mid-Term Review of Third Malaysia Plan. p. 131, para. 327.



Source: - Agricultural Land Use in Malaysia: An Historical Overview and Implications for Food Security

Figure 45 Agricultural land use change in Malaysia from 1960 – 2005

### 7.4.3 RUBBER

Malaysia is one of the world's largest producers of natural rubber, with Peninsular Malaysia accounting for over 40% of world production. Rubber is the single most important crop in Malaysia responsible for 30 per cent of all value-added in the agricultural sector and 51% of major agricultural land in the peninsula<sup>313</sup>. The two principal problems facing the industry are the competition for synthetics and fluctuations in the world's rubber prices. Synthetic rubber became a serious threat to natural rubber when in the 1960 stereo regular rubbers were developed that was virtually a perfect substitute for natural rubber, and specialized uses, superior to rubber. It was feared that synthetics would force the world rubber price down to a point below which it would be uneconomic to produce natural rubber. However,

<sup>313</sup> TMP. p. 113, para. 344.



stereoregular rubbers are a by-product of petroleum and the oil crisis of 1973 radically changed the situation by boosting the base price of synthetics and giving natural rubber a competitive edge. Global environmental issues have safeguarded the production of natural rubber. This means that while stereo regular rubbers are still a serious source of competition they no longer present a mortal threat to the industry.

The effect of the competition of synthetics has been a marked improvement in the efficiency and productivity of rubber estates. This has focused on four main areas: research into the development of improved plant material; the reduction of labour costs by experimenting with longer cuts, less frequent tapping and the use of yield stimulants that considerably prolong the flow of latex; the improvement and standardization of the quality of the end product with the introduction of standard Malaysian Rubber (SMR); and finally management efficiency of estates has been improved as estate management has become increasingly professional and the area under one manager progressively increased<sup>314</sup>. The result has been that productivity has increased from 226.796 kg per acre in 1956 to 515.28 kg per acre in 1975 and over 515.28 kg per acre on estates with high-yielding plant material<sup>315</sup>.

The world demand has driven Malaysia to be one of the most critical world crops. From producing Kilograms per acre have now increased to tons per Hectare. Production of natural rubber increased to 22.4 per cent in May 2021 to 28,164 tons as compared to 23,013 tons in April 2021. The year-on-year comparison also showed an increase of 33.8 per cent. This statistic was compiled based on the Monthly Rubber Census for the reference month of May 2021. The smallholding sector was the main contributor to the natural rubber production at 25,662 tons (91.1%) while the estate

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<sup>314</sup> Rubber Statistics Handbook, 1969. p. 170.

<sup>315</sup> Malaysia, Annual Bulletin of Statistics, 1976.

sector accounted for 8.9 per cent of total production in May 2021. Month-on-month production of the smallholdings sector and the estate sector showed an increase of 24.7% and 3.0% respectively.

Estate production in May 2021 was 2,502 tons with a slower growth rate of 3.0 per cent monthly basis with tapped area declining by 0.7 per cent. Productivity of natural rubber production in the estates was 56.3 kilograms per hectare in May 2021, which decreased by 24.7% as compared to May 2020. Meanwhile, the month-on-month comparison showed that productivity increased by 3.7% from 54.3 kilograms per hectare in the previous month.

#### **7.4.4 OIL PALM**

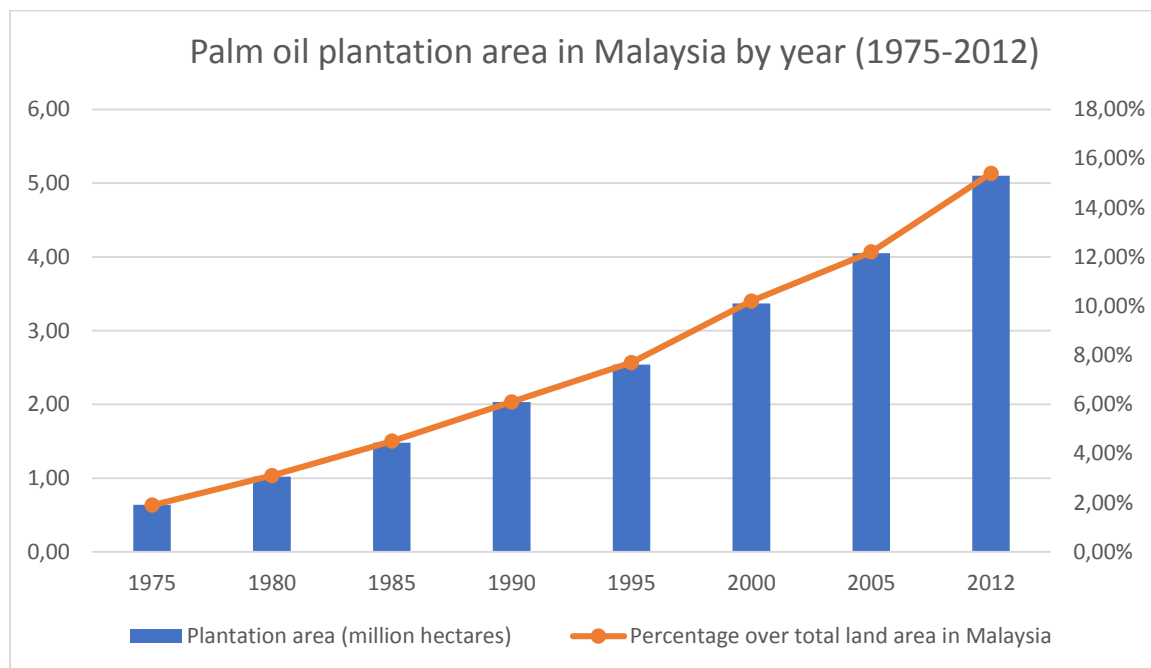
Oil palm has experienced dramatic growth since the Second World War. By 1966 Peninsular Malaysia had become the world's leading producer of palm oil, a position that she has continued to maintain. The decline in rubber prices in the 1960 made oil palm more attractive. In the early 1960, palm oil cultivation increased significantly under the government diversification program to reduce Malaysia's dependency on rubber and tin<sup>316</sup>. The FELDA land settlement schemes were introduced surrounding most of the palm oil plantation fields to eradicate poverty among the local people. In the same period, Malaysia also became the world's largest palm oil exporter. In the 1980, the government nationalized three major palm oil companies, which were Guthrie, Golden Hope and Sime Darby<sup>317</sup>. In 1962 the big plantation companies began to switch over and the Government began planting it on its land development projects. Between 1970-75 the area planted with oil palm

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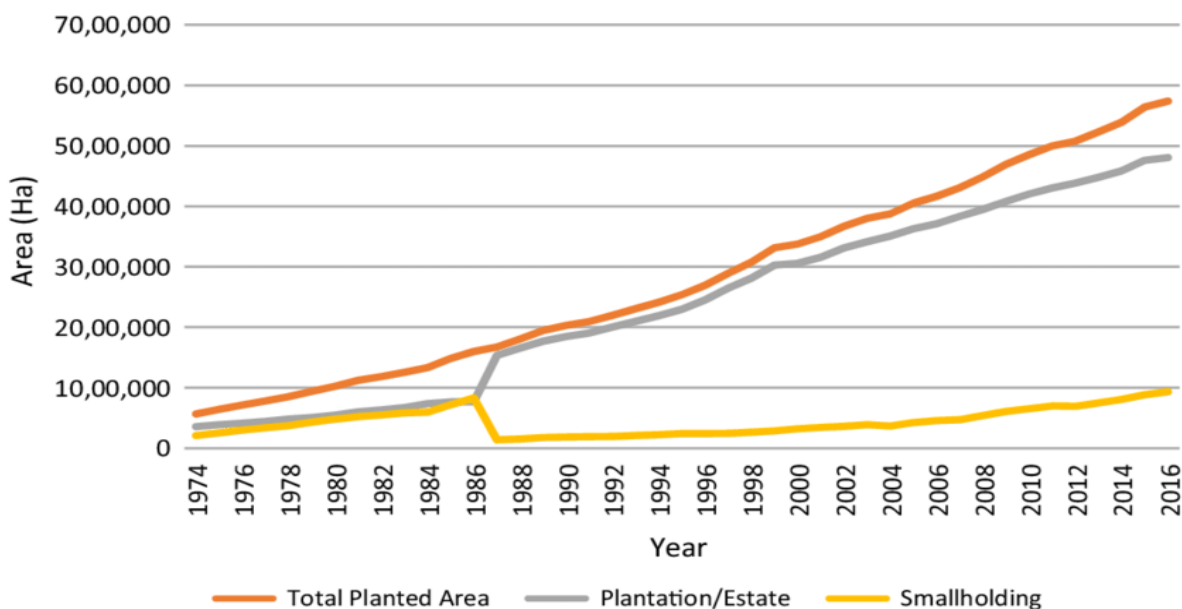
<sup>316</sup> Basiron, Yusof (2013). "Malaysian Supply and Demand of Palm Oil: Challenges and Opportunities until 2020". Malaysian Palm Oil Council

<sup>317</sup> "Palm Oil Industry in Malaysia" (PDF). World Bank. 24 June 2009. Retrieved 30 March 2018.

increased from 667,000 acres to 1,496,000 acres and production rose almost threefold from 395,952 tons to 1,118,839 tons. This trend has continued with acreage rising to 1.7 million acres in 1978<sup>318</sup>.

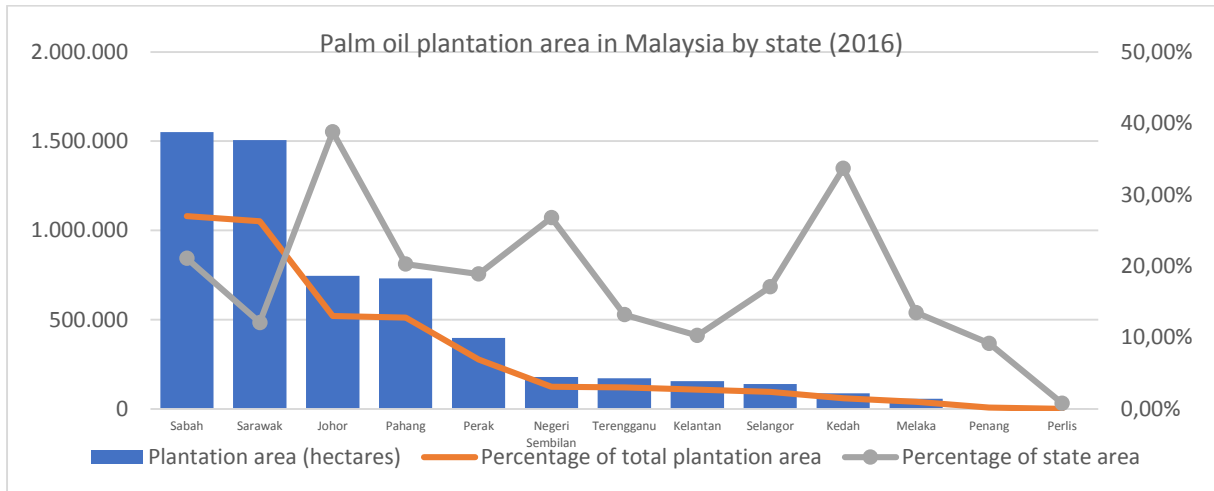


Source-Sustainability of oil palm plantations in Malaysia  
 Figure 46 Palm oil plantation area in Malaysia by year (1975-2012)

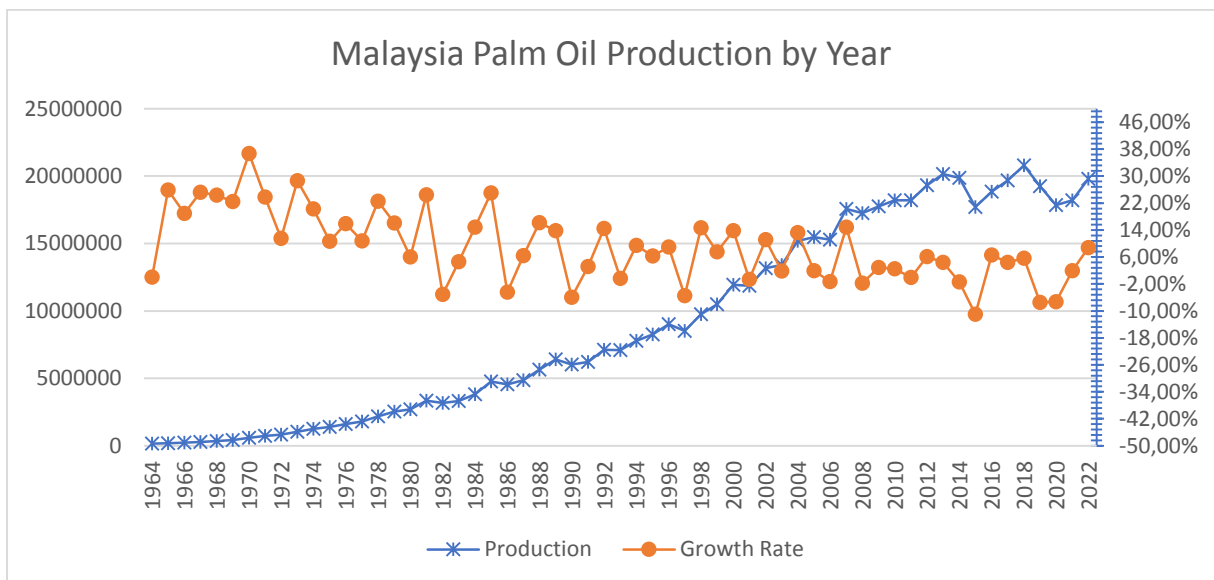


Source-Sustainability of oil palm plantations in Malaysia, August 2020 Environment Development and Sustainability 22(6), DOI:10.1007/s10668-019-00458-6  
 Figure 47 Palm oil plantation total areas vs plantation and smallholding

<sup>318</sup> Mid-Term Review of Third Malaysia Plan. p. 128, para. 306.



Source- Malaysia Department of Statistics  
 Figure 48 Palm oil plantation area in Malaysia by state (2016)



Source- Malaysia Department of Statistics  
 Figure 48 Palm Oil Production by Year

Oil palm is more than twice as profitable as rubber or coconut and starts to bear fruit in three years compared to the minimum of five years for rubber. It then yields continuously until the height of the palm makes harvesting uneconomic. However, it cannot suffer neglect: oil palm fruit must be harvested; its mineral requirements are more substantial than rubber, indeed fertilizer is the single largest cost on an oil palm estate; and most importantly, the fruit must be processed within twenty-four hours and a processing factory requires very large capital investment. As a result, oil palm is

ideally grown on an estate, or a well-organized co-operative with at least 2000 acres, and optimally 5000 acres, to support a factory.

Oil palm is an industry that demands efficiency, first because of the capital cost and technology involved in its processing, and the necessity of getting the fruit to the factory as quickly as possible, and second because it is in competition with many other edible oils and fats, which are virtually interchangeable, in particular soya bean oil. In 2012, the Malaysian palm oil industry employed an estimated 491,000 workers<sup>319</sup>. With the growth in the use of edible oil, the price of palm oil is likely to come down in future and therefore increasingly high levels of efficiency will be required of the oil palm industry.

#### **7.4.5 TIN**

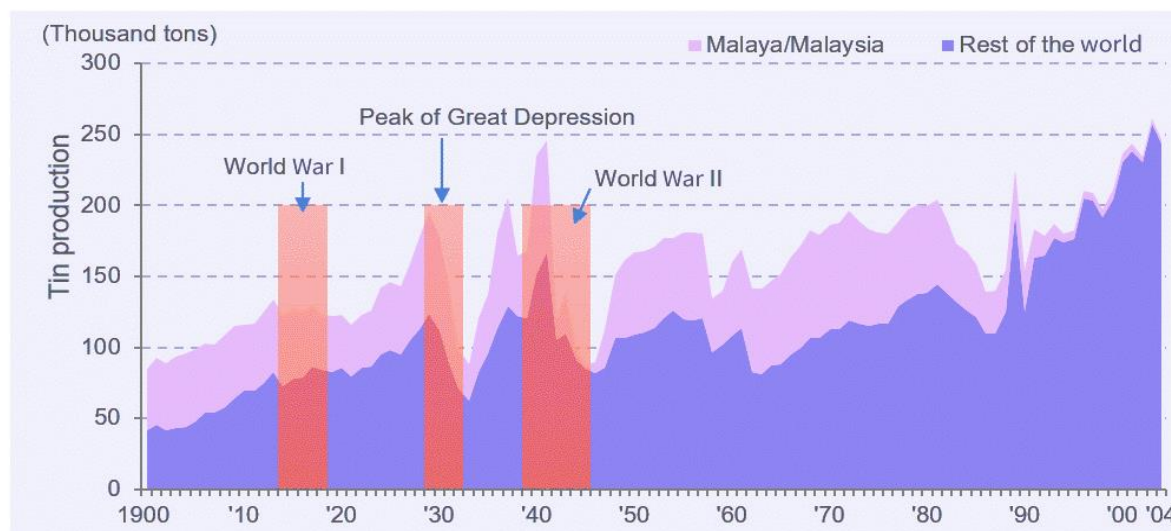
Tin was the most important mineral in terms of export value and employment in 1975: the value of tin exports was RM 1,217 million, or 58 % of mineral exports, compared to RM 853 million or 41% for crude and partly refined petroleum, and RM 18 million or 1% for copper and tin employed 98% of the mining industry labour force in Peninsular Malaysia<sup>320</sup>. However, tin has gradually declined from its earlier position of pre-eminence as known deposits have been worked out. In 1971, the value of tin exports amounted to 18% of total gross exports, but this had fallen to 13 per cent by 1975, and 12% by 1978. Nonetheless, Malaysia produced 33% of world tin exports in

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<sup>319</sup> "MALAYSIA: Stagnating Palm Oil Yields Impede Growth". USDA Foreign Agricultural Service. 11 December 2012. Archived from the original on 18 February 2013. Retrieved 29 January 2013.

<sup>320</sup> Department of Statistics, Annual Bulletin of Statistics, 1976. pp., Table 10.5.

1976<sup>321</sup>.



**Note:** Data for years before 1963 relate to Malaya.

**Source of data:** Lim Chong Yah, *Economic Development of Modern Malaya*. Kuala Lumpur: Oxford University Press; International Tin Council. 1968. *Statistical Year Book*; International Tin Council, *Annual Report 1967-68*; International Tin Council. 1970-1980. *International Tin Statistics*. 1996. *Bulletin*, No. 1, July 1991 and No. 16-17, January and October 1996

*Figure 49 Malaysia's Share of Global Tin Production*

The two main methods of tin extraction are still dredging and gravel pump mining which together accounts for more than 80 per cent of production. In contrast to the period immediately before and after the Second World War, gravel pump mining is now the largest producer accounting for more than 53% of total production in 1975. The gravel pump mines tend to be small and very numerous compared to the larger more capital-intensive dredge mines: in 1976, there were 51 dredges in operation compared to 724 gravel pump mines<sup>322</sup>. The main problems of the industry are the exhaustion of known tin deposits, the competition of substitutes such as aluminium, and the instability of world prices. The exhaustion of tin reserves is such that despite record prices in 1977-78 tin production declined substantially from 1975-76<sup>323</sup>.

<sup>321</sup> Far Eastern Economic Review, September 10 1976.

<sup>322</sup> Department of Statistics, *Annual Bulletin of Statistics*, 1976. pp.

<sup>323</sup> Mid-Term Review of Third Malaysia Plan. p. 9, Table 1-4.

Prospecting is taking place for new tin deposits and it appears likely that alluvial tin may be found in Perak and Selangor, off-shore in the Straits of Malacca, and primary sources of tin may be discovered in the Main range of mountains.

The demand for tin is threatened by the development of canning methods that reduce or even eliminate the need for tin, and by research into tin-free steel. The price of tin is highly variable ranging, for instance, from RM 10,576 per ton in 1971, RM 15,975 in 1975, to RM 27,826 in 1978<sup>324</sup>. To try and stabilize prices export controls have been brought into force, but, the combination of controls and the fluctuations in price makes it extremely difficult for the marginal mines to survive and the Government was forced to introduce a "hardship quota pool" in 1975 so that miners with too restricted a quota to operate economically could apply to the pool for an additional allocation.

World War II again severely disrupted Malaya's tin industry but a massive post-war rehabilitation program brought production back to 55,000 tons in 1949, and it increased further in the 1950 and 1960. However, during the last thirty years of the 20th-century tin's relative importance to Malaysia's economy steadily declined as the country's exports increasingly diversified. Tin exports accounted for about 20 per cent of gross export earnings in 1970, declining to less than 10 per cent in 1980, and by the late 1990 contributed less than one per cent. The working out of tin deposits has had an important effect on the management needs of the industry for as the large deposits have been exhausted it has become increasingly uneconomic to use dredges and the low-cost gravel-pump methods have become suitable and have regained their prominence. This has meant a shift from high-technology European-controlled

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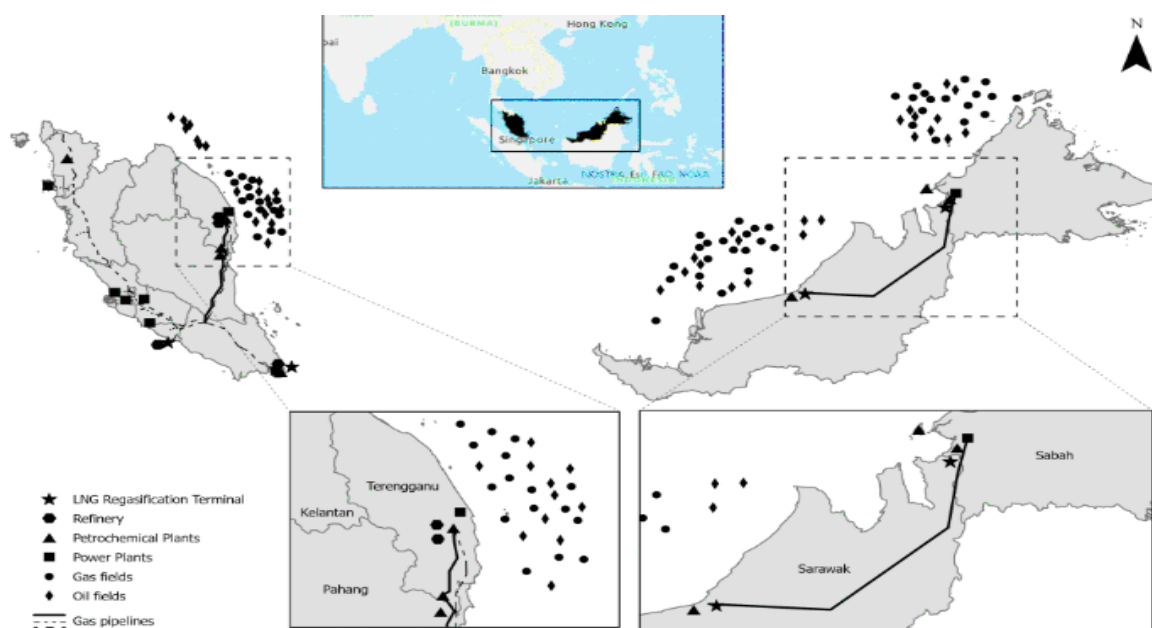
<sup>324</sup> Mid-Term Review of Third Malaysia Plan. p. 9, Table 1-4 (Mid—Term Review figures used for 1975).

operations to low-technology Chinese ones and consequently a different type and level of management expertise. Dredges do still extract a significant proportion of the country's tin and they require skilled mining engineers, but, dredging companies are shrinking in size and are likely to be reluctant to invest in management development, indeed in present circumstances, it may be an unnecessary and unwise investment.

## 7.4.6 MINING

### 7.4.6.1 Petroleum

Petroleum has become a new and rapidly growing industry. In 1971 crude and partly refined petroleum made up 8% of the value of exports, in 1975, 9% despite a sharp drop in the volume of exports, and in 1978 crude petroleum alone made up 14% of exports<sup>325</sup>. However, it is only the downstream refining and marketing operations that take place in Peninsular Malaysia; in 1971—75 production was confined to Sabah and Sarawak which are outside the scope of this study, although since then wells off the east coast of Peninsular Malaysia have come on stream.



Source: Based on data from Petronas Malaysia

<sup>325</sup> Mid-Term Review of Third Malaysia Plan. p. 9, Table 14.

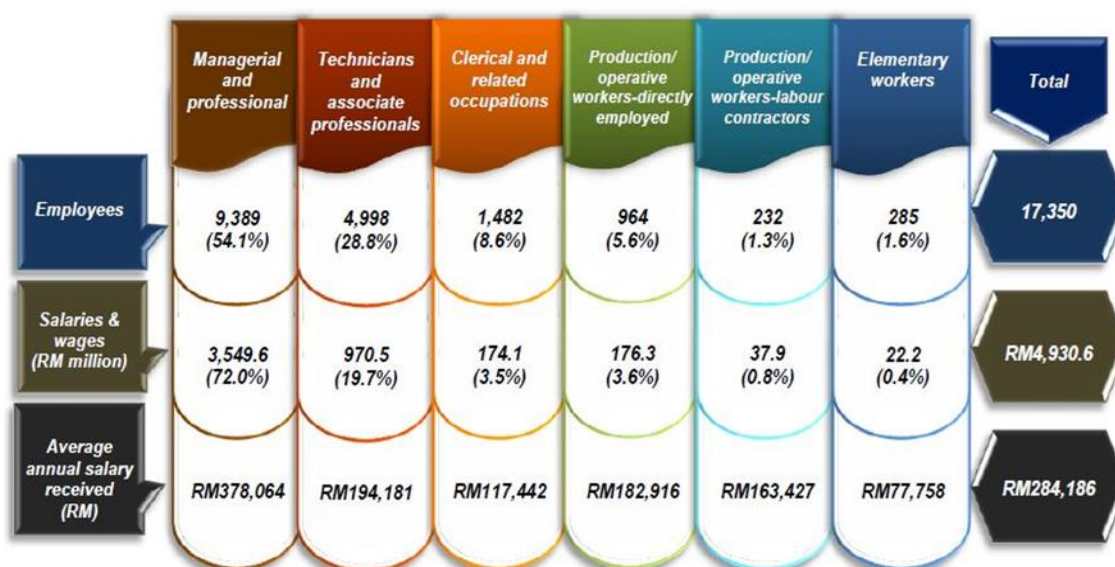


Figure 50 The Malaysia oil and Gas landscape

Malaysia petroleum is one of the biggest entities that not only produce educated employees with their university they also absorb graduates from other universities. Compare to other industries, Petronas is a success story and the only government-owned entirety that has succeeded in the Malaysian Malay vision,

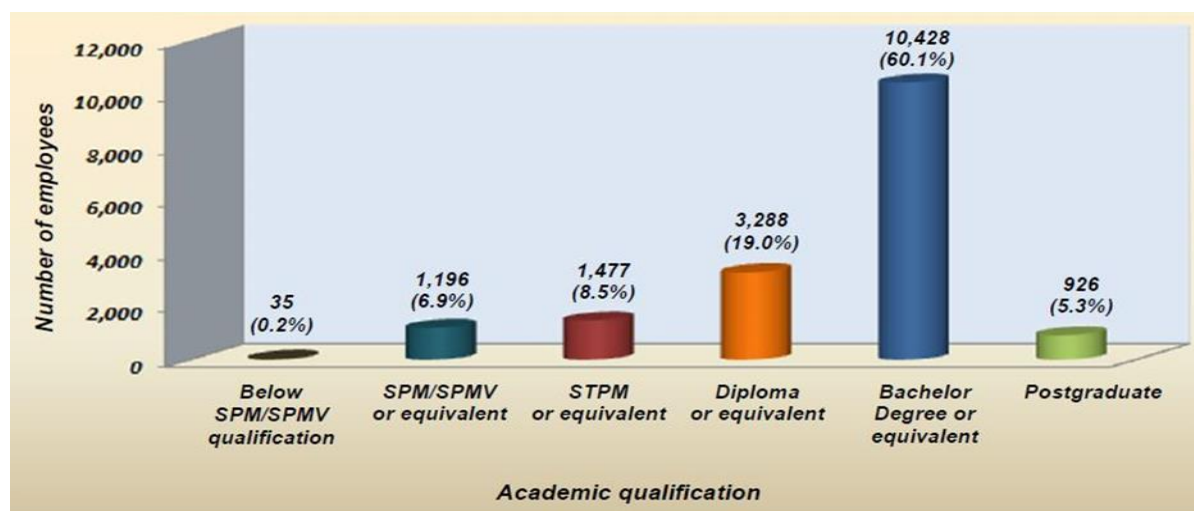
### 7.4.6.2 Employment

The petroleum and natural gas mining industry posted total employment of 17,350 persons, an expansion of 6.1 per cent from 16,355 persons in 2013. The managerial and professional category of workers registered the highest contribution in the number of employments in this industry with 54.1 per cent or 9,389 persons. This category also received the highest salaries & wages at 72.0 per cent or RM 3.5 billion. Next, technicians and associate professionals recorded the second highest number of employment accounting for 28.8 per cent or 4,998 persons. The managerial and professional category recorded the highest average annual salary with RM 378,064 followed by technicians and associate professionals (RM 194,181) and production operative workers directly employed (RM 182,916).



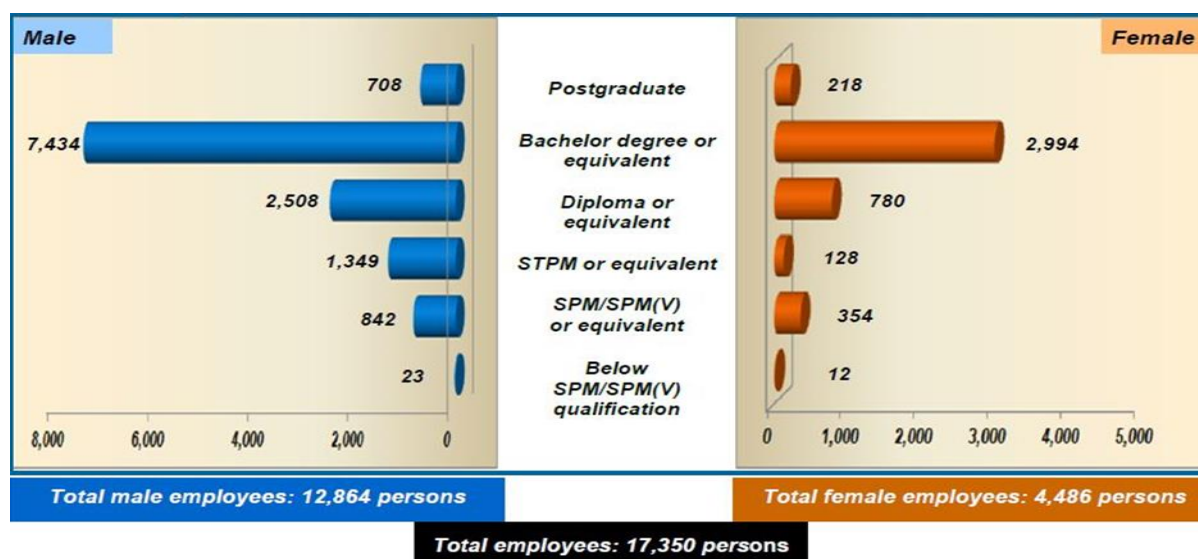
Source: The Office of Chief Statistician Malaysia, Department of Statistics, Malaysia, 22 January 2016  
 Figure 51 Employees and salaries, wages by category of worker

The number of employees by academic qualification indicates that employees with Bachelor's Degree contributed the highest percentage share accounting for 60.1 per cent (10,428 persons), followed by Diploma or equivalent (19.0%) and STPM or equivalent (8.5%) as shown in Exhibit.



Source: The Office of Chief Statistician Malaysia, Department of Statistics, Malaysia, 22 January 2016  
 Figure 52 Employees by academic qualification, 2014

Male employees continue to record as the largest employees in the petroleum and natural gas industry with a share of 74.1 per cent (12,864 persons) as compared to female employees with 25.9 per cent (4,486 persons), as depicted in Exhibit.



Source: The Office of Chief Statistician Malaysia, Department of Statistics, Malaysia, 22 January 2016  
*Figure 53 Employees by gender and academic qualification, 2014.*

#### **7.4.6.3 Iron, Bauxite and Copper**

Iron ore, which in 1960 accounted for almost 29% of the total value of mineral production and employed 18% labour force in the mining industry<sup>326</sup>, has since then declined fairly steadily in importance. Two of the largest iron mines were closed down in 1970 and production has fallen from its peak of 7.2 million tons in 1963 to 4.4 million tons in 1970, and 348,000 tons in 1975<sup>327</sup>.

Bauxite production was another new industry which had grown from 451,958 tons in 1960 to a peak of 1,121,318 tons in 1970, fell to 703,600 tons in 1975 and 625,000 tons in 1978<sup>328</sup>. In the 20<sup>th</sup> century, Malaysia faced major environmental issues with Bauxite mining. Malaysia halted bauxite mining in January 2016 but allowed exports to continue to deplete vast stockpiles at ports. Despite the restrictions, total bauxite exports from the country soared again to 645 039 tons in February 2017. From then till now, the export volume of the ore has declined significantly to reach an estimated 371 891 tons in November. Copper mining began in Sabah in 1975 and is therefore still in its infancy. Although there is prospecting in Peninsular Malaysia, in 1975 copper mining was carried out only in East Malaysia and so is outside the scope of this study.

### **7.5 MANUFACTURING**

The manufacturing sector has played a key role in the effort of developing the country to grow and prosper. This has been the experience of the Malaysian economy since the 1960. The development of the manufacturing industry in Malaysia can be

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<sup>326</sup> Yip Yat Hoong, "The Mining Industry", Malaysia, A Survey. Wang Gungwu, ed., p. 305.

<sup>327</sup> SMP. P. 170, para. 538; TMP, p. 324, para. 1077.

<sup>328</sup> SMP. P. 171, para. 539; Mid—Term Review of Third Malaysia Plan. p. 159, para. 427.

roughly divided into three stages: first, in the 1950 manufacturing was geared toward the processing of the country's main export commodities - tin and rubber, and the light engineering stimulated by this; then in the sixties, industry aimed at import substitution; and third, in the seventies, the development of manufacturing for export. It was in the sixties that large-scale industries began to grow rapidly with the encouragement of Government incentives and tariff protection. Between 1965-70 the contribution of the manufacturing sector to GDP grew at an average annual rate of growth of 10%<sup>329</sup>. Manufacturing based on import substitution continued into the period of the SMP accounting for about 30% in the growth of value added during 1971-75 but is expected to decline to about 12% during the TMP.

However, the main impetus for growth in the manufacturing sector during 1971—75 came from the expansion of export-oriented manufacturing which grew from RM 591 million in 1970 to RM 2.1 billion in 1975, accounting for 61.2% of the growth of 117 value-added in the manufacturing sector. Under the TMP it is expected that export-oriented manufacturing will be the main source of growth accounting for about one-half of the growth in value-added during 1976-1980. At the same time, the domestic market is expanding as private disposable income grows. By 1990 the manufacturing sector is expected to become the largest sector in the economy, growing from 12.2 per cent of GDP in 1970 to a target of 26.2% in 1990, and contributing about 26% of total new employment or 776,000 jobs over 1970-90. However, since the late 1990, the country's economy has begun to de-industrialize.

As much of Malaysia's manufacturing has been primarily export-oriented, the relative decline in the sector's contribution to the country's economy has also resulted

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<sup>329</sup> SMP p. 31, Table 2-5.

in a decline in its participation in the global economy. Parallel to these developments is the rise of the services sector. Whilst the services sector has always been important to the manufacturing sector, its role has likely become even more important with the advent of global value chains (GVCs) and global production networks (GPNs). Empirically, this can be seen by the contribution of the service sector to the manufacturing sector's output. Globally, services account for half of the value of world trade.<sup>330</sup> It is worth mentioning the context of structural change in Malaysia, namely, deindustrialization in the country. This took the form of a relative decline in the manufacturing sector's share of the economy's GDP and total employment since the late 1990.

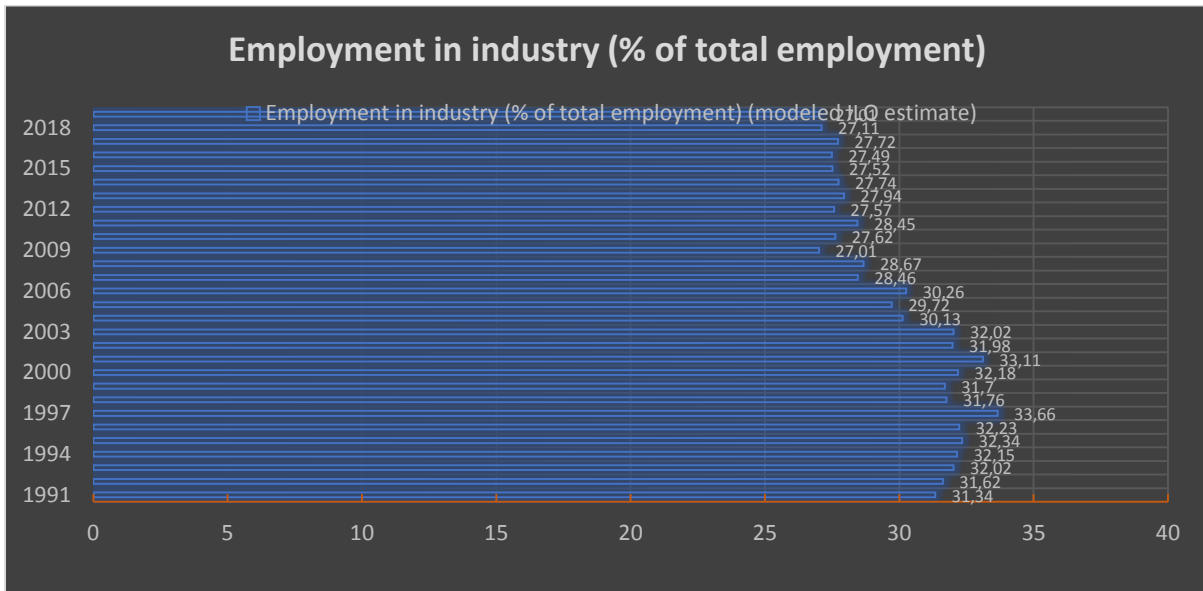
The Malaysian economy has been de-industrializing over the past fifteen years. This can be seen in the decline in the manufacturing sector's share of GDP and total employment. In terms of the share of GDP, the manufacturing sector's share of real GDP peaked at close to 31 per cent in 1999. Thereafter, it declined almost continuously every year, and the sector's share of GDP had declined to 22 per cent by 2016.

The services sector's share of the GDP has gradually increased from 32 per cent in 1974 to 53 per cent in 2016. Even though there were some fluctuations in the services' share of GDP during some periods, it increased rapidly in the period after 2004. The figures on employment paint a similar picture (Figure 2). The "inflexion point" is where the decline in the manufacturing sector's share of total employment occurred even earlier, namely in 1994 – some five years earlier than the decline in the sector's share of GDP. In that year, the manufacturing sector's share of employment

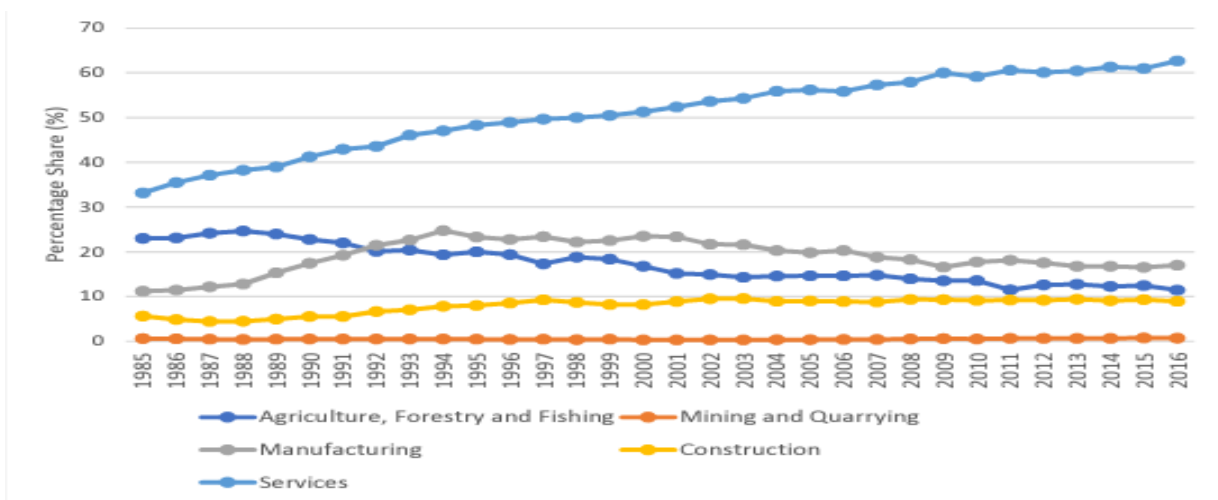
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<sup>330</sup> Miroudot and Cadestin, 2017

stood at 25 per cent. This share had declined to 17 per cent by 2016. In contrast, the services sector's share of total employment increased from 47 per cent in 1994 to 63 per cent in 2016.



Source: Department of Statistics Malaysia  
 Figure 54 Employment in the industry (% of total employment)

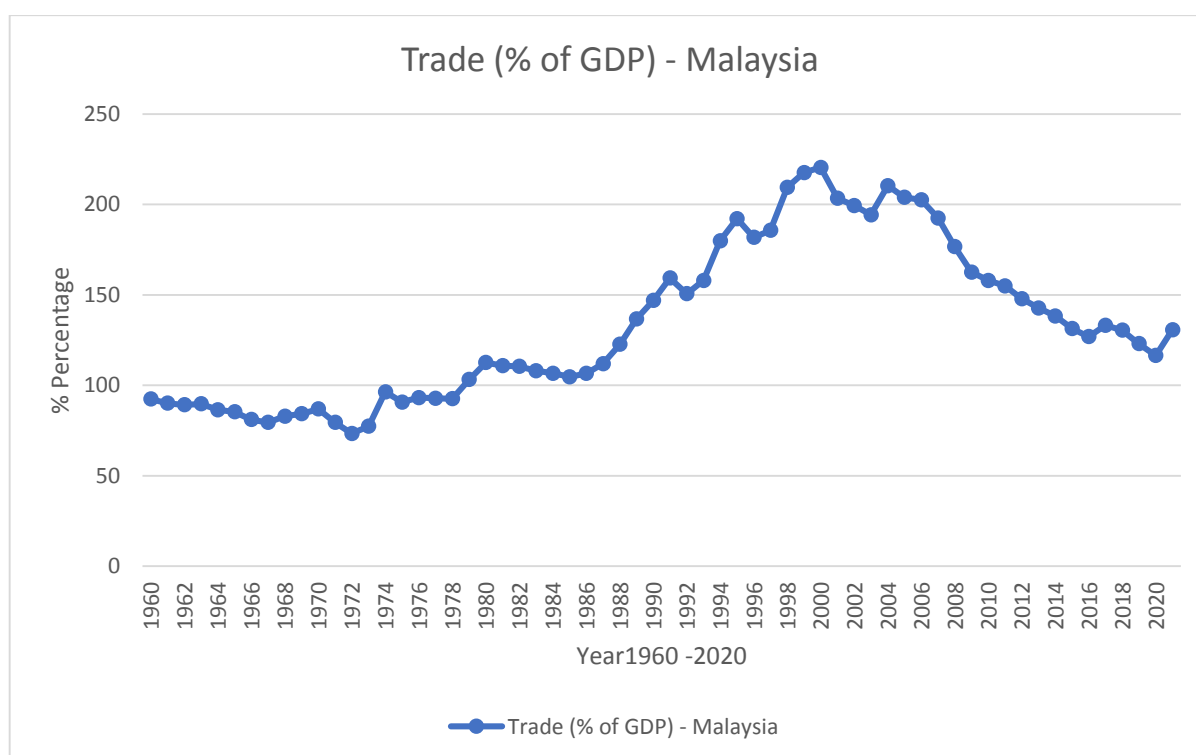


Source: - World Bank  
 Figure 55 Sectoral composition of Total Employment, 1985-2016

As the manufacturing sector is very export-oriented, the decline in its relative share has also affected the country's "openness" or engagement with the global economy. Malaysia's trade ratio (i.e. total exports and imports divided by GDP) has also declined during this period of deindustrialization. After increasing over about thirty

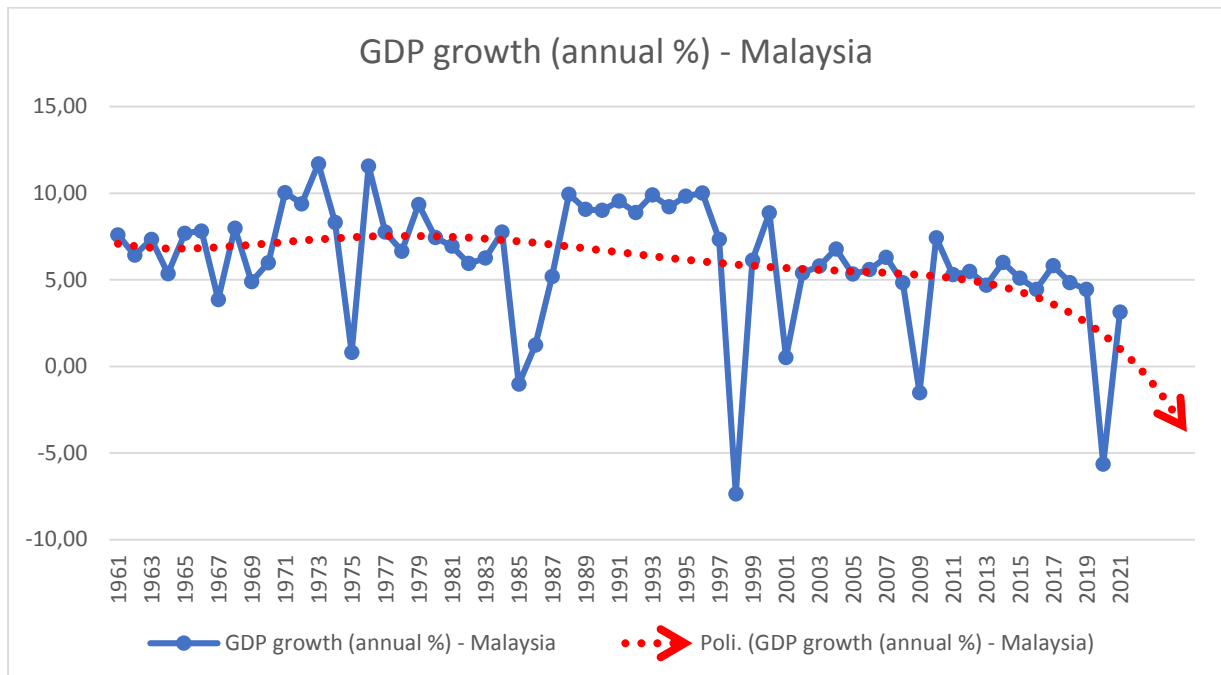
years, Malaysia's trade ratio peaked at 220 per cent in 2000. Thereafter, it declined to 129 per cent in 2016. The manufacturing sector's share of total merchandise exports also declined from 80 per cent in 2000 to 61 per cent in 2013.

Its share of total merchandise exports has recovered slightly since 2014, probably due to the decline in the value of oil exports amidst a steep decline in oil prices and the ringgit depreciation. It might be useful to take a more disaggregated and detailed analysis of the export performance of the manufacturing sector to better understand the structural changes taking place within the sector. In terms of the composition of manufactured exports, the machinery and transport equipment industry are by far the largest contributor, accounting for almost 63 per cent of total manufactured exports. The industry's decline in its share of total manufactured exports began in 1999 and fell to as low as 38 per cent by 2012.



Source: - Department of Statistics Malaysia

Figure 56 Structural Composition of Malaysia GDP, 1960-2016



Source: World Bank

Figure 57 Structural Composition of Malaysia GDP, 1960-2016

The overall composition of the manufacturing industry can be seen that despite the growth of the new industries in recent years, the older industries — food products, beverages, tobacco, rubber processing and wood products — still made up 57% of the gross value of output in the manufacturing industry in 1973, and they also accounted for 44 per cent of all establishments, 47 per cent of value-added and 41 per cent of employment. However, the development of the electrical industry has added an important new source of employment. For the most part, the long-established industries are labour-intensive and are often small cottage industries. The newer areas of manufacturing, chemicals and chemical products, petroleum and petroleum products, non-metallic mineral products, iron and steel, non-ferrous metals, electrical machinery and transport equipment, are usually capital-intensive. The development of manufacturing has tended to follow the lines of existing industry because the



manpower and physical infrastructure are concentrated there. Peninsular Malaysia accounts for 95.0 per cent of manufacturing output in Malaysia<sup>331</sup>.

In Peninsular Malaysia in 1970, 57 per cent of manufacturing output, other than in primary processing, originated from Selangor, mainly in the urbanized Klang Valley. A further 37% originated from the more developed States on the West Coast - Penang, Perak, Negri Sembilan and Johor, with the remaining States producing only 5 per cent of manufacturing output.

With this high degree of concentration, the Government is trying to overcome its Locational Incentive Schemes. The basic pattern of a small number of large companies and a large number of very small establishments remains. The Financial Survey of Companies, which provided the sampling frame for this study, found in 1968 that 78.2 per cent of the companies covered had less than RM 1 million annual turnover, but that they accounted for only 10 per cent of the value of sales and other revenue<sup>332</sup>. Because they were so small these companies were eliminated from the study, indeed the Department of Statistics itself no longer includes them in the Financial Survey. Of the companies covered, 77.9% were in the smallest size group, with RM 1—5 million annual turnovers in 1969, by 1974 this proportion had fallen slightly to 69.3 per cent<sup>333</sup>.

There has been a tendency for new manufacturing activities to be capital-intensive. The pattern of Government incentives encouraged this by giving tax exemption based on capital expenditure, as has the availability of low-interest capital and the shortage of managers with the consequent desire to make the best use of the

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<sup>331</sup> Mid-Term Review of Third Malaysia Plan. p. 146, para. 371.

<sup>332</sup> Department of Statistics, Report of the Financial Survey of Limited Companies, Malaysia 1968. p. I.

<sup>333</sup> Department of Statistics, Report of the Financial Survey of Limited Companies, Malaysia 1974. p. 1., Table A

limited number available and maximize their effectiveness. The expansion of manufacturing took place without coordination or supervision and as a result, there had been a proliferation of enterprises in certain industries<sup>334</sup>. (The Stated purpose of the ICA was to overcome these very difficulties.) The result has been that some plants are running under capacity and competition is very fierce. David Lim found underutilization of capital in a wide range of industries<sup>335</sup>. Indeed 61% of the companies, in his survey reported that their utilization of capital was lower than desired. The main cause of this they attributed to lack of demand owing to foreign competition and/or a surfeit of lid.

Under-utilization of capital was more severe amongst Malay-owned establishments than foreign-owned or controlled establishments, and more severe amongst unincorporated than incorporated establishments. This suggests that the experienced professional managers in foreign, incorporated firms achieved a higher level of efficiency than the patrimonial form of management that characterizes unincorporated local companies. Despite the overall progress made during 1971—75, 1975 itself was a particularly difficult year. Manufacturing output stagnated, indeed in the first half of 1975 manufacturing output declined by 4.3 per cent measured on an annual basis<sup>336</sup>.

Many industries were barely able to maintain 1974 sales levels, while for others sales turnover declined by between 10-30%. Over half of the firms in the sector were reported to be operating at capacities 20-40% below maximum, and some at or even

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<sup>334</sup> V. Kanapathy cites the example of the car assembly industry which in 1970 had six assembly plants, producing twenty-one brands of cars, and eighty models, for an annual market of around eighteen thousand cars. "Foreign Investment in Malaysia: Experience and Prospects, UMBC Economic Review, VI, 2 (1970).

<sup>335</sup> D. Lim, Capital Utilization in West Malaysian Manufacturing.

<sup>336</sup> MIDF, 16th Annual Report and Accounts for Year Ended 31 March 1976. p. 40.

below breakeven level. Not only did manufacturing lose its position as the leading growth area in 1975 but employment growth in the sector stagnated. However, in 1976 manufacturing recovered and in 1976-78 was once again the fastest-growing sector of the economy contributing 19% to GDP in 1978<sup>337</sup>. The difficulties experienced in 1975 will affect the attitude of manufacturing companies toward management development in that year.

## **7.6 TRADE AND COMMERCE**

### **7.6.1 EXPORTS**

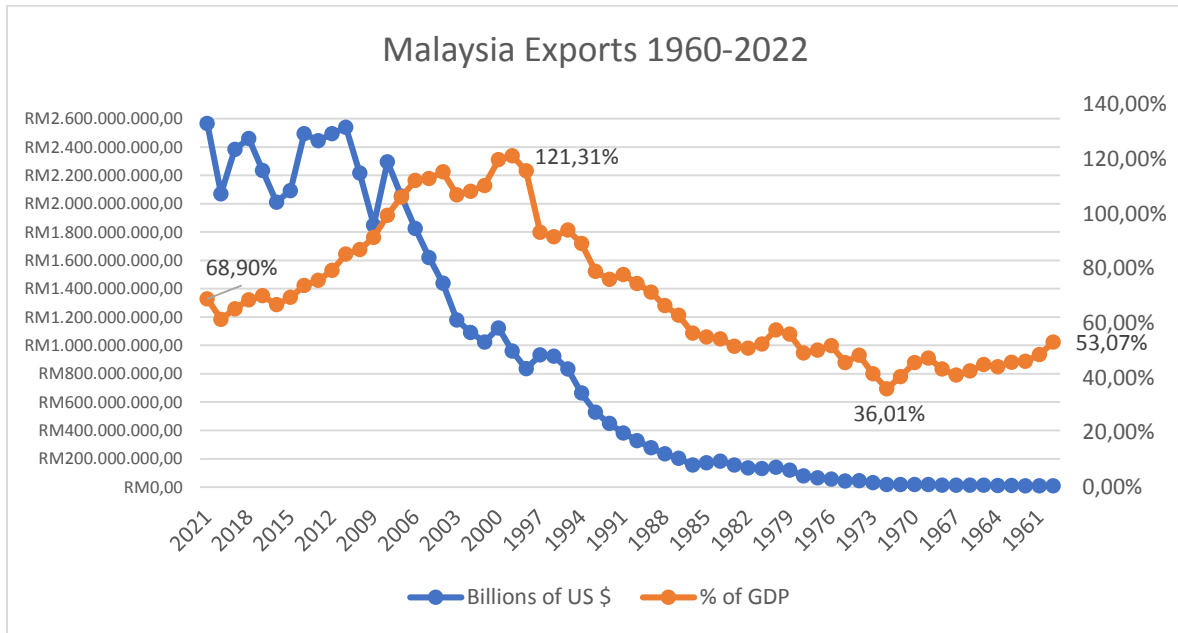
The economy of Malaysia was built historically on exports and it continues to be a largely export-oriented economy. Those commodities in which the country has an advantage - such as rubber, tin, timber, palm oil and more recently low Sulphur petroleum are exported. Commodities like food, manufactured goods, and capital goods were imported. The size of the export trade is considerable: Malaysia is responsible for 46% of world exports of natural rubber and has been described as "the most important international rubber market in the world"<sup>338</sup>. Malaysia was also responsible for 65% of world exports in palm oil and 33% of tin exports. Malaysia's main trading partners lie in the Asian and Pacific region, which accounted for 56% of its imports and 48% of its exports in 1972, and it is here that her natural advantage lies<sup>339</sup>.

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<sup>337</sup> Mid—Term Review of Third Malaysia Plan. p. 3, Table 1.1.

<sup>338</sup> A. Davenport, "Modernizing Malaysia 's Market," Far Eastern Economic Review, 10 September 1976, p. 46.

<sup>339</sup> United Nations, Statistical Yearbook for Asia and the Pacific, 1974. p. 272, Table 80.



Source- World Bank  
 Figure 58 Malaysia Exports 1960-2022

### 7.6.2 INTERNAL TRADE

The internal trade of Peninsular Malaysia in the early days was made up of a great number of small units and very few large general wholesalers. In 1968, the retail trade, although there were nearly 60,000 establishments, the average size was very small indeed with only 0.7 per cent having more than RM 500,000 annual turnover in 1968 and employment averaging out at 2.3 employees per establishment. Just under half of the employment was made up of owners, with family helpers the main additional source of labour. Over 90 per cent of establishments were owned by individual proprietors while private limited companies formed fewer than 1%. The retail trade is largely in the hands of Malaysian-owned firms - 87% of companies being Malaysian and only 13% foreign controlled or foreign branches, however that 13% were responsible for 24% of annual turnover. In sharp contrast to the small companies these firms have on average 43 employees, but again the foreign-controlled firms and foreign branches tend to be larger, averaging 70 employees to the local companies

39.

The wholesale trade also consisted predominantly of small individual proprietorships and partnerships, although there were several slightly larger concerns - in 1968 12.7% of the total had over RM 1 million annual turnovers. Roughly 10% of establishments were limited companies but this small proportion was responsible for 44% of turnover in the wholesale trade. The Financial Survey provides a basic outline of the section of the wholesale trade that lies within the study. It should be noted that most available data refer to Malaysia as a whole, not just Peninsular Malaysia. While almost three-quarters of the companies are locally owned, there are 196 foreign-controlled firms or branches of foreign firms in the wholesale trade and these companies are responsible for almost half the total annual revenue in the wholesale trade. They are also, on average, larger than their locally owned counterparts averaging 77 to their 42 employees, and they generate more revenue per employee than the locally controlled companies - RM 275,835 compared to RM 200,087.

Malaysia has also established a network in the wholesale industry and some establishments had more than RM 1 million turnovers. The principal category consists of large general wholesalers with a total annual turnover in 1968 of over RM 1 billion. Over half of these fall into the other' ownership category - that is they are public or private limited companies — and these accounted for 76.8 per cent of the turnover in the category, almost certainly they are the large agency houses. The pattern in the rubber trade is noteworthy because of the many small individual proprietors involved, they made up 77.2% of all businesses yet they were responsible for only 28.8% of turnover. The rubber trade was the second largest business category in terms of turnover with over RM 855 million annual turnover in 1968. It can be seen from this how important the rubber trade is in Malaysia both in terms of the size of the trade and

the numerous establishments dependent upon it and of the very prominent position of large general wholesalers, on the one hand, and on the other, the large network of establishments handling household and personal goods, as well as business, industrial and agricultural goods. of data unfortunately rather dated, but the general patterns are likely to be substantially the same as recorded in these surveys.

Malaysia's trade face multiple disasters since the colonization but they were resilient and managed to weather the storm. Domestic trade has gone through a mutilate transformation. Last but not least the COVID-19 pandemic has affected the whole world and Malaysia has no exception in experiencing the impact of this epidemic in 2020. The health crisis has also affected the trajectory of the country's economic growth. The following will be an overview of the Malaysian economy and how the contraction had a direct impact on human resources. The various phases of the Movement Control Order (MCO) from 18 March 2020 which came into force to curb the spread of the COVID-19 outbreak resulted in the temporary closure of several economic sectors and a reduction in operating hours. In 2020, Malaysia's economy contracted by 5.6 per cent in 2020 as compared to 4.4 per cent in the previous year (2019). With the focus on manager development note is to be taken that this pandemic had a major impact on employment as well as training and development.

In general, all sectors recorded negative growth during 2020, of which the Services sector decelerated 5.5 per cent (2019: 6.2%), Manufacturing contracted 2.6 per cent (2019: 3.8%) and Agriculture declined 2.2 per cent (2019: 2.0%). However, two other sectors, namely Construction and Mining & quarrying recorded two digits decline at a negative 19.4 per cent (2019: 0.4%) for Construction and 10.6 per cent (2019: -0.6%) for Mining \$ Quarrying, respectively.



Source: World bank  
 Figure 59 National GDP, 1960-2020

The country's economic growth was contributed by the economic performance at the state level. Variations in product concentrations between states have varying impacts on the overall performance of Gross Domestic Product (GDP) by State, especially in facing the COVID-19 outbreak crisis. National GDP experienced a reduction of RM 80.4 billion as compared to 2019. At the state level, Selangor recorded the highest contraction of RM 18.3 billion, followed by W.P. Kuala Lumpur (RM 17.5 billion), Sarawak (RM 9.6 billion) and Sabah (RM 8.1 billion). The total contribution of these four states amounted to 66.7 per cent of the national reduction value.

In general, eight states posted better growth than the national GDP (-5.6%) albeit a negative performance recorded by all states. W.P. Labuan contracted marginally to negative 0.5 per cent, followed by Kelantan (-1.1%), Kedah (-1.7%), Pulau Pinang (-2.1%), Perak (-2.3%), Negeri Sembilan (-3.6%), Johor (-4.6%) and Selangor (-5.3%) as shown in Chart 2. Meanwhile, despite the impact of this decline, Selangor, W.P. Kuala Lumpur, Johor, Sarawak, Pulau Pinang and Sabah remained

the major contributors to the national economy, contributing 72.1 per cent (2019: 72.3%) to Malaysia's GDP.

State	Agriculture	Mining & quarrying	Manufacturing	Construction	Services	GDP 2020	GDP 2019
WPLabuan	-13.6	-	-1.2	-8.2	0.1	-0.5	5.3
Kelantan	0.2	-12.8	-5.1	3.5	-1.0	-1.1	5.6
Kedah	-1.8	-5.9	1.4	2.0	-3.6	-1.7	4.6
Pulau Pinang	-0.8	-13.8	2.8	-15.5	-5.7	-2.1	3.8
Perak	1.4	-9.3	3.5	-17.4	-4.0	-2.3	4.1
Negeri Sembilan	-6.6	-11.2	-4.9	-25.6	-1.1	-3.6	5.1
Johor	3.1	-14.5	-3.7	-37.7	-3.4	-4.6	2.8
Selangor	0.3	-6.9	-0.6	-9.7	-6.8	-5.3	6.8
<b>MALAYSIA</b>	<b>-2.2</b>	<b>-10.6</b>	<b>-2.6</b>	<b>-19.4</b>	<b>-5.5</b>	<b>-5.6</b>	<b>4.4</b>
Terengganu	-3.4	-7.9	-9.4	-7.3	-3.4	-5.7	3.3
Melaka	3.7	-10.3	-8.5	-26.9	-4.6	-5.9	2.9
Pahang	1.6	-19.9	-4.0	-21.7	-8.7	-5.9	3.8
Perlis	-18.5	-8.8	-5.6	-9.6	-1.2	-6.1	4.5
Sarawak	-10.0	-5.9	-8.6	-8.8	-5.6	-7.1	2.8
WPKL*	3.3	-8.6	-6.3	-26.7	-6.0	-7.5	6.1
Sabah	-6.6	-13.5	-6.5	-29.1	-7.4	-9.5	0.7
SUPRA	-	-12.1	-	-	-	-12.1	-0.6

\*Includes W.P. Putrajaya

Source; - Department of Economic Planning, Malaysia

Figure 60 Economic growth by state and economic activity, 2020

The Services sector, which contributed 57.7 per cent to Malaysia's economy, recorded a negative 5.5 per cent (2019: 6.2%). States with large contributions to the tourism-related industries were more affected due to travel restrictions as well as border closure policies which have led to a reduction in foreign tourist arrivals as well as interstate domestic tourists.

The Manufacturing sector, which contributed 22.9 per cent to the economy, recorded a negative growth of 2.6 per cent, affected by a downward performance in refined petroleum, chemicals and chemical products, non-metallic mineral products, basic metal, fabricated metal and motor vehicles & transport equipment. Sarawak

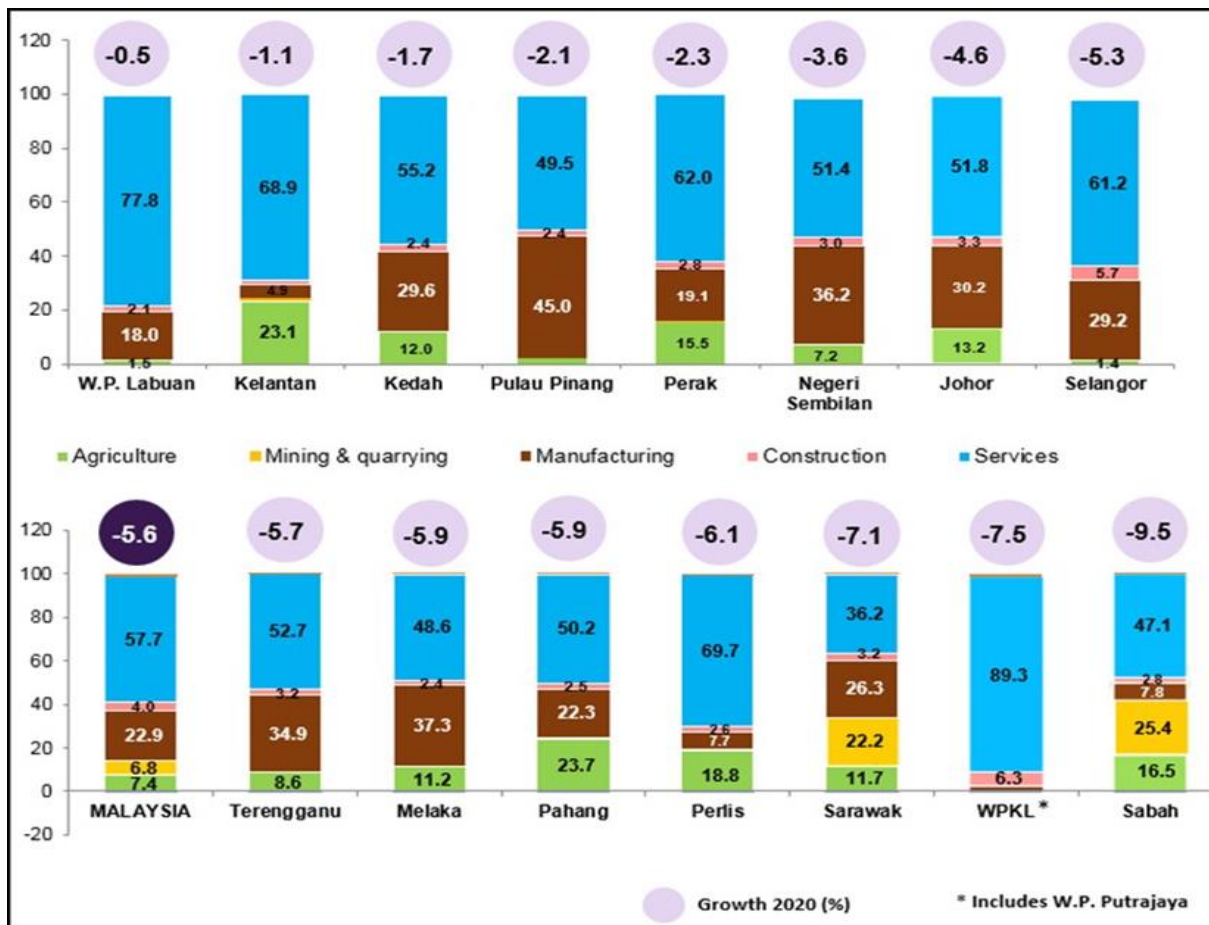


contracted 8.6 per cent as compared to positive growth of 2.9 per cent in the previous year, while Johor declined to a negative 3.7 per cent (2019: 4.7%), Melaka -8.5%, (2019: 2.5%), Terengganu -9.4%, (2019:0.3%) and Selangor -0.6%, (2019: 5.3%).

The agriculture sector, which contributed 7.4 per cent to Malaysia's economy, recorded a negative 2.2 per cent (2019: 2.0%) largely influenced by a decrease in the production of oil palm, rubber and logging. The states that contributed to the contraction in this sector were Sarawak -10.0%, (2019: -0.2%), Sabah -6.6%, (2019: -0.8%), Negeri Sembilan -6.6%, (2019: 7.0%) and Kedah -1.8%, (2019: 3.3%).

Meanwhile, the Construction sector which recorded a double-digit decline of 19.4 per cent was due to the performance of W.P. Kuala Lumpur -26.7, (2019: 5.9%), Johor -37.7%, (2019: -27.3%), Selangor -9.7%, (2019: 10.8%), Perak -17.4%, (2019: 6.6%) and Pulau Pinang -15,5%, (2019: 0.9%).

The Mining & quarrying sector also experienced a double-digit contraction to 10.6 per cent, dragged down by the decline in crude petroleum and natural gas in Sabah -13.5%, (2019: -5.3%) and Sarawak -5.9%; (2019: 1.3%).



Source: Economic Planning Unit, Malaysia

Figure 61 Chart 3: Economic structure by state and economic activity.

Johor recorded a negative growth of 4.6 per cent in 2020 as compared to 2.8 per cent in the preceding year. The economic structure of Johor was shaped by the Services sector at 51.8 per cent, followed by Manufacturing at 30.2 per cent, Agriculture at 13.2 per cent, Construction at 3.3 per cent and subsequently Mining & quarrying sector at 0.5 per cent. The services sector fell to a negative 3.4 per cent (2019: 6.5%) due to the performance of wholesale & retail trade, accommodation, food & beverage sub-sector -9.1%, (2019: 6.9%), as well as the finance, insurance, real estate and business services sub-sector -3.7%, (2019: 6.2%). However, robust growth in the utility sub-sector has mitigated the impact of the decline in the Services sector. The Manufacturing sector decelerated to 3.7 per cent (2019: 4.7%) attributed to a

downward performance in electrical, electronic, and optical products -3.0%, (2019: 4.5%), as well as non-metallic mineral, basic metal and fabricated metal products - 13.9%, (2019: 4.4%). The contraction in the Manufacturing sector was offset by the increase in petroleum, chemical, rubber and plastic products 3.6%, (2019: 5.8%). All sectors in Johor showed a decline except for the Agriculture sector which increased to 3.1 per cent as against 1.0 per cent in the preceding year. This was contributed by the crop sub-sector mainly in oil palm, vegetable and fruit activities.

Kedah posted a negative growth of 1.7 per cent in 2020 as compared to 4.6 per cent in the previous year. The services sector declined by 3.6 per cent (2019: 4.9%) influenced by wholesale & retail trade, accommodation and food & beverage subsectors -9.6%, (2019: 6.0%). Despite a contraction in transportation and storage, a significant contribution of the government services sub-sector weighed up the downward momentum of this sector. The manufacturing sector grew to 1.4 per cent (2019: 4.7%), supported by the increase in electrical, electronic & optical products (2.0%, 2019: 6.9%) and petroleum, chemical, rubber and plastic products (11.2%, 2019: 4.7%). In addition, the Agriculture sector declined by 1.8 per cent (2019: 3.3%) attributed to negative performance in the crops and fisheries sub-sectors.

Kelantan decreased to 1.1 per cent as compared to 5.6 per cent in the previous year. Kelantan's economic structure was dominated by the Services sector with a share of 68.9 per cent while Agriculture contributed 23.1 per cent. The Services sector declined 1.0 per cent (2019: 4.9%) largely due to the performance of wholesale & retail trade, accommodation and food & beverage sub-sectors -8.0%, (2019: 6.6%) and a double-digit decline in the real estate and business services sub-sectors. However, the Government services sub-sector which contributed 36.5 per cent of the Services

sector in Kelantan improved to 4.0 per cent as compared to 3.1 per cent in 2019 and thus mitigated the overall decline in this sector. The agriculture sector posted a marginal increase of 0.2 per cent as compared to 7.1 per cent in 2019 which was supported by the oil palm, vegetable and fruit sub-sector. The Construction sector also recorded a growth of 3.5 per cent (2019: 18.1%) underpinned by a double-digit increase in the value of construction work in the Civil Engineering sub-sector of 24.0 per cent (2019: 19.0%), while residential buildings recorded a decrease of 14.1 per cent.

Melaka contracted at a negative 5.9 per cent (2019: 2.9%) influenced by the Services, Manufacturing and Agriculture sectors. The Services sector declined to 4.6 per cent as compared to 6.0 per cent in the previous year resulting from the performance of wholesale & retail trade, accommodation and food & beverage sub-sectors with a negative 9.1 per cent (2019: 7.1%), as well as the contraction in the utility sub-sector. The Manufacturing sector decreased to 8.5 per cent (2019: 2.5%) owing to the performance of petroleum, chemical, rubber and plastic products. However, the Agriculture sector rebounded to 3.7 per cent (2019: -2.9%) spearheaded by vegetable and livestock sub-sectors.

Negeri Sembilan subdued to 3.6 per cent as compared to 5.1 per cent in the previous year, attributed to the Services and Manufacturing sectors. The Services sector declined to a negative 1.1 per cent (2019: 8.6%) reflected by the negative performance of wholesale & retail trade, accommodation and food & beverage sub-sector -9.1%, (2019: 6.3%). However, a double-digit growth recorded by the utility sub-sector has cushioned the shortfall in this sector. The manufacturing sector contracted at 4.9 per cent (2019: 2.5%) primarily due to the performance of non-metallic mineral

products, basic metals and fabricated metal products -13.2%, (2019: 3.9%), as well as petroleum, chemical, rubber and plastic products -3.7%, (2019: 2.4%). Meanwhile, the Agriculture sector recorded a negative of 6.6 per cent (2019: 7.0%) following a decline in oil palm and rubber production.

Pahang decelerated to a negative of 5.9 per cent as compared to 3.8 per cent in the previous year. The services sector declined by 8.7 per cent (2019: 6.2%) affected by the wholesale & retail trade, accommodation and food & beverage sub-sectors -9.7%, (2019: 7.2%). The deterioration was also affected by the other private services sub-sector, mainly in a recreation activity. The manufacturing sector decreased to 4.0 per cent (2019: 4.7%) attributed to lower growth in petroleum, chemical, rubber and plastic products -2.6%, (2019: 4.0%). On the contrary, the Agriculture sector grew by 1.6 per cent (2019: 3.5%) supported by the crops of vegetables and fruits segment, as well as the forestry and logging subsector. As for the Construction sector, although there was negative growth for the civil engineering sub-sector, this segment recorded better growth from negative 31.3 per cent to negative 1.8 per cent in 2020 and in turn mitigated the downward momentum of the Construction sector in Pahang.

Pulau Pinang recorded a negative of 2.1 per cent in 2020 as compared to 3.8 per cent in the previous year. This decrease was influenced by the Services sector which recorded a negative 5.7 per cent (2019: 5.5%). Wholesale & retail trade, accommodation and food & beverages were the main contributors to the decline. In addition, the growth of this sector was also influenced by a contraction in transport & storage, real estate and business services. On the other hand, higher growth in electrical, electronics & optical products in 2020 supported the performance of the

Manufacturing sector with an increase of 2.8 per cent (2019: 2.7%). The positive growth in the Manufacturing sector has cushioned the impact of the economic downturn in Pulau Pinang.

Perak registered a contraction of 2.3 per cent as compared to 4.1 per cent in 2019. The Services sector which was affected by the utilities, transportation & storage and information & communication sub-sector declined by 5.5 per cent (2019: 2.1%). However, the utility sub-sector was the main contributor to the decreasing trend of this sector. The manufacturing sector remained stable at 3.5 per cent backed by electrical, electronics & optical products and a robust performance in rubber products. In addition, the Agriculture sector rose to 1.4 per cent (2019: 2.9%) supported by the performance of the vegetables, livestock and fisheries subsectors.

Perlis declined to 6.1 per cent as compared to 4.5 per cent in the previous year. The Services sector recorded negative growth of 1.2 per cent (2019: 5.0%) owing to the performance of wholesale & retail trade, accommodation and food & beverage sub-sector -8.2%, (2019: 6.1%) and utility. However, favourable growth in the information & communication and finance & insurance sub-sectors has offset the shortfall in the Services sector. The Agriculture sector declined double-digit to 18.5 per cent (2019: 5.9%) due to the decrease in the marine fisheries sub-sector.

Selangor decelerated to 5.3 per cent as compared to 6.8 per cent in 2019. Selangor's economic structure which was propelled by the Services sector has declined to 6.8 per cent (2019: 7.0%) due to negative performance in wholesale & retail trade, accommodation and food & beverages -9.3%, (2019: 8.2%). However, utilities and information & communication sub-sectors sustained positive momentum. At the same time, the Manufacturing sector recorded a marginal contraction of 0.6 per

cent (2019: 5.3%), attributed to a decline in chemicals & chemical products and motor vehicles & transport equipment. Nevertheless, the encouraging growth of rubber products and the gradual increase in electrical, electronic and optical products have mitigated the decline in the Manufacturing sector in Selangor. Apart from that, the Construction sector also contributed to the contraction in Selangor's economy by registering a negative 9.7 per cent (2019: 10.8%), influenced by the shortfall in the buildings and civil engineering sub-sectors. On the contrary, the Agriculture sector recorded a growth of 0.3 per cent as compared to 3.9 per cent in the previous year, supported mainly by an increase in the crops and livestock sub-sector.

Terengganu declined 5.7 per cent as compared to 3.3 per cent in 2019 affected by the Services and Manufacturing sectors. The Services sector registered a negative 3.4 per cent (2019: 5.6%) contributed by the utilities, transport & storage, and information & communications sub-sector -6.8%, (2019: 7.3%). However, the information & communication segment increased to 7.7 per cent as compared to the previous year (6.3%). Apart from that, the wholesale & retail trade sub-sector -5.2%, (2019: 6.3%) also contributed to the decline in the Services sector in Terengganu. Nevertheless, the Government services sub-sector which contributed 29.0 per cent of the Services sector in Terengganu grew 3.7 per cent as compared to 3.1 per cent in 2019 and mitigated the negative impact in this sector. The Manufacturing sector contracted to 9.4 per cent (2019: 0.3%) influenced by petroleum, chemical, rubber and plastic products -9.4, (2019: 0.2%).

The economic performance of Sabah dropped to 9.5 per cent as compared to 0.7 per cent in the previous year. The Services sector recorded a negative growth of 7.4 per cent over the previous year (5.4%) contributed by the decline in the wholesale

& retail trade, accommodation and food & beverage sub-sector-13.7%, (2019: 6.5%). In addition, the transport & storage subsector and real estate & business services subsector also attributed to the decline in this sector. Mining and quarrying recorded a double-digit negative 13.5 per cent as compared to a negative 5.3 per cent in the preceding year. The deterioration was mainly due to the lower production of crude petroleum and natural gas extraction activities. As for the Agriculture sector, the reduction in the crops sub-sector, especially in the production of oil palm commodities and the double-digit decline in the forestry & logging subsector has contributed to the negative growth of the Agriculture to negative 6.6 per cent as compared to negative 0.8 per cent in the preceding year.

Sarawak descended to 7.1 per cent as against 2.8 per cent recorded in 2019. The contraction of 5.6 per cent in the Services sector (2019: 5.3%) was influenced by the wholesale & retail trade, accommodation and food & beverage 9.2%, (2019: 6.5%), as well as utilities and transportation & storage sub-sectors. At the same time, the Manufacturing sector contracted 8.6 per cent (2019: 2.9%) contributed by the negative performance of refined petroleum, chemical, rubber and plastic products -8.9%, (2019: 3.0%) and the decline in vegetable and animal oils & fats, as well as wood products. Meanwhile, the Mining and quarrying sector also recorded a decline of 5.9 per cent (2019: 1.3%) due to a shortfall in crude oil production. The Agriculture sector reduced to 10.0 per cent due to the contraction in the production of oil palm and other crops, as well as the forestry & logging sub-sector.

W.P. Kuala Lumpur decelerated to 7.5 per cent (2019: 6.1%) contributed by the Services sector. The Services sector contracted to a negative 6.0 per cent (2019: 6.2%) driven by the wholesale & retail trade, accommodation and food & beverage



sub-sector -9.6%, (2019: 7.3%). Apart from these, the finance, insurance, real estate, and business services sub-sector -5.7%, (2019: 5.6%) also contributed to the decline in the services sector in W.P. Kuala Lumpur. However, there was an increase in the utilities as well as information & communication sub-sectors. In addition, the Construction sector also reduced to 26.7 per cent (2019: 5.9%) influenced by the buildings and civil engineering sub-sectors.

W.P. Labuan recorded a marginal decline of 0.5 per cent (2019: 5.3%) driven by the Services and Manufacturing sectors. The Services sector continued to expand but grew at a slower pace of 0.1 per cent (2019: 7.6%) driven by the finance & insurance sub-sector which was the largest contributor to this sector at 67.5 per cent. The information & communication and utility sub-sector grew better than the previous year. The Manufacturing sector contracted at a negative rate of 1.2 per cent (2019: 1.4%) influenced by chemicals and chemical products.

### 7.6.3 GDP PER CAPITA

In terms of GDP Per Capita, all thirteen states and two Federal Territories recorded a decline in the value of GDP Per Capita compared to 2019. However, seven states surpassed the national GDP per capita value (RM 43,475) namely W.P. Kuala Lumpur (RM 121,100), W.P. Labuan (RM 76,898), Pulau Pinang (RM 54,818), Selangor (RM 52,073), Sarawak (RM 48,657), Melaka (RM 45,936) and Negeri Sembilan (RM 43,926).

*Table 18 GDP per capita (RM) by state, 2020*

<b>State</b>	<b>2019</b>	<b>2020</b>
Johor	37,387	36,996
Kedah	22,384	22,166
Kelantan	14,346	14,096
Melaka	49,119	45,936
Negeri Sembilan	45,391	43,926

Pahang	36,568	36,145
Pulau Pinang	55,215	54,818
Perak	31,716	31,486
Perlis	25,521	23,598
Selangor	55,052	52,073
Terengganu	30,936	26,926
Sabah	25,375	21,626
Sarawak	53,662	48,657
W.P Kuala Lumpur	129,724	121,100
W.P Labuan	77,817	76,898
<b>Malaysia</b>	<b>46,526</b>	<b>43,475</b>

\*Notes: Value in W.P. Kuala Lumpur included W.P. Putrajaya

\*\*The GDP per capita by the state in 2020 has been revised based on the Current Population Estimates 2020, which was published on 15th July 2021, State GDP Table 2015-2020

#### **7.6.4 ENHANCED VULNERABILITY TO FINANCIAL PANICS AND HIGH-INTEREST RATES**

It turns out that the headlong plunge to accelerate bumiputra ownership of the corporate sector made the bumiputra business community particularly vulnerable to financial downturns. The financial vulnerability was created by, one, the government's lax regulations on collateral-based loans, and, two, by the government's directions to the state banks to extend investment loans to bumiputras. The generous flow of bank loans enabled, one, the bumiputra community to buy the discounted shares and to invest in the more profitable unit trusts, and, two, the politically connected bumiputra entrepreneurs to buy controlling shares in state companies. The newly purchased assets, in turn, constituted a large proportion of the value of the collateral that the bumiputra borrowers pledged for their bank loans.

The high economic growth of the 1990, supplemented by large foreign capital inflows, caused the stock market to boom. The Kuala Lumpur Stock Exchange Composite Index went from 506 in 1990 to 1238 in 1996. The rise in the share prices allowed Malaysians to borrow more from the banks to acquire more assets. The

outcome was that the domestic debt/GDP ratio in Malaysia in mid-1997 stood at 170 per cent, which is among the highest in the world.

The reversal of foreign capital flows in mid-1997, and its acceleration at the end of 1997, exacerbated the decline of the Malaysian stock market that had started at the end of 1996. Besides crashing the stock market, the capital outflow also depreciated the Ringgit significantly against the US\$, from RM 2.5/US\$ in 1997:2Q to RM 3.9/US\$ in 1997:4Q, and then to RM 4.2/US\$ in 1998:2Q.

Anwar, who was in charge of economic affairs up to almost the end of June 1998, reacted to the acceleration in capital flight in the final months of 1997 by implementing an IMF-style high-interest rate policy to stabilize the exchange rate. The annualized growth rate of reserve money went from over 25 per cent in all four quarters of 1997 to negative 6 per cent in 1998:1Q and then to negative 15 per cent in 1998:2Q. As a result of the significant tightening of credit in early 1998, the lending rate, which had been inching up since the start of the Asian financial crisis in July 1997 from 8.9 per cent in 1996:4Q to 10.0 per cent in 1997:4Q, jumped to 12.2 per cent in 1998:2Q. The high-interest rate policy could not halt the decline of the Ringgit, however. Worse yet, it reduced investment spending further and contributed to the downslide of the stock market index to 455 in 1998:2Q from 1238 in 1996:4Q.

In Anwar's defence, it could be argued that the efficacy of his high-interest rate policy was undermined by Mahathir's occasional excoriation of conspiratorial speculation by foreigners. The Ringgit would fall sharply after each outburst by Mahathir, possibly because jittery investors interpreted his strong condemnation as the prelude to the imposition of capital controls. One should note, however, that similar high-interest rate policies in Indonesia, Thailand, Korea and Russia had also failed to

stop their currencies from falling further after an initial sharp devaluation, despite the absence in these countries of denunciations of foreign speculators by high government officials.

The collapses in the domestic stock market and the foreign exchange market were also accompanied by a large decline in aggregate demand. Private consumption and private investment, especially housing investment, plunged because of the abrupt withdrawal of foreign funds, the high-interest rates, and the pessimism about quick economic recovery in East Asia. Furthermore, the positive effects from the depreciation of the Ringgit were more than offset by the depressed demand conditions in the region, making exports in the first half of 1998 (US 35 billion) to be lower than in the first half of 1997 (US 39 billion).

The fall in profits and share prices rendered many large bumiputra conglomerates financially illiquid or insolvent. The decline in their share prices reduced the value of the collateral pledged against their bank loans, and the drop-in profits caused by the economic slowdown made them unable to service their bank loans. Possibly, the most well-known rescue attempt of a politically-connected conglomerate in 1997 was the November 17 announcement by United Engineers Berhad that it had just used borrowed funds to acquire 32.6 per cent of the shares of its parent company, Renong Berhad. United Engineers had done this without consulting its minority shareholders. Furthermore, the government had to issue a waiver to exempt United Engineers from having to make a general offer for Renong shares that it did not own. Because United Engineers' move was widely seen as bailing out the indebted majority shareholders of Renong to the detriment of minority shareholders in both companies,

the share prices of both companies plummeted after the announcement of the acquisition.

As matters turned out, the continued general downslide in profits and share prices required that Renong be bailed out a second time. In October 1998, Renong defaulted on its debts, and the government paid off RM 10.5 billion of Renong short and medium-term bank debt by issuing an equivalent amount of long-term bonds. Renong promised to repay the government with its future earnings.

Most large bumiputra conglomerates shared Renong financial difficulties over the last year. Quite a few of them, especially the politically connected ones, also received state assistance to weather the financial storm. The difficulties of Malaysia's conglomerates (both bumiputra and non-bumiputra owned) in servicing their large bank debts appeared to have severely damaged the balance sheets of Malaysia's banks. An estimate by Lehman Brothers in October 1998 put the extent of Malaysia's problem loans to be at the median of key Asian market economies experiencing banking crises. The proportion of problem loans in total bank loans was 13 per cent for Japan, 33 per cent for Malaysia and South Korea, 48 per cent for Thailand and 61 per cent for Indonesia.

Bank Bumiputra, a state bank, was pushed into bankruptcy for the third time since its establishment in 1966. The government had to put in at least MR 2 billion as capital for Bank Bumiputra to meet the minimum risk-weighted capital adequacy ratio. Sime Bank and RHB Bank, two banks with strong ties to UMNO members, merged in mid-1998 and received an infusion of RM 1.5 billion from Danamodal, a state company recently established to recapitalize troubled banks. The steady deterioration of the bank sheets of Malaysia's banks has led Standard & Poor to predict that gross non-

performing loans (NPL) would exceed 30 per cent of total bank loans at the end of 1999 and that the amount of required recapitalization would exceed 40 per cent of GDP.

#### **7.6.5 WOULD REFLATION WORK?**

It was clear by the end of June 1998 that the forecast of 2.5 per cent growth in 1998 released in May by the IMF was too high. Salomon Smith Barney predicted in June that 1998 growth would be negative 3 per cent, while the Economist Intelligence Unit (EIU) predicted 0.8 per cent growth in its 1998:2Q issue. It was in this atmosphere of deepened pessimism, and after Mahathir's political leadership was indirectly challenged by Anwar at the annual UMNO meeting in June, that Mahathir appointed Daim Zainuddin to formulate an alternative to Anwar's high-interest rate policy. Reflation through lower interest rates in July 1998 was a risky policy, however, because the unsettled global financial markets made the outcome uncertain. There was a chance that a significant lowering of interest rates would stimulate aggregate demand to rise substantially to raise output, restore corporate profits, and renew confidence in the underlying strength of Malaysia's economy. The culmination of this positive scenario would be the repatriation by domestic investors of their overseas holdings to undertake capacity expansion, the return of foreign capital to the stock market, and the stabilization of the Ringgit.

On the other hand, there was also the chance that lowering interest rates considerably would worsen the July 1998 situation. Instead of stimulating private spending, the lower interest rates would end up stimulating capital flight. Speculators would borrow Ringgit at lower rates, and buy foreign currencies to bet against further depreciation of the Ringgit. A massive substantial injection of money would thence set

the Ringgit on a downward spiral, that would bankrupt even more Malaysian banks and businesses that had foreign debt.

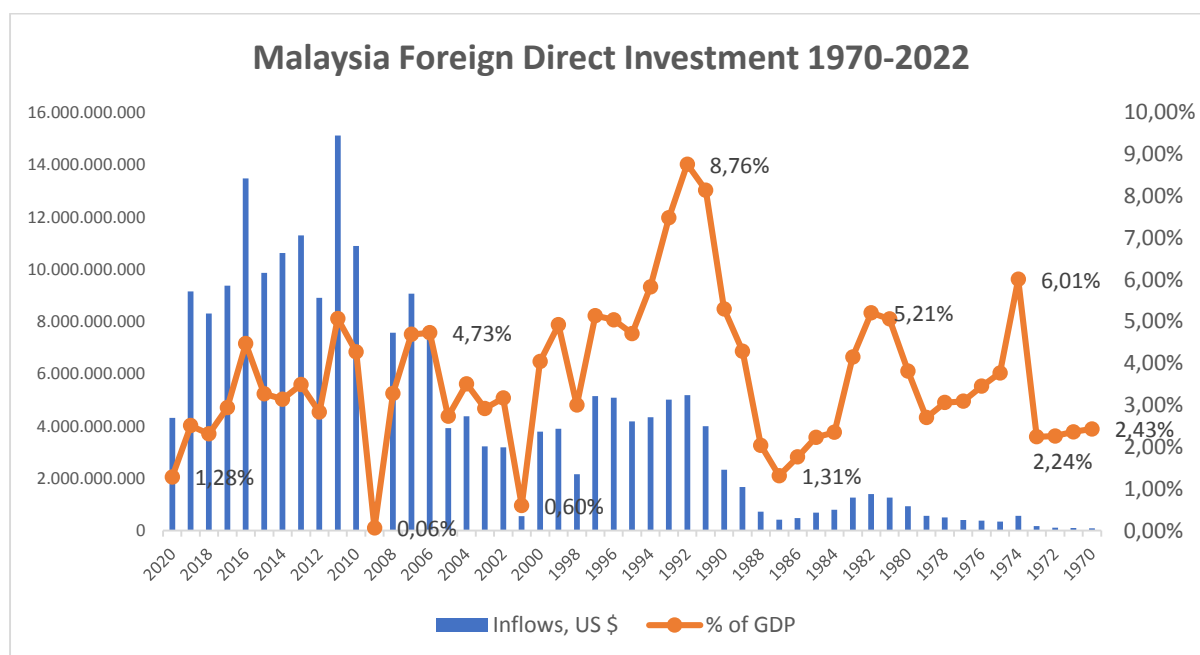
Given the uncertainty of the outcome of lowering interest rates, and the ongoing capital flight from the region, a "wait-and-see" policy emerged by default, along with a small reduction in interest rates. The short-term interest rate on August 26, 1998 -- one week before the implementation of capital controls, was 10.0 per cent, down from 11.1 per cent on July 1, 1998. Output, the stock market, and the Ringgit continued to fall in July and August. It soon became clear that GDP had fallen an annualized 6.8 per cent in the second quarter of 1998, and that the decline in the third quarter would be even greater. Incremental adjustments on the policy front were no longer acceptable, either politically or economically.

Malaysia put on capital controls on September 1, fixed the exchange rate at RM 3.8/US\$, started reducing interest rates substantially, and announced an expansionary government budget on October 23. Infrastructure spending was increased to raise the budget deficit to 6.1 per cent of GDP in 1999, up from 3.7 per cent in 1998. Mahathir and Daim announced that bailouts of troubled firms would increase; and urged banks to boost their lending. After all, there were two new state agencies, Danaharta and Danamodal, that would, respectively, take over the bad bank loans and recapitalize the banks. The central bank even imposed a mandatory target of 8 per cent growth for bank loans in 1998.

## **7.7 OWNERSHIP AND MANAGEMENT OF THE CORPORATE SECTOR**

The ownership and management of the corporate sector of the economy in the early days is a product of the pattern of economic development already discussed, with Europeans and Chinese playing the dominant role and the Government becoming

increasingly active on behalf of the Malay community. In Peninsular Malaysia, foreign interests owned 63.3% of the share capital of limited companies in 1971, while Malay interests owned a mere 2.4 per cent, and other Malaysian' (largely Chinese) owned 34.3 per cent. The Government's efforts to redistribute ownership to give Malays a larger share had reduced the inequality slightly by 1975 bringing the foreign share down to 54.9 per cent, the Malay share up to 7.8% and increasing the other Malaysian' share to 37.3%. Foreign ownership has been most heavily concentrated in the modern agricultural sector, mining, manufacturing and trade. (See Table 5.11). In all but the manufacturing industry foreign companies have been long established in the country and before independence, their management was predominantly, if not exclusively, European.



Source: World Bank

Figure 62 Malaysia Foreign Direct Investment 1970-2022

However, with the independence, they were required to Malaysianize their management cadre, except for a very few key posts' which could be reserved for Europeans. Since at that period there was not a strong insistence on racial balance



there has been since the NEP, the natural choice tended to be Chinese and Indian Malaysians who had education and business orientation. Having Malaysianized in this way foreign companies have had little room for manoeuvre in attaining racial balance targets other than through growth, and as has been shown, the plantation and mining companies are not expanding. Although none of the post-1969 companies were covered in the survey they will have had an easier task in that they will have been recruiting a managerial staff from scratch with the full knowledge that it must reflect the racial composition of the population.

Chinese ownership is particularly concentrated in the construction, retail and haulage industries, the wholesale and bus industries, and professional establishments. It is in these areas that they have built up a position of prominence over a considerable period and has achieved a virtual monopoly: in the construction industry, for instance, they owned 85.6 per cent of fixed assets in 1972, and in the retail trade they owned 75.6 per cent in terms of the value of turnover. However, it is in precisely these industries that the Government is seeking to expand Malay participation through official preferences. Indians are too few to monopolize any one industry but they tend to be overrepresented in the ownership of taxis, the professions and coconut and tea plantations.

### **7.7.1 TIN MINING**

While initially, Malaya's tin mining industry was essentially in Chinese ownership, this situation changed markedly when, with the support of the British colonial administration and in a context of rising wage rates of miners, Europeans injected large amounts of capital, managerial expertise, and technology into the industry, including hydraulic sluicing and other scientific methods in dealing with the

alluvial tin deposits. In the early nineteen seventies, foreign interests still dominated ownership in the tin mining industry, owning 70% of share capital in 1970, and 63% in 1973. The second largest shareholding group is the Chinese who owned 29 %t in 1970 and 36% in 1973. Since then the Government has bought a substantial share of the industry. The tin dredging industry is still under the management of three large mining agencies and several smaller mining agencies, which are linked together to form a tightly knit-and powerful group<sup>340</sup>.

In the past mining engineers were frequently expatriates and, despite the country's Malaysianization program, the shortage of suitably trained Malaysians to take over, and the importance of this industry to the country, led the Government to take a very flexible approach to the Malaysianization of management in tin mining.

Gravel pump mining accounted for 54% of production in 1975 and the vast majority of these mines were small, Chinese-owned ones. Puthuchearry concluded that Chinese mines are largely separately owned units as opposed to the centrally managed groups in the European mining industry and there is no reason to suppose that this is not still the case. Management appears to be limited to the mine owner and the “kepala” or headman who supervises the labourers.

The Government has been keen to encourage Malay participation in the tin mining industry. While it has acted to ensure Malay interests a share in the ownership of equity of the large dredging companies, it has also been encouraging Malays to enter the gravel-pump mining side of the industry through preferences in the granting of mining rights. However, this has yet to make a significant impact on the industry: in

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<sup>340</sup> In a study conducted in 1974, Lim and Anderson found the major companies in the mining industry to have more interlocking directorships than those in any other industry. Lim Mah Hui and M. Anderson, "Concentration of Wealth and Power in the Top Corporations in Malaysia, Paper presented at the Third Convention, Malaysian Economic Association, 1976, p. 19, Table 8.

1970, only 26 mines were owned by Malays, in 1975, 38 tin mines out of a total of 961 were owned by Malays, and by 1978, this had risen to 42.

## **7.72 AGRICULTURE**

Rubber and oil palm, like tin, can be divided into large-scale and small-scale activities. In 1975, 1,391,900 acres of rubber were under estates and 2,796,200 acres under smallholdings; while in Oil palm 57 per cent of total acreage was under estates which produced 74 per cent of production, the rest coming from land development schemes<sup>341</sup>. The great majority of estates are now owned by Malaysians who show a marked preference for ownership through partnerships, and a strong disinclination towards public companies. Amongst non-Malaysian estates, which include Singaporean ones likely to be similar in pattern to the Malaysian, 46% are public companies<sup>342</sup>. The non-Malaysian estates tend to be considerably larger than the Malaysian ones, 48% being 100 acres or more in size compared to only 11% of Malaysian estates. Of all estates over 100 acres, 63% are owned by non-Malaysians. Therefore, although the size of the non-Malaysian estate sector is relatively small in terms of numbers it is large in terms of acreage and public incorporation emphasizing this group firmly on professional management.

Most of the European-owned estates and some of the Singaporean and Malaysian-owned estates are managed by agency houses which are responsible for the recruitment, training and supervision of the managers on the estates under their charge. With the growing pressure for greater efficiency the managing agencies have also played an important role in the development of the industry.

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<sup>341</sup> Department of Statistics, Annual Bulletin of Statistics, Malaysia 1976. p. 7, Table 2.3.

<sup>342</sup> Malaysia, Rubber Statistics Handbook, 1969. p. 12, Table 2-4.

### 7.7.3 MANUFACTURING

In manufacturing, there is again a local element consisting of a large number of small units many of which are individual proprietorships or partnerships and a small but growing, number of large foreign-owned companies. In 1971 foreign companies accounted for 15 per cent of the total number of manufacturing establishments in Peninsular Malaysia, 58% of the value added and 35% of full—time employees<sup>343</sup>. The development of the manufacturing industry since independence has brought a new group of foreign companies into Malaysia, the multinational corporations which have brought with them a sophisticated level of technology and a distinctively Western approach to management and management development. Several agency houses have also recently begun manufacturing products previously imported. The pattern of ownership amongst foreign companies is tending to alter as new foreign firms are compelled to enter joint ventures with a local partner and to Malaysianize their ownership. It has also been changed by the entry of the Government into manufacturing largely through PERNAS which has gone into joint ventures with an ever-growing number of firms including manufacturing establishments. As of 1972/73, Government ownership in the manufacturing industry had reached 5 per cent.

Smaller establishments have tended to be Chinese—owned and managed and to concentrate on a relatively simple technology. However, there has been a gradual move towards more large-scale and more sophisticated types of manufacturing amongst Chinese companies in recent years and consequently a growing need for more sophisticated management.

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<sup>343</sup> D. Lim, "Foreign Investment and Economic Development in Malaysia," Malaysia and the Multinational Corporations. S. Chee and S.M. Khoo, eds., p. 82.

#### **7.7.4 HEAVY INDUSTRIES**

Malaysia currently has proven oil and gas reserves plus the realistic prospect of future discoveries of new fields that will allow the country to extract substantial rents from this source for several more decades. The sector, however, is not a dynamic source of future growth either in domestic value-added terms or in terms of exports. If domestic demand for petroleum and gas continues growing at current rates, Malaysia will eventually become a net importer of these products.

Petrochemicals are dominated by Petronas, the state company which controls all the oil and gas fields, and receives most of the rent from them. In the mid-1990 worldwide profit margins in petrochemicals were extremely low. Petronas's downstream efforts may also have had low or no profits, but there is no way for an outsider to know because profits from downstream activities are not separated publicly from the profits (and rents) to the company as a whole. The Malaysian situation is further complicated by being next to Singapore which got into the industry early and made itself the petroleum and petrochemical centre for all of Southeast Asia and has been prepared to defend that position with vigorous price cutting and similar measures to prevent or cripple the rise of potential competitors. Cement is an industry where transport costs provide significant natural protection for what, in most countries, is an industry oriented toward the domestic market. Scale economies can be achieved at one or two million tons of output per year, and the Malaysian market in 1996 was already around 12 million tons, more than big enough for Malaysia's six major producers. The largest producer is APMC, a joint venture between the MUI group of Khoo Kay Peng and the Blue Circle Group of the U.K. Most of the other cement firms have close ties to the government.

Because infrastructure and concrete products (as inputs) affect the cost of export products only in a small and indirect way, the question of whether or not local Malaysian-produced cement is fully competitive with imported cement only becomes an issue if the domestic plants are extremely inefficient, which Malaysia's are not. Malaysia might well become an exporter of cement, particularly Singapore which regularly imports several million tons a year, but the export market for cement is neither large nor growing rapidly in part because it is a favourite target for developing country's import-substituting industrial policies.

Steel is very different from cement. The technology is more complex, scale economies are important in the case of some products and steel is both a potential export product itself and a major input into other actual and potential exports, notably automobiles. The Malaysian government has tried to take the lead in the development of a modern steel sector but with decidedly mixed results. Malayawata was the government's first try. The government's second try (Perwaja Steel) resulted in large financial losses. The 30 per cent tariff rate on steel products has produced two prosperous private steel mills, ASM and Southern Steel.

The case of the car manufacturer, Proton Saga, is complex. Proton has a large advantage in the Malaysian market in that, unlike its domestic competitors, Proton does not have to pay either the excise tax or the 40 per cent duty on the import of completely-knocked-down (CKD) kits. Informed guesses put the Proton price at about 20 per cent above that of comparable automobiles on the unprotected world market, not a particularly high percentage as developing country auto production costs go, but not an internationally competitive price either.

If one takes a longer view of the year 2020, the case for Proton may prove to be a stronger one. All late-developing automobile sectors, including that of the Japanese, take a long time to become competitive. If Proton's costs do not come down, the consoling thought is that expensive cars do not generally raise the costs to other manufacturers the way expensive intermediate inputs do. But the car industry would have been a drag on overall economic performance nonetheless.

The engineering firms connected with the automobile sector are not yet capable of standing on their own as exporters of auto components as is the case, for example, of many auto parts manufacturers in Taiwan. On the whole, even an optimist would agree that it will be several years before Malaysia's heavy industries can realize their potential to be internationally competitive.

#### **7.7.5 STATE OWNERSHIP FROM THE RACE-BASED ECONOMIC POLICIES OF THE 1970 AND 1980**

In many ways, the breakthrough from import-substituting industries to the export of manufactures occurred with the establishment of free trade zones, first in Penang in 1970 and then around Kuala Lumpur in 1971. The subsequent arrival of many Japanese and American firms was not so much the result of actions taken by the Malaysian government as it was of external factors. Japanese and American firms could no longer stay competitive in much of their electronic assembly work relying on high-cost labour at home. The issue was not whether to go abroad but where to go. Malaysia was an attractive choice; it was stable politically, was a nice place for foreigners to live (one could even drink tap water), and welcomed foreign investment (unlike Taiwan or South Korea).

The other major development of the first half of the 1970 in the industrial and mining sphere was the discovery and development of petroleum. At one level

petroleum, like electronics, was just another new industry developed for the most part with foreign investment and technology. It was in the context of this booming economy that Malaysia began to implement policies to achieve 30 per cent bumiputra ownership of modern sector assets. Up to the mid-1970, the path chosen to raise the bumiputra ownership share was the creation of state-owned enterprises. These efforts, however, had only a limited impact.

To accelerate the rise in bumiputra ownership, the government 1975 introduced the Industrial Coordination Act (ICA). ICA required that all enterprises with equity over a certain limit had to sell 30 per cent of their shares to bumiputras. There were loopholes. The most important one was that firms that exported over 80 per cent of their output were not subject to the bumiputra ownership requirement. None of the Kuala Lumpur and Penang electronics firms, therefore, felt any impact from the ICA. The Chinese-Malaysian and foreign businesses complained vociferously about the ICA from the outset. These complaints did gradually lead to modifications in the legislation, mainly the raising of the asset limit and the lowering of the export requirement.

The table presents data on ownership of modern sector firms in Malaysia in 1974 and 1993, and it shows that the ethnic makeup of the Malaysian-owned companies has changed dramatically in the two decades.

*Table 19 Market Capitalization of the Top KLSE*

<b>Nationality or Ethnicity</b>	<b>Per cent Share 1974</b>	<b>Per cent Share 1993</b>
Foreign Controlled*	49.11	10.7
Malaysian Controlled		
Government A** C	6.3 17.7	40.5



Chinese (Private Local) ***	27.0	13.9
Bumiputra (Private Local)		6.3
Indian (Private Local)		0.1
Institutions		10.4
Unit Trusts	--	17.6
Nominees	--	0.7
Total	100.0	100.0

\*Foreign controlled in 1974 excludes Singapore-controlled companies. If Singapore companies were included, the foreign share would be 61.1% of a larger total. Singapore companies were excluded because of complications connected with the way Singapore (and Malaysian) companies were cross-listed in the early years in both Singapore and Kuala Lumpur. \*\*Government A companies were those under government control in 1974. Government C companies were those under foreign control in 1974 but were taken over by the government by 1977.

\*\*\*Private local ownership in 1974 was almost entirely Chinese.

Sources: The 1974 data were derived from Tan Tat Wai, Income Distribution and Determination in West Malaysia (Kuala Lumpur: Oxford University Press, 1982). The 1993 data were constructed by Ms Veena Loh under the supervision of Tan Tat Wai.

While half of the share capital of the top 80 firms in 1974 was in the hands of foreigners (excluding Singaporeans from the "foreigner" category), foreigners owned only 10.7 per cent of the shares of the top 100 firms on the Kuala Lumpur Stock Exchange (KLSE) in 1993. In the mid-1970, the private local ownership was mostly Chinese. By the early 1990, Chinese Malaysians controlled only 13.9 per cent of the top 100 company shares and Indian Malaysians a minuscule 0.1 per cent. Bumiputra's direct ownership in 1993 was 6.3 per cent, but the unit trusts, which were primarily designed to provide bumiputras with share ownership, accounted for another 17.6 per cent bringing the bumiputra total to 23.9 per cent in 1993. The Malaysian government directly controlled 40.5 per cent of the market capitalization of these firms in the 1990 as contrasted to only 6.3 per cent in 1974. The race-based economic policies had caused the Malaysian government to dominate "the commanding heights of the economy" -- an economic ownership pattern that is similar to that of state socialism!

A major question from the outset was how to distribute the bumiputra shares. Few bumiputras had any experience with corporate shares, and the number with the

money to buy them was equally small. The initial approach was for the Ministry of Trade and Industry to draw up a list of names to whom the shares should be distributed. Typically, the chosen individuals bought the bumiputra shares at a significant discount from the other shares in the same company. Share allocation, therefore, became a vehicle for political patronage.

However, if the favoured bumiputras were to always realize their profits quickly by turning around and selling off the discounted shares that they had just received (an actively engaged in by quite a number), then the 30 per cent target of bumiputra ownership would be very difficult to achieve. So, over time, a large part of the discounted bumiputra corporate shares was given to the unit trusts set up by Permodalan Nasional Berhad (National Equity Corporation or PNB). PNB's first unit trust, Skim Amanah Saham Nasional (ASN), was formed in 1981. The ASN unit trust was a quick success because it had several special features. PNB, using funds allocated to it by the government, guaranteed each share of RM 10 a bonus of RM 90 but the RM 90 could not be withdrawn until regular earnings had accumulated to an equivalent amount. A rate of return of 10 per cent was guaranteed, plus there were bonuses if investments did better than that. As things turned out, ASN paid an average annual rate of return of 18 per cent.

By the early 1980, therefore, Malaysia was well into the process of restructuring the race ownership of the modern sector of the economy. The commodity price boom of the late 1970 not only ameliorated the disincentive effects of ownership restructuring but also helped lay the groundwork for a government-led effort in the 1980 to change Malaysia's industrial structure by establishing several heavy industries. The core of the plan was a new cement plant (Kedah Cement), a new steel mill (Perwaja Steel),

and an automobile plant (Proton Saga). These heavy industry projects were financed to a large degree by a new state-owned corporation, HICOM, which undertook massive external borrowing to do so.

#### **7.7.6 PRIVATIZATION IN 1990**

By 1990 large numbers of Malaysians including many governments, and leaders had become increasingly disillusioned with state-owned enterprises as vehicles for achieving both growth and social goals. Many of the state-owned enterprises made sustained losses even though private enterprises in the same lines of business were doing well. Government oversight of the state-owned firms was so weak that the government itself did not even know how many firms there were!

The first step toward changing the ownership structure of many of the large state-owned enterprises was corporatization, which started in the mid-1980 with the listing of Malaysian International Shipping (MISC) and Malaysian Airlines (MAS) but did not get underway on a broader basis until the 1990. The second step was the privatization of new infrastructure projects (e.g. the North-South highway, and cellular phone projects) through a process that awarded the contract on what was called an invited bid or involuntary bid process, which usually meant that the contract went to the first proposal. The awarding of these contracts has been controversial from the outset, not because of the ethnic makeup of those who won the contracts, which was reasonably balanced, but because the process was not transparent, only a limited number of firms was involved, and the terms of the contracts were widely perceived as being overly generous to the recipients of the contract. For example, Renong Berhad, which used to be the main investment vehicle for UMNO and is now controlled

by Halim Saad, has won eight of the thirteen large national projects that Malaysia has awarded since 1992.

The third step was the outright privatization of existing large state firms. The scope of the effort was broad and by 1993 even HICOM was sold. Privatization in Malaysia, however, has involved objectives not found in similar efforts elsewhere such as in Margaret Thatcher's Great Britain. Privatization in Malaysia was only partly driven by considerations of efficiency. In an important respect, privatization was the continuation of UMNO social redistribution policies in another form, and a means of strengthening bumiputra loyalty to UMNO. Since most of these companies were already corporatized, share prices were already determined by market forces so the price at which shares were sold was not a major issue. On the other hand, the government did issue a controlling block of shares to favoured individuals, generally allocating 32% or less of the total number of shares because any higher percentage, according to the law, required a general offer.

The entrepreneurs who received these shares such as Tan Sri Yahya Ahmad, who took control of HICOM, and Tan Sri Tajuddin, who took control of MAS were mainly bumiputras and members of UMNO. Realistically speaking, given the political background of many of these firms, it is doubtful whether anyone other than a bumiputra entrepreneur could have done the vigorous cost-cutting that was required, and in the cases just cited, vigorous cost-cutting did follow privatization. Who else could have cut the bloated staff (mostly bumiputras) of these companies or removed inefficient bumiputra vendors from their lists?

It must be noted here that while the acquisition of assets by UMNO members strengthened their allegiance to the top ministers, it also rendered their support of the

existing UMNO leadership to be disproportionately influenced by the state of the economy in general, and by the state of the stock market in particular. This second implication of the massive asset redistribution program, we shall see, lies at the root of the two extraordinary economic and political events mentioned at the beginning of this paper.

### **7.7.7 SERVICE INDUSTRIES**

In trade and commerce, foreign agency houses have retained a position of prominence. Foreign companies owned 40.9% of the wholesale trade in 1972/73. The Chinese are responsible for the export of much smallholder produce and have retained a very strong position in the retail trade. As has been shown, they usually operate as individual proprietorships or partnerships, yet there is a network of establishments often united by clan or dialect ensuring that it is as tightly knit as the more formal links of the agency house. The Chinese establishments and the agency houses operate in a symbiotic relationship, with the agency houses providing credit to the Chinese wholesaler and enabling him to provide credit to the retailer. Direct Government involvement has begun to change this industry too, with PERNAS taking over the China trade.

Malaysia has a dynamic and rapidly growing economy, which is going through a period of change, diversifying into new manufacturing industries, spreading ownership and management of industry to include Malays, and adapting to the changes brought about by increased Government involvement in and control over the direction of development. It has a large and prominent foreign sector consisting of the long-established agency houses engaged in tin, agriculture, trade and commerce, and a growing number of firms — many of them multinationals and relatively new arrivals,

engaged in the manufacturing industry. It has also a substantial Chinese business community engaged particularly in construction, trade and commerce, haulage and mining, and to an increasing extent, manufacturing. However, a sizeable number of these Chinese establishments are outside the corporate sector.

Some of the research material of the study, 1971-1975, coincides with that of the SMP and the implementation of the NEP. The changes brought about by the intervention of the Government in the economic arena led to a loss of confidence in the business community and a reduction in investment. This coincided with a period of world recession which was responsible for substantial cutbacks in Malaysian production, "dampening business sentiment and outlook, especially concerning the addition of new capacity<sup>344</sup>.

Despite the problems of 1975 Malaysia seems set on a further period of rapid growth, with highly ambitious targets set by the TMP. ECAFE noted in 1970 that there was no shortage of capital for industrial development in Malaysia, but that the constraint on growth was rather a shortage of managerial and technical expertise, skilled labour and institutional facilities<sup>345</sup>. The TMP estimates the demand for professional, technical and related workers at both the professional and subprofessional levels will grow by 5.5% per annum the requirement for engineers is anticipated to expand by 8.0% per annum; agronomists and related agricultural specialists, 6.3% and engineering assistants 6.8%, rapid increases in demand will also be experienced in amelioration and management, particularly in business.

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<sup>344</sup> MIDF, 16th Annual Report and Accounts for the Year Ended 31st March 1976. p. 40.

<sup>345</sup> ECAFE, Asian Industrial Development Council, Asian Industrial Development News, 5 (1970), p 62. See also H. Hughes, "Australians as Investors: Australian Investment in Singapore and Malaysian Manufacturing Industries Australian Economic Papers, 6, 8 (1967), p. 67 and E. L. Wheelwright, Industrialization in Malaysia. p. 120. TMP. p. 70, para. 223.

There was an increase in the number of administrative and managerial staff of 14.6 per cent in 1971-1975, and the Government estimates that there will be an increase of 48.8 per cent between 1976 and 1990. This means that there will be an enormous need for management training and development.

### **7.7.8 THE MODERN SERVICE SECTOR**

Malaysia's service sector has a long way to go before it is capable of playing a leadership role in the economy and becoming a major source of foreign exchange earnings. Malaysia's banking sector is a clear case in point. The large-scale banking sector, if one excludes the foreign-owned banks, is either owned by the government or by large bumiputra interests with close ties to the government. The private Chinese-Malaysian banks are small and getting smaller. This latter decline did not come about because of government coercion. For the most part, it was mismanagement by the banks' founders that got the banks into trouble with the central bank being forced to step in. Once the government stepped in, however, the eventual result was often the sale of the banks' assets to bumiputra interests. Restrictions on the opening of new branches by existing smaller banks have had a similar effect.

Among the bumiputra banks, there are strong institutions such as the Arab Malaysian Bank of Tan Sri Azman Hashim. But there are others considerably less successful, notably Bank Bumiputra. The problem with banks such as Bank Bumiputra with close ties to the government is that the competitiveness of these banks is undermined from two directions. On the one hand, they are expected to lend to government-supported enterprises even when those enterprises are in deep trouble as was the case with Perwaja Steel. On the other hand, these banks have good reason to believe that, because of their close ties to the government, they will be rescued if

they make mistakes. Banks with this set of constraints and incentives are never likely to be internationally competitive.

There is also tourism, hotels, gambling and related services. Malaysia already has a major international presence in the hotel business with such notable international chains as Shangri La and Equatorial even if the headquarters of the former has now moved to Hong Kong. Malaysia does not have the historical sights of Bali or Thailand, but it has other major tourist assets that it is well along in developing. Some portions of Malaysia's service sector do have the potential to become internationally competitive. But a service sector capable of supporting the broad and sustained growth of the economy and foreign exchange earnings is some time in the future



## CHAPTER 8

### 8.0 MANAGEMENT DEVELOPMENT POLICIES AND PRACTICES

This chapter aims to look at the overall approach of policies and attitudes the government, public sector, education institutes and companies take in the development of their managers. The study will examine this from potentially two or more angles if required, but the objective is to look into major angles. The study starts by looking at policies and practices and then the study will take a look at some of the actual numbers of managers trained and in what different ways have they been trained. The study will also look at the opportunities created by new business demands and missed opportunities by the government and businesses to develop managers and how they will fill the gaps. The study will demonstrate that there are loopholes in management policies. To make the study complete this chapter will also touch on areas of demand for managers.

The study contains a large subjective element but deals with the central aspects of management development, and the second aspect will provide some statistical actual sample data but the study can only deal with the more obvious characteristics of a training program. The Malaysia management development policy is closely related to the South African policies with the change in governments. It is appropriate to highlight this comparison, as it has a major impact on the development of Malaysian ethnic and other race managers. The South African “affirmative rule” in 1994<sup>346</sup> is exactly what the Malaysian government have done. “To this end, affirmative action policies were introduced in 1994 to bring into the administrative heart of government

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<sup>346</sup> Affirmative action in South Africa: Rulof Burger and Rachel Jaffa CRISES WORKING PAPER No. 76 March 2010

people from the groups who have been marginalized and systematically discriminated against by apartheid.” Similarities between Malaysia and South Africa can be identified. These rules and policies were implemented to empower the Malays and control the non-Malays and have created racial discrimination between Malaysia and non-Malay groups as well as between religions. This discrimination was very clear in the government’s policies and preference for Malays in managerial positions. This was fine-line discrimination against the minority for benefit of the majority.

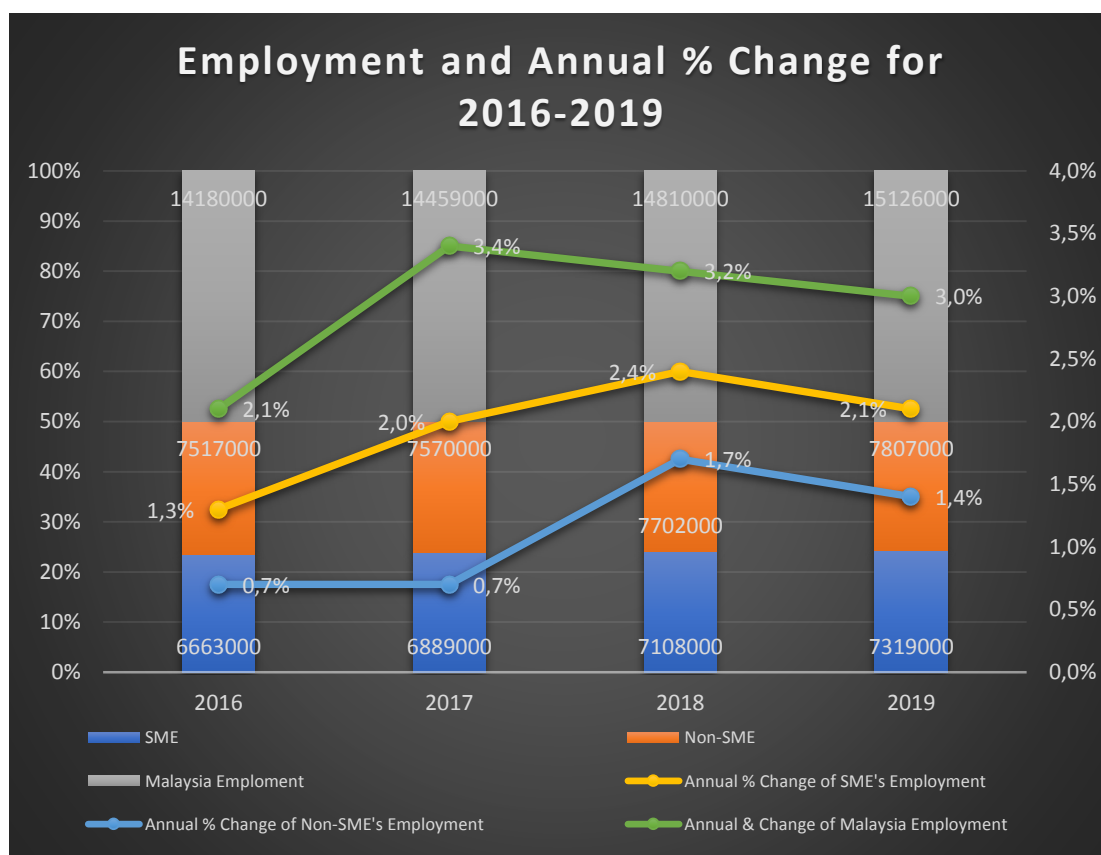
During the evaluation and statistical interpretation of the data, the year of the original database has to be borne in mind. The first evaluations were in 1969 and by 1975 the sample represented, very roughly, only 2 % of the companies of the defined universe<sup>347</sup>. Some of the older companies had ceased operation, while a few had outgrown their size group. Inflation also affected turnover, although not the relative positions of the companies. The note is to be taken on the dates as some of the dates in this study reflect on the historical data to paint a picture of modern-day issues and problems. Later in the study comparisons will be drawn between the data of the 19<sup>th</sup> Century and the 20<sup>th</sup> Century. The corporate sector accounts for an estimated 30% of GDP.

According to the latest statistics in the Malaysia Statistical Business Register (MSBR), the Department of Statistics, Malaysia (DOSM) estimates that there is 1,151,339 Small and Medium Enterprises (SMEs) in Malaysia in 2020. About 48 per cent of the workforce was employed by SMEs. In 2019, SME employment in Malaysia

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<sup>347</sup> The latest available Financial Survey is for 1974. Unlike the 1969 Survey, this Survey included banks, insurance companies, nominee companies, shipping and airline companies and non-profit organizations. Unfortunately, the published figures do not differentiate between Peninsular and East Malaysia. However, if companies falling into the category "banks and financial institutions" are omitted 3360 companies are included in the Survey. Since the great majority of these will lie in Peninsular Malaysia, and growth between 1974 and 1975 will have expanded this number, 3360 has been used as a rough estimate of the size of the universe in 1975. TMP. p. 183, para. 566.

grew by 3.0 per cent as against 3.2 per cent in 2018. In terms of growth, SME employment portrayed a higher rate as compared to Malaysia's employment and Non-SMEs employment which grew at 2.1% and 1.4% respectively. SMEs employment comprised 48.4% of Malaysia's employment, an increase of 0.4 percentage points from 48.0% in the previous year. The number of SMEs employed was 7.3 million persons in 2019 (2018: 7.1 million persons)



Source: Department of Statistics - Small and Medium Enterprises (SMEs) Performance 2019  
 Figure 63 Employment and Annual % Change for 2016-2019

Malaysia also has small businesses called Enterprises, and there are 95% of Malaysia. Small and medium enterprises (SMEs) make up 5% of Malaysia's 920,624 business establishments. SMEs are defined as businesses with a sales turnover of less than RM 20 million, or fewer than 75 full-time employees in the services and other sectors. Malaysia also has a network of Micro Business and according to the Malaysian Department of Statistics, there are 694,000 micro-enterprises in the

country, accounting for 7% of the total number of businesses. All of these businesses require managers. The impact of SMEs on the economy is enormous.

Compare with the UK, the private sector is dominated by SMEs, which employ about three-fifths of its workforce and earn around half of its turnover. Statistics from Singapore's Department of Statistics show that SMEs account for nearly two-thirds of employment, constitute 99% of all enterprises, and contribute just over S\$ 148 billion to the Singapore economy –nearly half of the country's GDP.

Enterprises on the other hand are defined as establishments that have fewer than five employees. The total sales turnover for all sectors, namely agriculture, mining, construction, services, and manufacturing, is less than RM 250,000. Only 2% of business establishments operate daily. While the study ignores companies with less than RM 1 million annual turnover which represent around 69% of the total number of companies, those that it covers account for about 93% of the total revenue, 76% of the total value of fixed assets, 78% cent of employment and 78% of total assets of the corporate sector in Malaysia<sup>348</sup>.

## **8.1 COMPANY SEGREGATION AND EMPLOYMENT.**

For the study the companies was segregated into revenue groups or different Financial Strength groupings, (FS), (FS1), (FS2), (FS3), (FS4), (FS5), (FS6), (FS7)

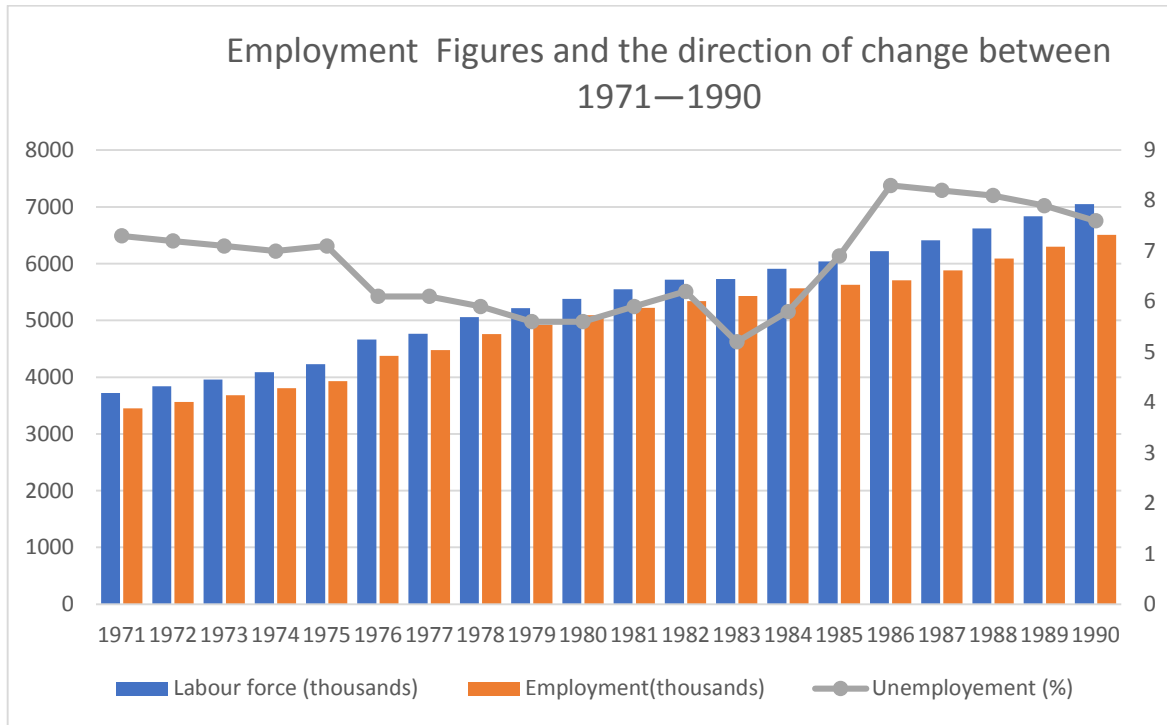
<sup>349</sup>. First, the basic dimensions of the situation under consideration will be examined.

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<sup>348</sup> Department of Statistics 5727, Report of the Financial 5429 Survey of Limited Companies, Malaysia 1974. p. xiv.5565

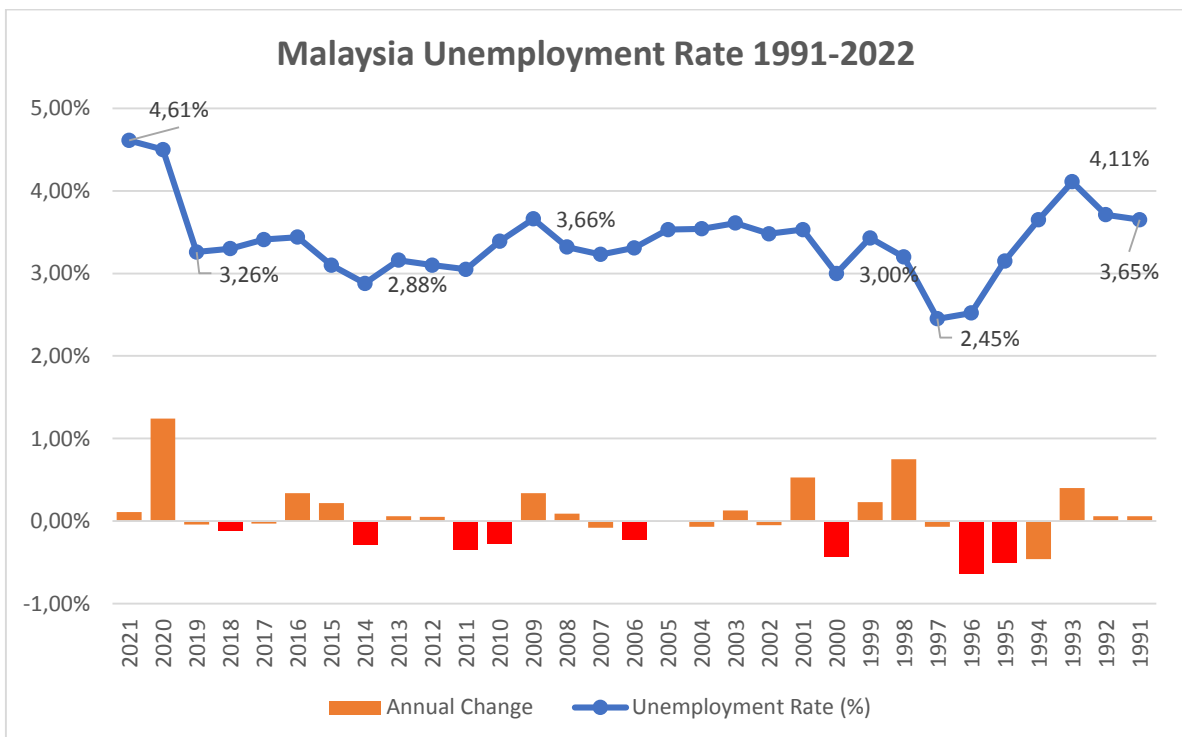
<sup>349</sup> Torsional shear strength properties of Malaysian tropical timber in structural size, Muhammad Bazli Faliq Mohd Puaad1, Zakiah Ahmad, Adrina Rosseira Abu Talip, Mohd Zulkhairi Mat Salleh, Shahrul Nizam Mohammad.

Jurnal Teknologi (Volume 82, No. 5, September 2020, Pages 1 to 10)



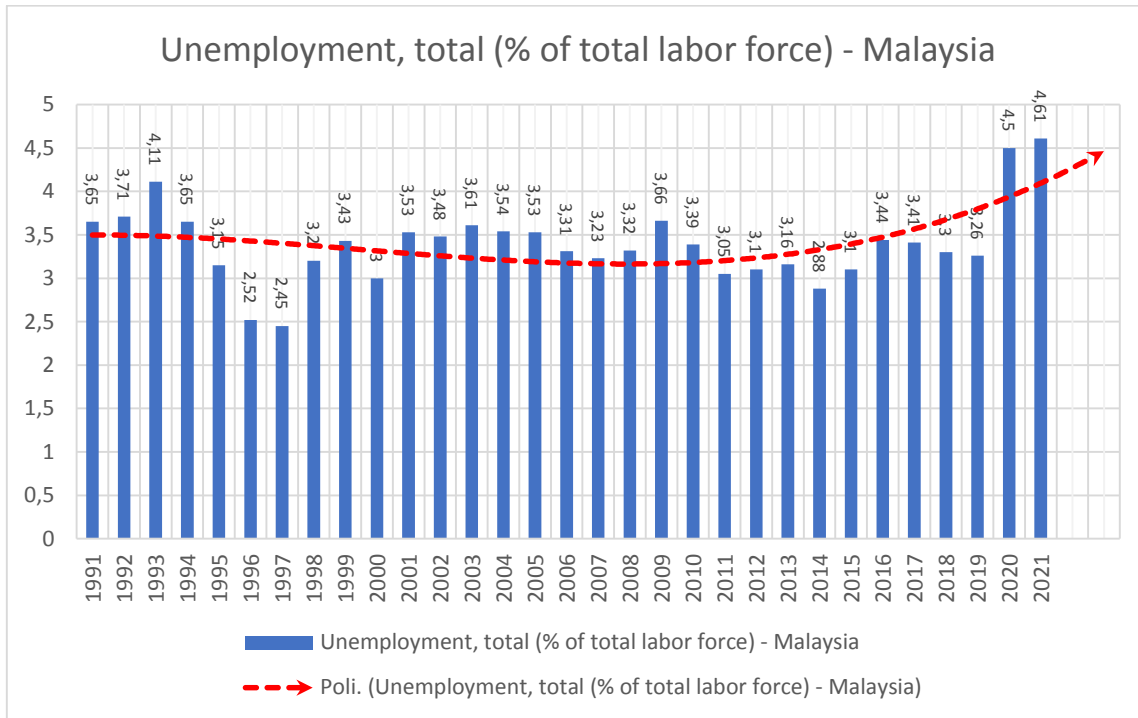
Source- Yearbook of labour statistics (Geneva: International Labour Organisation, various years) and the Ministry of Finance, Economic report (Kuala Lumpur: National Printing department, various years) Chart\_\_\_\_\_ Malaysia Unemployment Rate 1991-2022- Historical Data

Figure 64 Employment and the directions of change, 1971—90.



Data Source: World Bank

Figure 65 Malaysia Unemployment Rate 1991-2022



Data Source: World Bank

Figure 66 Unemployment, total (% of the total labour force) – Malaysia

Despite the undesirability of using turnover as the size criterion in a study of management development, there was a relationship between turnover and size of employment, with FS4 companies having an average of 3,296 employees in 1971 compared to FS3 with 1,533, FS2 with 330, and FS1 with 127. Nonetheless, there were great variations within each size group which will become clearer when the industrial and ownership groupings are examined. The rate of growth in employment over the five years is interesting: the largest companies grew at a very low rate of 4% which suggests that they may have reached an optimum size.

The assumption is that the Malaysian market is relatively small and may not be able to support companies beyond a certain size. On the other hand, the companies in FSI have grown very rapidly, though admittedly from a small base, and those in FS3 have also expanded their employment markedly. Companies in FS2 show a very different picture and have declined in terms of employment. This trend is reflected in

the type of business and ownership. Many of these companies were particularly hard hit by the recession of 1974-75, while the biggest impact on others was due to the Governments laws and regulations with a preference for Malay firms. While FS2 seems to be most affected by such factors, there was a high casualty rate amongst companies in FS1.

The rate of growth of the managerial workforce has tended to exceed that of employment overall. Statistics show the number of managers in the sample increased at a rate of 32%, compared to an increase of only 8 per cent in employment. For example, the 1971-75 rate of growth is overall slightly higher than that during 1966-71, and in FS1, in particular, and FS3 shows a very rapid rate of growth in management employment as it did in overall employment, while FS2 once again has the lowest rate of growth. Companies were asked to estimate their future growth in management employment and in all size groups, except FS2, a sharp drop in the rate of growth was anticipated. Companies did not manage to maintain a rate of growth similar to that between 1971-75, a rate considerably aided by the boom years of 1973-74 when the Government targeted an increase in administrative and managerial workers in Peninsular Malaysia between 1975-90 of 121% was not achieved. This underachievement can be seen in the most recent figures. This figure includes both the public and private sectors and the establishment of new companies as well as the growth of existing ones. Nonetheless, it appears highly ambitious. Companies' growth figures for 1975-80 are considerably underestimated (except for FS2). Statistical government and private agency studies asked companies to estimate the size of their management, their estimates showed a marked conservatism, probably reflecting the

climate of uncertainty in 1972, and the same may be the case with the 1975 estimates<sup>350</sup>.

It is to be noted that the largest companies are predominantly European or multinational, while the smallest companies are characteristically Chinese. If it is recalled that only a 10 per cent sample of FS2 and a 5 per cent sample of FSI were taken, the immense size of the Chinese business community becomes apparent. Another obvious feature is the number of companies of all sizes involved in the service industry, comprising over half the total companies. Although smaller companies in other industries in terms of employment and management, grew at a faster rate on both counts, with employment increasing by 27 per cent between 1971-75 and management by 53 per cent, compared to 25 and 29 per cent respectively in manufacturing and only 3 and 10 per cent in the extractive industry.

It is interesting that in all industries and all business communities the number of managers is increasing at a considerably faster rate than the number of employees. It is also noteworthy that the largest manufacturing firms grew relatively slowly, increasing in employment by 17 per cent between 1971-75, and become stagnant, compared to the manufacturing firms in FS3 and FSI which grew by 40 per cent and 54 per cent respectively. The extractive companies in the sample are very large employers both in terms of general employment and managerial employment but they are growing very slowly indeed and the largest companies are virtually static.

Breaking down the size group figures in this way sheds light on the decline of companies in FS2. The companies affected seem to be manufacturing concerns.

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<sup>350</sup> 5 Harbison and Myers have commented: "A rather simple method of estimating future requirements is to ask existing establishments to specify them. This will provide an informed judgement of short-term requirements but it is quite unreliable for long-run estimates. F. Harbison and C. A. Myers, Education, Manpower and Economic Growth. pp. 195.



While Chinese companies show an actual decline in their management suggesting that they bore the brunt of the difficulties, European companies increased only very slightly in terms of employment.

The summary figures for the business communities draw attention to the very different scales on which European and Chinese companies operate. In 1975 the average European company had 4,143 employees and 79 managers and the average Chinese company had only 267 employees and 10 managers. However, there was a higher proportion of managers to labour in the Chinese companies - 1:27 compared to 1:52 in the European companies and a particularly high ratio of 1:15 in the multinational companies. This last figure suggests a particularly high degree of capital intensiveness, whilst the figure for the European companies is influenced by the presence of the larger extractive companies in this group. The extractive industry is by far the most labour-intensive, with a ratio of 87 employees per manager, compared to 22 in the service industry and 17 in manufacturing, the sector in which one would expect to find the greatest capital intensity. In discussing management development in Malaysia, it is essential to bear in mind these enormous differences in scale, rates of growth, and management/ labour ratios between the various industries and business communities.

In addition to the effect of size, it was also possible to study the effect of two other variables on the sample - industry and ownership. The Financial Survey categorized all companies according to industry and types of ownership — whether local, foreign or a subsidiary of a foreign company. This was a useful distinction but tended to obscure the fairly clear-cut lines between companies with expatriates in top management, and those with entirely Chinese management. One thinks of local as

referring to firms owned and run by Malaysians, while it included many firms in which the top 6 management was almost entirely expatriate. The recent emphasis on localizing equity has obscured the distinction even further.

' Foreign', which one would expect to refer to firms run by Europeans and Americans, included several Singaporean and Hong Kong firms whose style of management is much more similar to that of the Malaysian Chinese business community. Since it was management policies and practices that were under investigation and it was assumed that management style bears a close relationship to the orientation of top management, it was decided to regroup 'the business community. The Chinese companies which comprise the largest part of the 'local' group form a distinct business community with a characteristic management style.

Another distinct group within the Malaysian business scene consists of firms with Europeans in top management, most of which were classified either as 'foreign' or 'subsidiary'. A third identifiable community is that of large multinational companies. Although they, like the European, group have expatriates in top management, they tend to have a distinct company culture and management style that sets them apart. The European group consists largely of long-established companies involved in the older industries of tin, rubber and trading. There were very few companies in the sample that did not fit into this set of categories; they include several Indian companies and have been classified as 'miscellaneous'. With the recent emphasis on the development of the manufacturing industry in Malaysia and the tendency for established companies to diversify into manufacturing, there has been a blurring tending to obscure the fairly clear-cut lines between companies with expatriates in top management, and those with entirely Chinese management.

With the emphasis on the development of the manufacturing industry in Malaysia and the tendency for established companies to diversify into manufacturing, there has been a blurring of the industrial distinctions. The note is now to be taken that the original data was on the industrial revolution, now the focus has shifted to the digital economy. This new shift will now bring a new set of rules and will be difficult for the local Malays to master due to this historically embedded “Follow management” of the ‘Peasant type’ style. The Department of Statistics has categorized companies according to their principal industry and this is the category used here, however, it must be borne in mind that, for example, a company whose main activity is trading may also be involved in some manufacturing. The Malaysia Management Market is also Segmented by Type (In-House Management and Outsourced Management), Offering (Hard Management and Soft Management), and End User (Commercial, Institutional, Public/Infrastructure, and Industrial).

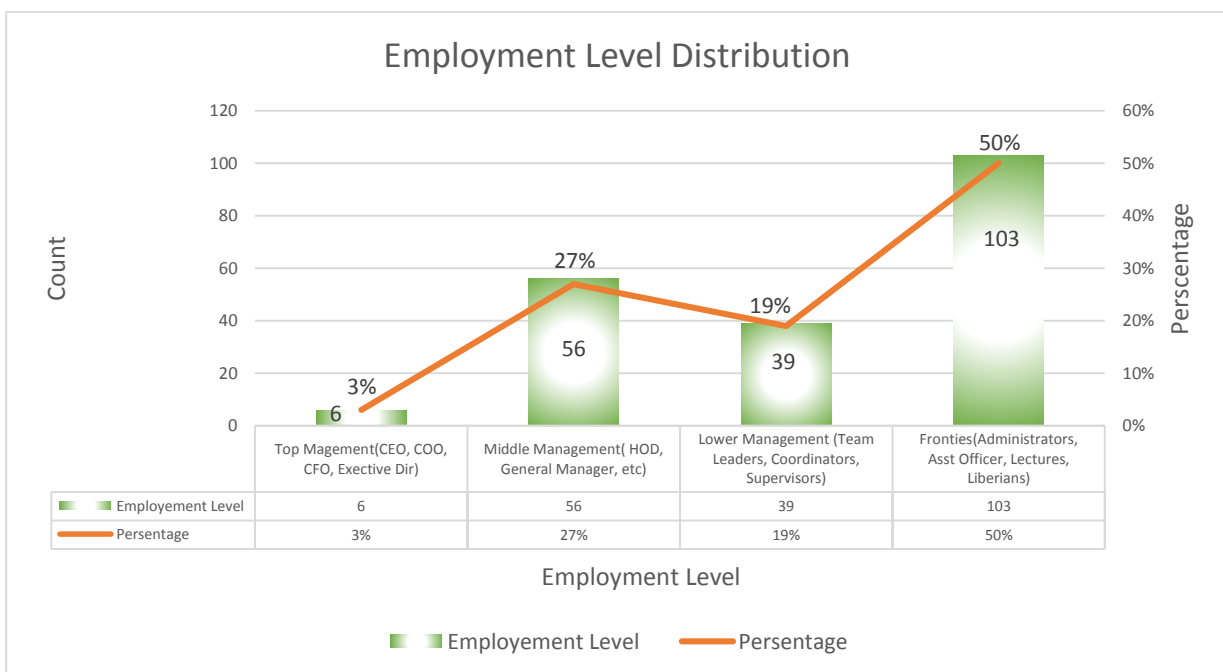


Figure 67 Employment Level Distribution.

## **8.2 MARKET SNAPSHOT: 2020-2027 BASE YEAR: 2021**

### **8.2.1 MANAGEMENT MARKET OVERVIEW**

The Malaysia Management Market is anticipated to record a CAGR of 4.3% over the forecast period (2022 - 2027). The growing emphasis on outsourcing non-core operations and growth in the institutional sector is expected to drive the Malaysian market for facility management services. Along with this, the government regulation on safety measures and environmental concerns to follow green practices is expected to drive the market. This new shift is an effort of the government to achieve the targets of Malay managers in the markets. Outsourcing businesses and functions were mainly reserved for the Malays. Malaysia has its prominence in outsourced markets especially for facility management services in terms of development and sophistication. The region's facility management industry operates with integrated contracts provided by significant vendors and Malay-owned companies such as AWC Berhad, SDE Facilities Management Sdn Bhd, etc. across various countries and borders, and small local players focus on single contracts and single-service solutions. However, given the dynamics occurring across the region, there are increasing opportunities to leverage facility management and corporate real estate in new ways by the government to achieve their targets that have continuously fallen short.

Malaysia has been witnessing increased opportunities to leverage facility management and corporate real estate in innovative ways, given the dynamics across the country. In terms of the end-user demand, the public sector's contribution toward the facility management market in Malaysia is primarily driven by the government's constrained budgets that lead to the continuous outsourcing of essential facility management services. Considering the market for Malaysia management has been

subjected to moderate growth due to the rise in demand for people with improved requirements. This scenario is projected to bolster the development of the Management market during the forecast period. The ongoing pandemic has resulted in the steady market growth in the region. However, the pandemic has resulted in limited production, leading to a sharp decline in business inputs.

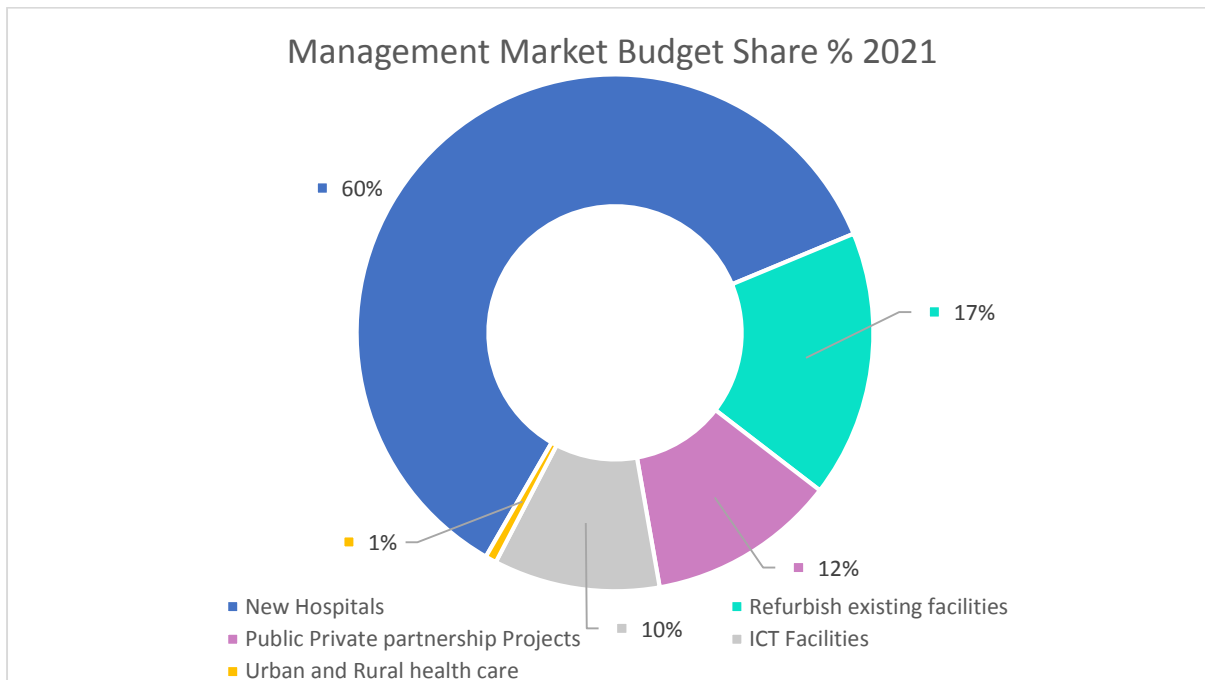
The outbreak of COVID-19 has had a mixed business impact on management firms. The restrictions on the movement of people resulted in a decline in project work and a decreased level of activity across many customer sites. Significant players in the market, such as AWC Berhad, MST Facilities Sdn Bhd., and others, were adversely affected due to the pandemic lockdown. Management is a profession that incorporates many disciplines to ensure functionality, safety, comfort, and efficiency of the built environment by integrating people, process, place, and technology. The Malaysia Management Market is Segmented by Type of Management, Offering Type, and End User.

### **8.2.2 KEY MARKET TRENDS**

The sudden change and the 'Rise in Digital Technology' have driven the Management Market and put renewed emphasizes on the development of Managers. Malaysia's Digital Transformation is no other than the rest of the world and continues to drive demand for U.S. technologies in the information and communications technology sector (ICT) as Malaysia seeks to become the digital hub in Southeast Asia. The drive has also created a shortage of skilled workforce and Managers. The old historical problem is about to repeat itself. With the embedded behaviours of the Malay manager that is still very much a peasant, they are not willing to step up. This reluctance now open doors for India which is hardwired for the digital shift and create

migrating opportunities for foreigners. With Malaysia strategic location in the heart of the region, with easy access to other growing markets and robust infrastructure, connectivity, and economic stability. The ICT sector is one of the fastest-growing sectors in the Malaysian market, which is expected to reach 22.6 per cent of the country's GDP by 2025, according to the Malaysian Government. This could have open opportunities for Malay managers, but the fact is the companies opt for foreign managers.

Healthcare also marks prominence in Institutional Management. Healthcare is one of the institutional management verticals. The government's Health Ministry is responsible primarily for healthcare in Malaysia. Malaysia usually has an efficient, comprehensive healthcare system with two different kinds of healthcare – both government-owned, universal, and co-existing private. The health sector of Malaysia has an estimated worth of approximately RM 8.4 billion, with total health care spending projected to be around 4.75% of its gross domestic product (GDP). Government and private funds now contribute to about 55% and 45% of overall health spending, respectively, in Malaysia. The Ministry of Health in the public sector is the country's leading government department responsible for health services. In addition to that, the 2021 budget shows large cuts across all the healthcare specialties. There are now opportunities for outsource management especially for U.S. companies in the construction of new health facilities and the integration of IT in healthcare practices.



Source: Department of Strategy Malaysia.

Figure 68 Malaysia Facility Management Market 2021

### 8.2.3 COMPETITIVE LANDSCAPE

The Malaysia Management Market is moderately consolidated with the presence of diverse firms of different sizes. This market is anticipated to encounter a number of partnerships, mergers, and acquisitions as organizations continue to invest strategically in offsetting the present slowdowns that they are experiencing. The clients in this region are employing Management services to increase the ease of their business operations. The market comprises key solutions and service providers, such as AWC Berhad, MST Facilities Sdn Bhd., Harta Maintenance Sdn Bhd, Zelan AM Services Sdn Bhd, and SDE Facilities Management Sdn Bhd.

- December 2021 - AWC Bhd said its subsidiary had secured a letter of award (LoA) from the Ministry of Health (MoH) for a five-year contract to provide hospital support management services valued at RM 106.04 million.

#### **8.2.4 RECENT DEVELOPMENT**

December 2021 – the University UTM SPACE, in partnership with UEM Edgenta and THE Malaysian Association of Facility Management (MAFM), launched the Facility Managers Development Program (FMDP) aimed at equipping Management professionals with knowledge of the principles and methods of successful management. FMDP may provide a platform for better career advancement for the construction industry stakeholders. This program is open to all races and has no restrictions from the government.<sup>351</sup> This new development has opened doors for non-Malay managers to participate in training without restriction. It is however not a relaxation of affirmative action.

#### **8.3 PRACTICES OF MANAGEMENT DEVELOPMENT: A MALAYSIAN CASE STUDY**

This section deals with a case study of Management Development (MD) practices. This study aims to investigate how a large Malaysian corporation developed and integrated MD initiatives with current organizational needs and tasks<sup>352</sup>. Due to confidentiality the company name and manager names and location will not be revealed.

Attempts were made to map and categorize the MD initiatives according to position and course content both for the staff and agency. Analysis of historical records and semi-structured interviews were conducted to identify the organizational MD needs as a result of context and task. Findings show that a company-wide development system for staff and agency was effectively integrated to provide a direct support to competence management endeavour. The company's MD initiatives have

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<sup>351</sup> Vol. 1, No. 2 International Education Studies

<sup>352</sup> Due to confidentiality the company, directors and or staff will not be mentioned. The study will refer to as "Corporate, Corporation or Business" Staff names will be changed to their titles.



also resulted in managerial implications including (1) increased effectiveness of MD initiatives through emphasis on needs and participation; (2) mutually conceived and aligned development system has formed a learning culture in the corporation; and (3) effective MD initiative audit has ensured customer-oriented competence development in the organization.

MD is a practice that includes rules, guidelines and principles for developing managers in an organization. Significant value is derived when participants of MD program add their intellectual capabilities, drives, wishes and preferences in their career. An MD system thus helps the managers in unleashing their potential to reap the benefits to meet both individual and organizational objectives.

According to Reitsma (2001), the aim of MD includes developing future business leaders and equipping individuals to maximize their full potential in terms of knowledge and skill acquisition. MD is regarded as a key to organizational future success and performance (Newton & Wilkinson, 1995). In Malaysia, there appears to be a gap in MD research where analysis of MD practice in individual organizations is severely lacking and seems to have been neglected. Thus, this part of the study suggests to address and fill the gap of the identified weaknesses. In other words, very little has been done and a more focused research needs to be carried out to explore MD activities within an individual organization. In order to address this, an attempt was made to explore the categories of MD initiatives that were developed and how they fit into the organizational needs and tasks within The Corporation, the selected case study organization.

Organizations in Malaysia adopt different approaches of MD. The approaches include the university residential programs, executive MBA, short-courses and

company-specific programs. The exploration of MD research in an individual organization will add to the knowledge obtained from the survey conducted. This research will furnish empirical information for understanding the practice of MD themes and issues within one researched organization. This case study involves exploring MD initiatives by using semi-structured interviews to illustrate and describe MD practices. This would provide a source of qualitative information which adds to the information gathered from studies.

This study tries to explore MD practices developed in a large Malaysian Corporation and assess how MD initiatives fit into the organizational needs and tasks. A case study approach was used to describe the emergence of MD initiatives and practice with the managerial implications at the company.

According to Yin (1994), a case study is a preferred research strategy when “how” or “why” questions are being posed, when the researcher has little control over events, and when the focus is on a contemporary phenomenon within some real-life context. As opposed to a comparative analysis of several firms, this research uses a single organization and focuses on historical records and interviews to achieve the purposes of the study. This research serves as an exploratory device in identifying issues within an organization rather than testing hypotheses. This case study is embedded with several units of analysis, such as organizational units and MD initiatives and practices. The survey provides a useful insight into some of the opinions, experiences and issues of MD practices in corporations and provided invaluable data for this case study.

The company was chosen based on three criteria. Firstly, the length of its existence which implies that MD track records could be traced to form a trend or to

support the issues and study. Secondly, its relatively huge market capitalization and thirdly, it represents the service sector which practices MD initiatives rigorously in Malaysia. The existence of MD initiatives and practices make the company an interesting subject of study. MD initiatives were identified by the top management who were the key decision makers to MD strategies. Participants were recruited based on their recommendations. Participants were divided into three groups, namely top management, MD personnel (specializing in MD) and field agents (MD utilization group). The selection is intended to cover the whole range of MD activities and approaches at the company. Selected participants were then interviewed based on semi-structured interview format. Interviews were conducted based on semi-structured open-ended questions.

The questions were:

- Does your company have any formal policy concerning MD?
- What does it say?
- Does top management understand key MD issues?
- Has an MD audit been done?
- Have MD initiatives been matched to the corporate strategy?
- What are the MD initiatives you are involved in?
- How does it fit into the company's organizational needs and tasks?
- What are the perceived obstacles?
- Have strategic MD initiatives and practices been coordinated and integrated with other interfacing functions?

In analysing the qualitative data, interview notes were written into protocols and coded into three general issues, namely general company issues, specific

program or unit issues and interaction between staff and agency.

This case study design, analysis and interpretation were used by Yin (1994), Easterby-Smith (1993) and Miles and Huberman (1994). According to these researchers, case study research methods help to provide qualitative data in terms of document design, write up, coding field notes and data display. Nevertheless, a potential weakness of this research design may be a typical of the industrial sector particularly in the service and banking industry in Malaysia. However, given the difficulties of data accessibility, this problem is judged acceptable (Easterby, 1993).

### **8.3.1 RESULT AND DISCUSSIONS**

Established in 1968, the company has since developed into Malaysian's leading organization and is a listed company on the main board of the KLSE. With shareholder fund of over RM 187 million and asset backing of over RM 1.5 billion, the company is currently one of the biggest capitalized Malaysian corporations in the country. Over the years, the company has recorded excellent growth in generating income and bottom line profitability. The Group's profit before tax as at 31 December 2002 increased by 6.4 per cent to RM 49.9 million from RM 46.9 the preceding year. Total operating revenue recorded a strong growth of 11.4 per cent, which was in line with the overall Malaysian service and financial industry's performance.

The total asset of the Group also increased by 9.3 per cent to RM 4.7 billion. As advocated by Lane (1994), a high level of capability in terms of qualified, technically competent and proactive staff and agents has been essential for the success of the company's corporate performance. Based on its founding corporate philosophy, the company has been continuously investing in human resource development to create a strong, united and dedicated team of staff and agents who are able to respond

quickly and efficiently to the needs and requirements of Malaysians. With the strong backing from world class international partners, the company is developing further as a comprehensive company for the 21<sup>st</sup> century with the best knowledge and expertise to continuously come up with high quality, competitive and innovative products and services. To continuously enhance the skills and knowledge of staff and agency force, the company spends millions of ringgits each year in training and development programs.

The company has forged a well-developed workforce of over 1,100 staff and over 20,000 general division contracted agents. “Customer Comes First, Always and Every time” is the corporate philosophy that promises to deliver the best to the customers through a well-developed team of youthful, dynamic and energetic staff and agency force.

The company’s top management perceived MD initiatives within four activities, namely:

- competence management
- change management
- productivity and operational management
- talent management

Talent management is about recruiting the best workforce for continuous career promotion in management or agency expert roles alongside productivity and operational management. The synthesizing themes are competence management and change management through MD initiatives and practices to address the issue of “Moving Forward” at the company. The company’s top management also visualize MD as an approach for forming strategic competence potential, a means of communicating

and building a strong corporate culture. The company now has several very ambitious MD initiatives, which are tied to perceived needs which address customer needs and preferences. Competence development and change management are thus the major concerns and seem as fundamental organizational skills.

Over the years, the company has recorded excellent growth in premium income and profit. The success can be attributed to the company's capability in developing a strong, competent, united and dedicated team of staff and agents. As a service organization, the company carries out customer-oriented business activities based on its corporate vision and philosophy: "Customer Comes First, Always and Every time". To promote future organizational growth in a competitive environment, the company set out its strategic management vision, "Moving Forward" to guide business direction. The Action Plan "Moving Forward" aims at continuously improving the best knowledge and expertise to consistently come up with high-quality, competitive and innovative products. Conforming to Stewart and McGoldrick (1996), Garavan (1995) and Iles (1993), MD initiatives at the company emphasize both strategic and practical aspects of MD. To help achieve the aims of the organization, the following principles have been established:

- Improvement of organizational capability
- Creation of a strong corporate culture
- Development of a competent workforce
- Promotion of information and communication technology
- Response to change management

This indicates that the company acknowledges the importance of human capital through human development. Everyone from the management to the field offices and

from the lowest to the highest positions is allowed to improve their competencies. As the industry in Malaysia is experiencing unprecedentedly intensified competition and there are drastic changes in the external environment as a result of Bank Negara Malaysia's (Malaysian Central Bank) new regulations and rules of policies, the key to excelling in the industry is the ability of the organization to anticipate the future and shape proactive strategies to sustain competitive advantage through human development. The challenge is perceived as the most important commitment to provide customers with quality service and retaining their confidence and trust in the company, that:

*“During the year, the group continued with its effort to improve corporate governance and maintain it at the highest level. In this respect, the group has formulated and carried out plans to improve productivity and operational efficiency, practice prudent financial management and reinforce further the role of information and communication technology, and best practices in its internal business process with---The group will also continue to invest in its human resource development to create a qualified, technically competent and proactive workforce and agency force.”* (Chairman of the company)

From its experience, the company has taken note of the importance of human resources in managing the business. MD in the company is thus perceived as very important in determining the future destiny of the organization.

### **8.3.2 THE COMPANY'S STRUCTURE AND SYSTEM OF HUMAN RESOURCE DEVELOPMENT**

The company strongly believes in the value of human assets to its business performance and continuously invests in MD to create a qualified, competent and proactive workforce. The company's corporation-wide training and development

programs are managed and coordinated both by the human resource as well as the training and education departments at the head office. At Casa Rachado-the company training resort located in Port Dickson, Negeri Sembilan was established for training activities. The centre, which caters for any training activity of up to 200 participants at any one time, meets all the organizational training needs. There are two types of training, namely training according to the position, and training according to the content of the respective position. These training programs are given to all workforce throughout the company all year round. The company MD initiatives stem from the frequent review of organizational needs and tasks and are supported by the top management. The company's MD initiatives are thematically oriented towards competency development. The emphasis on the continuous development of workforce competence is a major concern in the organization:

*“The training programs are to help and build agency competency. The company is doing very well in terms of communicating between the field offices agencies and the program trainers. Usually, the agency is more on the practical side whereas trainers are more on theories, so, it's better to combine the two.... “(Unit manager)*

Training according to the position in the organization is designed for top management or directors down to staff or company employees, training for branch offices starts from senior manager, if the management path is chosen. The training program is provided according to the content from, finance, general management, ICT to leadership depending on the status or position in the organization.

Strengthening competent and change management is an important theme in the company's action plan “Moving Forward”. To further improve the competency and proactivity of workforce, opportunity is given to performing employees to accumulate



deeper management expertise through MD initiatives before promotion is suggested. Given the competitive structure of the service and financial industry in Malaysia, the company realizes the importance of management capability and has established a unique training and education centre-- 'The Casa Rachado Training Resort'-- caters to developing the required capabilities. Participants undergo systematic and intensive training in expertise and management knowledge and skills for strengthening competency and decision-making process. Upon completion of any program, the performance management system will be applied to improve program implementation and program effectiveness.

A congruent and well-integrated development system is a distinguishing characteristic of the company MD system which consists of the following criteria:

- Participants include all levels of staff from top management to general staff to agency personnel.
- Flexible training period depending on program type.
- Course content includes change management, the latest management know-how and skills, the company policy and system, continuous improvement in expertise competency and leadership qualities.
- The course is continuously improved through a performance management system, improvement in competency gained in the course and wide-ranging special request training from quality service to mentoring and yoga designed to expand the participants' competency horizons.

### 8.3.3 THE COMPANY'S MD INITIATIVES FOR STAFF

The Leadership Engine Workshop (LEW) is a mandatory management program which is a condition for promotion into higher position in the organization. The program aims to develop and strengthen participants' confidence in personal development and organizational competitiveness in order to face increasing customer demand and preferences. As the training uncovers the weaknesses of leadership by assessing the degree of confidence, participants have the opportunity for reflection of higher self-awareness that is needed for improvement. This program is highly rated by the participants.

The Four Roles of Leadership (FRL) is another compulsory development program for the assistant vice president and above. The role of leaders can be seen in four styles, namely directive, supportive, participative and achievement-oriented, according to subordinate and situational contexts. Participants of this program will gain a better understanding of effective leadership roles and action. The company believes that developing good leadership will cultivate good and stronger corporate culture. This ambition is perceived as one of the most important agendas in the company.

*“So, we have in mind that through program participation, we would like to build a corporate culture, we would like to build the fundamental skills of participants”* (Training manager at head office)

Leadership Engine Workshop and Seven Habits of Highly Effective People are also mandatory management program at this level in the company. Finance for Non-Financial Manager (FFNFM) is the course that aims to equip managers with fundamental financial knowledge. Topics include business finance, financial environment, accounting and problems in financial

management. As the roles of managers are not confined to managing a specific department, financial knowledge is important to every manager in the company. The program is designed to give participants an opportunity to understand the strategic aspects of prudent financial strategies in line with organizational goals and policy.

Overview of 7 Habits is the only mandatory development program for the company executives. The content is similar to Seven Habits of Highly Effective People but the course is more intensive. The purpose of this program is to train the executives with preliminary leadership qualities.

The company induction program and Number One Organizer Training (NOOT) is designed to provide staff with knowledge of company policy and system. The program is centred on communication skills, methods of improving work processes and overcoming day-to-day operational problems.

Competence management is a main theme in MD initiatives which involves staff and branch office workforce. Competence management at the company is a system for establishing strategic and tactical competence needs. Conforming to Millett and Leppanen (1991), the company believes that MD's fundamental function is to assist the company to develop competencies needed for future business challenges. Since Prahalad and Hamel's seminar paper on competency (1990), there has been a surge of discussions in competences and competence-based training and development. Drejer (2000) defines competence from structural perspective as consisting of four elements namely; the technology, people, organizational structure and organizational culture and interaction among them. According to them, competences should be

developed over time and types of competences ranged from simple to complex depend on number of technology and people within the organization.

Similarly, Assen (2000) and Sanchez et al. (1996) assert that competences are special types of assets and categories competences into strategic, organizational and individual. Thus, competence-based training and development is a tool for managers; to use for strategy formulation<sup>353</sup>; to learn and evolve with change<sup>354</sup>; to research on superior effective managers<sup>355</sup>.

On the other hand, Barton (1995) defines competence from the functional perspective stating that a competence ensures superior value to customers of the firm with innovativeness, high speed product development and customers likes. Holmes and Joyce (1993) see competence as involvement of identification of the key purpose or function of a task. Competence-based management thus is the ability to learn, unlearn and relearn, on all levels within an organization (Assen, 2000). Similarly, Burgoyne and Stuart (1991) includes the competence-based management to do with learning, changing, adapting, forecasting, anticipating and creating change. As a result, competence management appears to be appropriate for the provision of directions for the creation of a performing organization.

However, the focus on competence is anti-theoretical (Doyle, 1994); neglects knowledge and understanding (Storey & Westhead, 1997); anti-learning because of assessment driven (Currie & Darby, 1995). Fuller (1994) further argues that the qualitative nature and diversity of managerial roles particularly at the top management

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<sup>353</sup> Prahalad & Hamel, 1990

<sup>354</sup> Briscoe & Hall, 1999; Spearman & Hopp, 1996; Woodruffe, 1991

<sup>355</sup> Jones & Connolly, 2001

makes the application of competence-based management difficult. The major philosophy instituted the following conceptual thinking:

- competence requirement - needs and level of individual and organizational competency
- current competence- status of present competence
- competence gap

The mismatch between competence requirement and current competence, the company's current company-wide development system and plans were established and designed to close the competence gap and are consistently updated and reviewed. The competence requirements were based on budget and environmental needs as well as scenario planning. In addressing the need to fulfil the competence requirement, one commentator pointed out that MD initiatives were linked to "top management commitment" to organise the company activity, and that:

*"As far as training is concerned, whatever courses suggested must be in line with the company's vision and mission, top management will have their plans."*

(HR manager at head office),

Current competence is a direct result of the performance management system. In other words, the company's competence management is a total system linking three subsystems, namely: (1) technical competence, such as ICT, finance and expertise knowledge; (2) human competence, such as communication skills, time management and leadership qualities; and (3) business competence, such as understanding insurance, English, presentation skill and understanding customer needs.

Workforce performance is then matched to the company requirement profile, and the program are then suggested to address the specific competence gap for competence development. Nevertheless, the company's development program, are perceived to be the platforms for MD, they need to be further integrated with a more personalized competence that can be applied to various departments and overall organizational.

### **8.3.4 THEORETICAL REFLECTIONS**

The company's organizational experience shows a clearly conceived belief with respect to MD initiatives. There is evidence that such an endeavour is known and is well disseminated among top management, staff and the branch offices. This echoed Taylor and Gordon (1984) and Kirkbride (2003) claims that MD is a process of well disseminated and coordinated developmental program which can be linked to organizational success and competitive advantage. Likewise, it also agrees to Dikken and Hoeksema (2001) as well as Law (2003) claims that MD is linked with strategic organizational goals. The company's organizational philosophy of continuous investment in workforce capabilities also supports Hitt's (1987) and Paauwe and Williams (2001) suggestions that MD is a unified process that integrates the organization's philosophy and its human resource.

The assessment and continuous improvement of competency needs through company-wide development system agreed with McCune's (1999) and Heraty and Morley (2003) suggestion that MD is an effort that has the energy to move at a faster rate given company-wide dissemination of knowledge and capability. The company's current trend of MD initiatives further supported this observation. The well-integrated staff and agency development system has seen effective dissemination of knowledge

and capability through such integration. By integrating staff and branch office development systems and the conduct of competent management, the company's holistic approach, on needs analysis is consistent with Doyle's (1994) and Mumford's (1993) views that MD needs should be strategically and holistically reviewed in response to changing environments.

As the staff program are developed and selected to match the company's organizational objective and specific required content, the MD selection has shown a dynamic learning orientation (Burgoyne & Stuart, 1991; Margerison, 1991). The company's overall organizational performance management system which links technical competence, human competence and business competence agree with Mole's (1996) suggestion that evaluation should adopt a holistic perspective to the extent which MD fits with the organizational needs and context. To this extent, the company's Management Development initiatives has provided justification to Dikken and Hoeksema's (2001) five major aspects of effective MD.

The justification described above show an explicit emphasis by the company on linking MD initiatives to business goals. It is observed that by concentrating on Dikken and Hoeksema's (2001) five major aspects of effective MD, it reflects the company's preference for action-based or result-oriented MD initiatives. This is congruent with the views of strategic MD suggested by Garavan (1995), Iles (1993) and Stewart and McGoldrick (1996).

### **8.3.5 CONCLUSIONS AND IMPLICATIONS**

The Quality of MD is the decisive factor for the company's continuous prosperity. Developing a competent workforce is currently the central agenda of the company's Master Plan and Action Plan Moving Forward. This is important to meet

the future challenges and aspirations of staff and branch offices to provide strong leadership at work. The strong commitment from everyone in the organization to strive for excellence has given MD initiatives good support and emphasis. The company's own experience has successfully created a culture of continuous learning through competence development. It brings out a very unique set of the company MD initiatives and development system. A company-wide development system for staff has created a clear direction. The system is categorized by position, course content, and a development system for agency and professional development through either a management path or sales path. The managerial implications of the above system on organizational excellence in the company are as follows:

- An increase in the effectiveness of MD initiatives, workforce needs and participation was emphasized to support integrated MD practices. As a result, the effectiveness of such endeavour has translated into better bottom-line performance.
- The staff and branch office development system are mutually conceived and aligned to build a winning team. MD initiatives thus exist to enable the practice of competence development throughout the company. A well-integrated development system has formed a coherent learning force among the company MD practitioners. This is obvious from the existence of a strong learning culture observed in the organization.
- Effective MD initiatives which are audited through consistent reviews have instituted a more practical and consumer-oriented competence development.
- The continuous improvement of product and service innovativeness is evidence of such implementation of effective MD in the company.



Finally, the company realizes the importance of developing a proactive and competent workforce who can make the difference and serves as a stock of performance capabilities for the organization. The past MD experience has helped to support such an awareness whereas the Action Plan “Moving Forward “is the direct result of long term or strategic move towards total capability and competent development in the organization.

#### **8.4 METHODS OF MANAGEMENT DEVELOPMENT**

Management development in Malaysia previously was not planned but rather a result of affirmative action. Most of the management training was focused on Malays and they could participate in free training whereas other races had to pay. This was not well received as most of the companies was none Malaysian ownership. The business owners were also very suspicious about this sudden enforcement by the government the initial development was also restricted and open to Malay Managers only. The problem the government faced was that there was not a sufficient pool of trained and skilled managers available. In the section about ownership development it will be clear that the Government did not had a pool of skilled people to take on the task.

Training Malay managers was the only solution. In order to meet the government goals of 30% Malay managers in the industry. It was necessary to develop a pool of educated skilled workforce. Malaysia had to engage in Management development that is planned, and systematic and should be a continuous process of learning and growth designed to induce behavioural change in individuals by cultivating their mental abilities and inherent qualities through the acquisition, understanding and use of new knowledge, insights and skills as they are needed for

effective management. The original development style of the government did not fit in the fast-developed economy. Management or executive development is a long-term educational future-oriented process. Managers are indispensable resources, the priceless assets of an organization. They generate creative ideas, translate them into concrete action plans and produce results. The outcomes of managerial actions are going to be deep, profound and decisive.

The methods and techniques of management development will be categorized under the following heads: -

1. On-the-Job Methods
2. Off Job Methods.

*On-the-job methods of management development: -*

1. Coaching
2. Job Rotation
3. Under Study
4. Multiple Management
5. Selected Readings
6. Committee's Assignments
7. Project Assignments and
8. Position Rotation.

On-the-job training development are highly preferred by, especially "Chinese and Indian" business owners.

*The off-the-job methods of management development are: -*

1. Case Studies
2. Conference Method
3. Role Playing
4. Sensitivity Training
5. Structured Insight
6. Stimulation,
7. Conference Training
8. Multiple Management
9. Special Meetings.

The "off the job" training methods were the government's choice in developing the Malay Managers. Flowing is a detailed description of these methods:

On-the-Job Methods: These are the methods in which learning of executive takes place at the job place. These are time and cost-saving techniques. On-the-job methods include the following:

i. Coaching: In this method, the superior guides and trains the subordinates or trainees as a coach. The content matter of coaching depends on the goals decided before the start of coaching. The coach guides the trainees, reviews their performance from time to time and suggests the changes required. This method works well if the coach and trainee are open with each other and there is effective communication between them. Trainees take an interest if they are recognized for improvement and rewarded for that.

ii. Job Rotation: According to Bennett, "Job rotation is a process of horizontal movement that widens the manager's experience horizon beyond limited confines of his own." Job rotation is a method in which a person is moved from one job to another on a pre-planned basis. There is a rotation of jobs until the trainee acquires knowledge about all related jobs. The purpose of job rotation is to increase the knowledge, skills, and understanding of trainees about various jobs. It increases their confines. The job rotation method is usually designed for junior executives and it may take a period of six months to two years for one rotation to complete.

iii. Under Study: In this method, one person is selected by a supervisor and trained like his descendant. He is prepared to assume full-time responsibilities of the position presently held by the supervisor. If the supervisor leaves the job or is in long absence due to illness, retirement, promotion or death, etc., then that trained person becomes available in the place of supervisor. Supervisor gets most of his work done by the trainee, discusses problems with him and involves him in decision-making. The

trainee is also allowed to attend discussions and meetings as a representative of the supervisor.

iv. Multiple Management: In this method, a junior board of executives is made to learn the skills of the Board of Directors (BOD). Major problems are analysed by the junior board and recommendations are given to BOD. This is beneficial to the junior board of executives as they learn problem-solving techniques and it benefits BOD as they get the valuable opinions of executives. Vacancies of BOD can be filled by a junior board of executives.

v. Selected Readings: In this method, development is through reading. Fluctuations are an integral part of the business because the business environment keeps changing. New and creative managerial techniques are also innovated in such an environment. Managers can get knowledge about the latest developments in the management world from selected professional books, journals, magazines, etc.

vi. Committee's Assignments: A committee is formed of trainee executives. In committee meetings, all participants participate and discuss. Knowledge is increased through education. They also learn various methods of problem-solving. Communication skills also develop.

vii. Project Assignments: In this method, a group of workers is given a project work related to their functional area. This group of workers is called a project team or task force. The project team studies the work project problems and finds the solution. In this process, trainees learn various procedures. For example, marketing officers may be given the task of checking the accessibility of a market. In this process, they will learn about segmentation, positioning and targeting also. They will learn about the relationship of the marketing department with other departments as well.

Off-the-Job Methods: In these methods, the development process is not carried out at the job location but somewhere outside the job area. The job, methods include the following:

i. Case Studies: In this method, trainees are given a case in writing. The case here means a business problem or a situation which demands a solution. Trainees have been directed to analyse the problem, find alternative courses of action, evaluate alternative courses and select the most appropriate solution. The trainer sees the solution and guides regarding it and ensures that no relevant fact is missed.

ii. Conference Method: A formal meeting conducted deliberately is called a conference. The participants discuss the topic and give their ideas. The conference can be divided into small sessions also. This method emphasizes on interaction and participation of trainees. This method also helps to develop conceptual knowledge, and modify attitudes and is suitable for a group of 15-20 persons. In a group with more than 20 persons, active participation would not be possible.

iii. Role Playing: In this method, trainees are given the roles in which they act on the stage. Role players act before the class. This is a realistic behaviour of imaginary situations. Roles are given for situations like hiring, firing, interviewing, grievance handling, disciplining a worker, presentation to clients or customers etc.

iv. Lectures: Lectures are an easy method for development when the number of trainees is large. It is cost-effective and consumes less time. Lectures are formally organized talks in which the instructor guides about specific topics. In lectures, various demonstrations, audio-visual aids and discussions can be used to the creation of interest among listeners. This method is useful when the purpose is to teach facts, concepts, principles, attitudes and problem-solving skills.

v. Group Discussion: In this method, one topic of study is discussed by members of a group. Through this discussion, the knowledge and communication skills of all group members improve. The topic is summarized by the chairman of the group discussion.

vi. In-Basket Exercise: In this method, employees are given a basket or tray or box containing papers and files which are related to their functional area. The trainee has to study these files and give his suggestions on the problem or situation. Suggestions of trainees are compared and conclusions arrived at. A report is also made of these suggestions.

vii. Management Games: Management or business games represent the real-life situations of business. Several teams of trainees are made who compete with each other or against the environment to achieve the objectives. Management games are of two kinds; the first interacting type is in which decisions or actions of one team affect the other. Second, non-interacting games, in which the decisions of every team are independent, do not affect others. Their results are entirely based on their competence. Management games train the trainees regarding communication skills, problem-solving techniques, dispute-handling skills, leadership qualities, etc.

viii. Sensitivity Training: This training is conducted under controlled conditions, so it is also known as Laboratory training. It is also known as T-Group training. The purpose of this training is to make executives able to understand how groups work, and how people interpret themselves and others. T-Group training aims at increasing the tolerance level of an individual also. The trainer in this training is usually a psychologist. The activities of training involve sitting group members around a table

and discussing for a long time. Sensitivity training brings a change in the behaviour of employees.

A large number of methods of management development have been designed and this section will discuss some of them below:

Method # 1. Special Courses: The executive may be required to attend special courses which are formally organized by the enterprise with the help of experts. The executives may also be sponsored to attend the courses conducted by the managerial institutions. This method is gaining popularity these days. It may be noted that only the big enterprise can send their executives to the management development courses run by the management institutes because the fee of these courses is very high.

Method # 2. Special Project: Under this method, a trainee may be assigned a project that is closely related to the objectives of his department. For example, the trainee may be asked to develop a system of cost control in the execution of an order. The trainee will study the problem and make recommendations for it. This project will also help in educating the trainee about the importance of cost and understanding the organizational relationships with the accounting and other departments. Thus, the trainee acquires knowledge of related subjects also.

Method # 3. Committee Assignment: Under this method, an ad-hoc committee of junior executives is constituted. It is assigned a subject to discuss and make recommendations. The committee has assigned objectives and responsibilities related to the work of the organization. It will make study the problem and present its suggestion to the departmental managers. Committee assignments can provide the necessary general background to the trainees because every member of the

committee gets a chance to learn from others. It is an important device for educating the executives and changing their behaviour towards the selected problem.

**Method # 4. Case Study:** The case method is a means of simulating experience in the classroom. Under this method, the trainees may be given a problem to discuss which is more or less related to the principles already taught. This method allows the trainee to apply his knowledge to the solution of realistic problems. Here, the trainee is expected to study the information given in the case and make decisions or give a conclusion based on the situation. If the student is provided with a case of an actual company, he is expected to research the firm to gain a better appreciation of its financial condition and corporate culture. It is also necessary to come up with good case material based on real-life situations and present the same before trainees in an interesting manner. When cases are meaningful and similar to work-related situations, trainees can improve their decision-making skills and problem-solving abilities.

**Method # 5. Conference Training:** A conference is a group meeting conducted according to an organized plan in which the members seek to develop knowledge and understanding through oral participation. It is an effective training device for persons in the positions of conference member and conference leader. As a member, a person can learn from others by comparing his opinions with those of other members. He also learns to respect the views of others and to realize that there is more than one workable approach to motivating people through his direction of the discussion. He learns the effect of closely controlling and dominating the discussion as compared to adopting a more permissive type of direction.

**Method # 6. Management Games:** A variety of business and management games have been devised and are being used with varying degrees of success in the



development program. A management game is a classroom exercise in which teams of students compete against each other to achieve common objectives. The game is designed to be a close representation of real-life conditions. The trainees are used to make decisions about production cost, research and development, inventories sales etc., for a simulated organization. Since they are often divided into teams as competing groups, experience is also obtained in teamwork.

Method # 7. Sensitivity Training: Sensitivity training or T-group training means the development of awareness and sensitivity to the behavioural patterns of oneself and others. It is an experience in interpersonal relationships which results in a change in feelings and attitudes towards oneself and others. T-group helps unlearn and learn certain things. They help the participants to understand how groups work and give them a chance to discover how they are interpreted by others. It also aims at increasing the tolerance power of the individual and his ability to understand others. The sensitivity training program is generally conducted under controlled laboratory conditions.

## **8.5 APPROACHES TO MANAGEMENT DEVELOPMENT**

In the course of the study inclusive of interviews and discussion various components and parts of a possible management development models were explored. The first and most probably the most important of this was the overall approach and attitude of the company to management development. It was found that twenty three of the twenty-five companies in Strength Group 4 (FS4) were either European or multinational. Most of them had been in Malaysia for some time and some of the agency houses dated from the end of the nineteenth century. The need to “Malaysian” the management had forced these companies to concern themselves with

management development, and some of them readily admitted that before government policies, virtually no thought had been given to the matter so many of the old agency houses and management agents, management was almost entirely expatriate up until the mid-'50, and in some cases, the mid-'60 with a reduction in the '70, but the replacement was with Chinese nationals and not Malays.

However, in both the important plantation and the mining industries “Malaysianization” agreements were concluded with the Government allowing for a relatively slow run down of expatriate management<sup>356</sup>. This was particularly the case in the tin mining industry which could argue with good reason that there were very few Malaysian mining engineers. An aspect of the government agreements was the company’s provision of scholarships to prepare suitable Malaysian management recruits. Training firms on the other hand have had to “Malaysianized” rapidly. As one company chairman explained, when they did this they went to the largest, best educated, most sophisticated reservoir of potential managers, Singapore, which between 1963 and 1965 was part of Malaysia.

The result was that they “Malaysianized” almost entirely with Chinese Malaysian managers and this has created fresh problems with the insistence on racial balance in management. Multinational companies spend by far the most time, attention and money on management development. In many of them, it is a line management responsibility and forms part of an international policy of management

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<sup>356</sup> Silcock, explaining this, wrote in 1963: "It must be appreciated that the rubber and tin industries in Malaya were built up under a colonial regime, and their directors and shareholders might well react nervously to any interference. The government is well aware that excessive dependence on one or two export crops makes the economy very vulnerable; but it is unwilling to act vigorously to overcome this vulnerability, and believes that minor interference, if it led to capital flight could do more harm than good. The agency houses, which control so much of Malaya's rubber, tin and trade, are therefore subjected to very little pressure to build up effective local management or control. T.H. Silcock "Communal and Party Structure, The Political Economy of Independent Malaya. T. H. Silcock and E. K. Fisk, eds., p. 25.

development in the company. However, many of them took it beyond the stage of mere policy: of all the chief executives interviewed it was those from multinational companies.

Since the New Economic Policy (NEP) this has changed, however, it accounts for the continued presence of a relatively high proportion of European managers in the tin and rubber industries that showed the most concern for and had given the most thought to, as far as the development of their managerial staff is concerned. They clearly considered it a vital factor in the overall success of their company and this was reflected in every aspect of their management development program. As the Government policies had some loopholes the Multinational and FS5 categories, and could still bring in expatriates in to senior management positions to manage their businesses. Careful manpower planning is practised and in the case of top senior managers as much as 10 to 15 years ahead. The potential manager then undergoes a program of development tailored to his needs and career potential. However, not all multinational companies plan so carefully; the scale of the operation appears to have some bearing on the company's approach. A number have small subsidiaries in Malaysia and in these, the international company's management development philosophy may not fully implement. While all can draw on the considerable expertise available at head office, in a few cases this was not used. Indeed, it was interesting to see how much influence a particularly enthusiastic chairman or training manager had: in a number of cases the reduction in a company's management development activities appeared to be closely related to the departure of a particular person.

The extractive companies-tin, rubber or oil palm - had a very similar approach to management development. They sought to recruit a man with the most suitable

qualifications for the job, during the first few years required him to pass professional examinations — the dredge master's certificate or the Incorporated Society of Planters (ISP) Examinations for instance - and once that initial period of training was over, the development of the manager was left largely to experience. The rubber industry had annual technical conferences organized by the Rubber Research Institute of Malaysia (RRIM; Malay: Institute Penyelidikan Getah Malaysia)-attended by both Chinese and European planters. The conferences made a very important contribution to keeping the industry up to date. However, there appeared to be very little attention given to the development of managerial skills in these industries, despite the large numbers of managers involved, and the tremendous pressures to improve efficiency. Indeed, in both industries there has been a drop in the number of managers employed per acre, or the mining environment, increasing the degree of responsibility of each manager. The reason for the apparent lack of management development in the plantation industry was that experience was considered to be the most important factor in making a manager in such a highly labour-intensive industry. However, one suspects that these industries are also strongly affected by the natural conservatism of long-established successful industries and are reluctant to change to new ways that may not seem immediately applicable. They have tended to be paternalistic, in the most positive, as well as in a rather negative way, and in the very isolated conditions under which managers work in this mixture of experience and paternalism, reinforced periodically with a conference on the most up to date developments in the industry, has proven reasonably successful.

The manufacturing industry divided itself into two parts, the Chinese companies are largely in the older, more labour-intensive industries, and the European and

multinational companies are usually in the newer, more capital-intensive ones. The latter group tended to be particularly concerned with the technical development of its management. While new manufacturing concerns can bring in expatriates to help establish a factory they are required to phase out all foreign experts except for key positions within the first few years.

There is therefore a great deal of emphasis on the rapid development of local managers with the technical skills required. Even in the more established manufacturing concerns, there was a natural bias towards technical training. However, some multinational companies had reached the stage where they could also turn their attention to the development of management skills. The success of their approach is indicated by one researcher's finding that in the Malaysian manufacturing industry size of the operation as measured by the number of employees has a favourable impact on efficiency as measured by capital utilization, probably because large establishments enjoy technological and management economies of scale<sup>357</sup>.

The wholesale trade was very well represented in the study, there were general wholesalers - usually agency houses or car dealers, and a very large number of small Chinese rubber traders, and here small refers only to the size of the management and not to turn over. In this industry there seemed to be a consensus between European and Chinese firms in their attitudes to management development: namely, that it was of little importance, the ability to sell could not be taught, the experience was the most important factor and managers learnt as they went along. There is fierce competition in the wholesale and retail trade and profit margins are often very small, as a result, training tends to be considered a luxury that can be dispensed with. The only exception

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<sup>357</sup> D. Lim, "Capital Utilization in West Malaysian Manufacturing. 34.

is product knowledge and both Chinese and European companies send their staff to visit principals where it is necessary to learn about new products. The result of this sort of attitude is the situation one firm found itself in wishing to adopt a more progressive approach and diversify into new fields but finding the old staff unadaptable, they were forced to bring in new staff with a fresh outlook.

By far the greatest proportion of Chinese companies was in the service industry, as traders and middlemen. In such companies, there is no investment appraisal or planning, and they work with virtually no capital making their money by buying on credit. They sell the goods, use the money so gained for the period of credit, often doubling it and more, and then repay the initial debt. They make money particularly out of the fluctuations in the price of certain commodities, and speculators and gamblers take each opportunity as it comes. Since a Chinese businessman can only make money if he has a good credit rating his relationships within his community are extremely important. It was for these reasons that experience was considered to be the key element in the development of a manager - to acquire a 'feel' for the market and to establish one's credentials within the community. Because little capital is required to do business and a Chinese company tends to be very flexible and may become involved in all sorts of different activities. Chinese companies were said to be able to operate where European companies could not because they were dispensed with all the frills, especially in terms of highly paid, highly trained managers. Formal management development not only seems to be irrelevant to such companies, but it also seems to run counter to their business interests.

An aspect of the Chinese business community that affects its attitude towards management development is its conservatism and introversion. It is subdivided into

closely knit, often clan-based, industrial groups. This has been a form of protection in a country in which in the past they were not deemed to be entitled to a permanent place. At the present, the Government policy of discrimination in favour of the Malays operates against those who are not Malays, and the Chinese with their dominant position in the low technology service and manufacturing sectors are a prime target. This threat makes their closely-knit industrial groupings even more important for they are almost the only means of protecting the Chinese. Despite the flexibility of Chinese companies in business these groupings tend to have a powerful conservative influence on the management style or philosophy of Chinese companies since they need the trust and cooperation of their fellow companies to operate in an increasingly difficult environment and a change of management philosophy would threaten that.

Rubber traders seemed to epitomize the conservative Chinese approach to management, believing in no form of management development other than the long experience in the trade. Planning was ruled out they said, by the unpredictability of the market and the uncertainties of the political situation in Malaysia. They form a closely knit, business enclave almost all of whom are Chinese, and the great majority are Hokkien. It is an enclave bound by tradition with a dislike for strange, new methods. As one trader said, "No one ever talks about management things", and to do so would be to incur the distrust of the community. He described how he had learnt the trade as a child spending half a day at school and the other half of the day in the shop working. During the vacations, his father introduced him to other rubber dealers and on leaving school he entered the business.

Over half the Chinese companies in the sample were family firms and this strongly affected their management style, with authority tending to be centralized

among the senior family member. A Chinese businessman explained, "Business means making money and making money means decision-making." It is thus the crux of business activity and cannot be delegated; the fact that the welfare of the family is at stake reinforces this. On the other hand, it was sometimes felt by the younger generation that this degree of centralization stood in the way of change and adaptation.

Studies of the Chinese firm carried out in Hong Kong and Singapore have also found it is characteristically autocratically managed with a very high degree of centralization of decision-making and consequently very little consultation with junior managers<sup>358</sup>. Status differences are strongly emphasized and deference is shown accordingly. "Chinese subordinates are said to pass responsibility up the line. They would also bow quickly to authority, studiously avoid conflict and rarely assume the initiative. This situation cannot be conducive to the development of management skills and the Chinese company does not give much thought to management development.

This leads to a further characteristic of Chinese companies: they tend to lose their most promising managers. When a company employs none family members as managers, generally without executive authority, the most enterprising young managers will seek to train themselves and as soon as they have learned as much as possible, they will set out on their own. Chinese were said to prefer being their bosses. As a result, those who stay are likely to be the less dynamic, less able, individuals, whose example only serves to reinforce the chief executive's resistance to delegation. It also explains the complaint of Chinese firms that, "if you train them they will leave".

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<sup>358</sup> F.C. Deyo, *Decision-Making and Supervisory Authority in Cross-Cultural Perspective*. pp. 5-6.



Where the Chinese company succeeds in developing managers it does so by providing a few men from the right family, men with the early character training and general background to suit them to business, with an opportunity to prove themselves in the family company. In the Chinese business community as a whole, there was the constant insistence on the key role of experience in the development of a manager, coupled with scepticism towards "book knowledge". This is, of course, fairly characteristic of the small firm and the same attitudes tend to be expressed by small British firms. In the case of Chinese firms, it seemed to be a barrier to further development. There was general recognition that where the younger generation had acquired a polytechnic or university education they would be unwilling to return to such a firm, for the salary offered would be too low, and they would not fit in. Indeed, it was said that in a Chinese company there is a great deal of hard work for comparatively small rewards. Parents try to give their children a Western education so that they will not need to work for such a company, and they will be able to get a position in a European company or become self-employed professionals. Where young family members had returned to the family firm after receiving a higher education through a sense of obligation or the insistence of the family, they felt an acute sense of frustration at the resistance to change, at the traditional, intuitive style of management, and at their lack of executive authority, a frustration that came across clearly in the interviews. With the brightest and most enterprising individuals tending to leave, the future of this type of small, conservative, family firm is fairly bleak.

In Chinese firms, the requirement for technical expertise is usually limited. Of the 5 Chinese companies in the sample, 30 were in the service industry, 14 were in manufacturing and 7 were in the extractive industry. Those in manufacturing tended

to use relatively simple forms of technology — light engineering firms, sawmills, and biscuit factories, for example. Where greater technical expertise was required, for instance in more modern manufacturing operations, Chinese companies were pragmatic and trained their managers in the appropriate skills. Although little attention was given to managerial skills these companies appeared to be more adaptable and open to change, less bound by tradition than those in the older industries.

The comments of a small local manufacturer of cement products summarize the attitude of the Chinese businessman: In my particular line, we have so many small things and products to consider, our products are not standardized and each client always insists on his specifications and design. It is impossible to use any sophisticated production methods. These companies normally stick to the methods they have devised through trial and error. Further, they have been making money all along and are in a position to compete effectively with a big public company manufacturing similar products and utilising—called modern management techniques. They do not consider it necessary to change and run the risk of a loss by introducing ideas which are theoretically sound but costly to implement. The clients of this type companies are usually contractors. The towns of the small business attitude are normally one of - you cannot deal with them like the way you deal with big modern business. Our relationship is based on trust and we cannot expect to demand collateral or examine their credit standing or the viability of the project.

Moreover, these owners are busy that if were to spend their time working on costly information systems, profit planning, idealistic optimal solutions, and attending all the management courses and seminars conducted by management theorists with strings of qualifications but hardly any practical experience, they would have no time

left for making a profit. The concept of the owner-manager is that these big ideas, which may apply to large Western corporations, are not necessarily applicable to local firms, particularly small businesses<sup>359</sup>.

As these remarks make clear, the lack of emphasis this Chinese company has placed on management development has not deterred it from making a handsome profit. Indeed, the neglect of management training has tended to make economic sense. The same can be said for technical training: with cheap labour, the Chinese company can afford to pay little attention to technical efficiency<sup>360</sup>. One researcher found, small industry. . . suffers from a variety of. . . problems such as outmoded techniques of production; ineffective marketing organization poor quality of the product; and inefficient management<sup>361</sup>. Yet it has continued to make a profit and claim a substantial share of the local market. However, if this has been the case in the past it is not likely to be so in the future as companies become increasingly export-oriented and digitalized and have to compete in terms of quality of products and efficiency in the international market.

The Indian business community is relatively small and has not been singled out for close study. Only three Indian companies appeared in the sample and those three were very similar in their approach to management development to the Chinese companies. Two of the three were family companies and had the same firm, an autocratic form of management to be found in Chinese companies and all of them put a great deal of emphasis on experience and hard work in making a manager. All three

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<sup>359</sup> Quoted in Lam Hee Thong, "High Productivity and Poor Working Conditions Malaysian Business, August 1976, p. 41.

<sup>360</sup> Papanek found the same situation amongst the entrepreneurs in Pakistan. G. F. Papanek, Pakistan's Development, Social Goals and Private Incentives. p. 62.

<sup>361</sup> Cheng Peng Lim, "Small Industry — its role in the industrial development of the Malaysian economy, Paper given at Third Convention, Malaysian Economic Association, 1976, p. 35.

were in the service industry and had little need for technical training, while management training was considered unnecessary.

## **8.6 MANAGEMENT STYLES IN SMALL AND MEDIUM-SIZED ENTERPRISES**

Management styles have received much attention as a field of study as well as practice. This section of the study will focus on the management styles embraced by small and medium-sized enterprises (SMEs), especially in the Malaysian context.

The performance of Malay organizations depends very much on how well they are being managed. With regard to the performance of organizations, some continue to sustain their success while others appear to be less successful. Most often, the successful organizations are able to perform and sustain their operations due to effective management styles. With regard to the unsuccessful organizations, in many cases, they fail because of mismanagement. Over the years, various management styles have been introduced into Malaysia. At the same time, numerous studies have also attempted to investigate the management styles that can help companies to improve their performance and help to sustain their competitive advantage. Previous studies have primarily concentrated on examining the management styles used by successful as well as excellent companies. These studies have attempted to not only scrutinize the way these companies are being managed but also strived to identify as well as learn the styles of management that make them successful<sup>362</sup>.

Findings of past studies reveal several specific styles of management adopted by different organizations. Apart from being able to identify several types of management styles, these studies have also promoted the styles that are able to influence the performance of successful companies. Interestingly, each of these

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<sup>362</sup> Meggeneder, 2007; Ogbeide & Harrington, 2011; Uche & Timinepere, 2012).

studies further claims to have found a specific management style that can contribute to the growth as well as continued success of companies <sup>363</sup>.

Earlier studies that examined management styles began in the 1960 and 1970. However, past studies on management styles mainly investigated the styles of management in unionized organizations. These studies found that management of these organizations emphasized on consultation and negotiation styles when dealing with their employees and unions. However, following the decline of the number of the unions in the 1980, organizations began to search for new forms of management styles to help them maintain the relationships between employees and employers.<sup>364</sup>

With regard to the definition of management style, findings of prior studies indicate that various definitions have been used in previous research. Different authors have defined management styles in many different ways. For instance, in a more recent study, Dundon and Rollinson (2011) referred to management styles as not only a manager's preferred approach to handling matters concerning employees and employment relations but also the styles reflect the way that the manager exercises his or her authority as well as makes decisions.

Various factors influence management styles. The factors that shaped management styles in organizations involve not only external factors such as the government, labour market, economics and competition but also internal factors that include; core values, purpose, management philosophies of the owners and founders, managers and business strategies of the organizations. Management styles are considered important because they play a key role in determining how organizations

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<sup>363</sup> Cassell, Nadin, Gray, & Clegg, 2002; Champoux & Brun, 2003; Dimmock, 1999; Harney & Dundon, 2006, 2007; Harvey & Turnbull, 2006; Matlay, 1999, 2002 a, 2002 b; Rainnie, 1989).

<sup>364</sup> Bacon, 2008; Dundon & Rollinson, 2011.

are managed and controlled.<sup>365</sup>

Over the years Malaysia realizing the importance of management styles to organizations, numerous attempts have been made to investigate the types of management styles adopted by organizations. The review of the findings of past studies indicate that organizations not only adopt different types of management styles but also the styles of management vary between different organizations due to various external environmental factors as well as internal organizational factors.

This section of the study was based on data collected from SMEs that operated in the manufacturing sector in Malaysia. The SMEs in the study were defined as those firms that employed 10 to 300 employees. Using this definition, the study identified and selected 1,867 firms from the 2014 Federation of Malaysian Manufacturers (FFM) Directory of Malaysian Manufacturers. The primary data for the study was collected by using a structured questionnaire. The structured questionnaires were posted to the senior managers of the 1,867 selected SMEs. Of the total of 1,867 questionnaires mailed, 186 usable questionnaires were returned, yielding a response rate of 9.96 per cent.

The structured questionnaire used in the study was divided into three sections. The first and second sections of the questionnaire contained 34 items that were used to gather general information concerning the background of the respondents and the characteristics of the SME's. The 30 items in the third section were adapted from past research to measure the five management styles (autocratic, participative, nurturant task, paternalistic and laissez-faire) adopted by the SMEs. The respondents were asked to rate the management styles by using a five-point scale that ranged from,

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<sup>365</sup> Bray, Waring & Cooper, 2011.

least like you (1) to Most like you (5). The questionnaire was tested prior to posting to the respondents. The coefficient alpha scores of the five management styles range from 0.79 to 0.88.

Table exhibits the profile of the respondents that were involved in this study. Of the 186 respondents, 94 respondents (50.5%) were managers, 60 respondents (32.3 %) were owners cum managers, 18 respondents (9.7 %) were owners as well as Chief Executive Officers, six (3.2 %) were owners and the remaining eight respondents (4.3 %) were executives. In terms of race, the Chinese constituted 77.4 % of the respondents, followed by the Malays (15.1 %), the Indians (3.8 %) and other races such as Eurasian and Japanese (3.8 %). Most of the respondents were male and married. The age of the respondents ranged from 26 years old to more than 40 years old.

With regard to their education, 155 (83.3 %) of the respondents had a bachelor degree, five (2.7 %) had a master's degree, one (5 %) had a PhD degree, 18 (9.7 %) had a diploma, and seven (3.8 %) had only a secondary school certificate. Most of the respondents had been with their companies for more than a year. As for prior work experience, majority of the respondents (87.1 %) have less than ten years of experience.

*Table 20 The profile of the respondents*

<b>Position</b>	<b>Frequency</b>	<b>Per centage</b>
Owner and CEO (Managing Director)	18	9.7
Owner and a manager	60	32.3
Manager, but not an owner	94	50.5
Owner, but not a manager	6	3.2
Others	8	4.3
<b>Ethnic</b>		
Malay	28	15.1
Chinese	144	77.4
Indian	7	3.8
Other	7	3.8

<b>Gender</b>		
Male	153	82.3
Female	32	17.7
<b>Marital Status</b>		
Married	122	65.6
Remarried	5	2.7
Never married or single	51	27.4
Divorced or separated	5	2.7
Widowed	3	1.6
<b>Level of Education</b>		
School certificate	7	3.8
Diploma	18	9.7
Bachelor's Degree	155	83.3
Master's Degree	5	2.7
PhD Degree	1	0.5
<b>Year of Experience</b>		
1 – years	84	45.2
6 – 10 years	78	41.9
11 – 15 years	12	6.5
16 – 20 years	9	4.8
More than 30 years	3	1.6

### **8.6.1 CHARACTERISTICS OF THE SAMPLE FIRMS**

The table displays the characteristics of the sample firms that participated in the study. Out of the total number of 186 companies, 46 were private limited companies, 67 companies were partnerships and the remaining 73 companies were sole proprietors. In terms of employment, 73 companies (39.0 per cent) employed between 10 to 50 employees, 57 companies (30.5 %) employed between 51 to 100 employees, 25 companies (13.4 %) employed between 151 to 200 employees, 10 companies employed (5.3 %) and the remaining 4 companies (2.1 %) employed between 251 to 300 employees.

The 186 companies in the study operated in various different industries. Of the total 186 companies, 30 companies (16.1 %) were involved in metal products industry, 22 companies (11.8 %) operated in the plastic product industries, 19 companies (10.2 %) represented the food and beverage industry, 19 companies (10.2 %) were involved in motor vehicles industries, 16 companies (8.6 %) operated in the chemical industry,



15 companies involved in electrical industries and the remaining 65 companies represented the other industries such as ceramic, concrete, customer products, fertilizer, furniture and fixtures, hardware and machinery, textile, motor vehicles, non-metal products, paper products, printing, pharmaceuticals, wood, vegetable and animal oils and fat products, and rubber products. Most of the companies had been in operations for more than ten years. Of the 186 companies, 88 companies (47.1 per cent) had been in business for more than 20 years.

*Table 21 The characteristics of the sample firm*

<b>Legal Form of Business</b>	<b>Frequency</b>	<b>Per centage</b>
Sole proprietorship	73	39.2
Partnership	67	36.0
Private limited company	46	24.7
<b>Number of Employees</b>		
10 to 50 employees	73	39.0
51 to 100 employees	57	30.5
101 to 150 employees	25	13.4
151 to 200 employees	18	9.6
201 to 250 employees	10	5.3
251 to 300 employees	4	2.1
<b>Industry</b>		
Ceramic	2	1.1
Chemicals	16	8.6
Concrete	1	.5
Customer Product	1	.5
Electrical	15	8.1
Fertilizer	2	1.1
Food and Beverage	19	10.2
Furniture	4	2.2
Machinery	10	5.4
Pharmaceuticals	5	2.7
Metal Product	30	16.1
Motor Vehicles	19	10.2
Non-Metal Products	6	3.2
Paper Products	5	2.7
Plastic Products	22	11.8
Printing	11	5.9
Rubber	7	3.8
Textile	2	1.1
Communication Product	3	1.6

Vegetable and Animal Oil and Fats	4	2.2
Wood	2	1.1
<b>Age of Firms</b>		
3 to 5 years	2	1.1
6 to 10 years	5	2.7
11 to 15 years	41	21.9
16 to 20 years	51	27.3
More than 20 years	88	47.1

### 8.6.2 MANAGEMENT STYLES ADOPTED BY SMES

As far as the management styles of the SMEs are concerned, the information obtained from the responding firms in general suggest that these firms emphasized on five management styles as documented in the literature. The five management styles include autocratic style, participative, nurturance task, paternalistic and laissez-faire. The means and standard deviation scores of the 30 items that were used to measure the five types of management styles investigated in the study are summarized in the following Table \_\_\_\_\_ through Table\_\_\_\_\_. The results presented in Tables and indicate the five management styles adopted by the responding firms.

#### 8.6.2.1 Autocratic Management Style

As shown in the table, the mean scores for the five items used to measure the autocratic style of management ranged from 3.62 to 3.81. The highest mean (3.81) in this autocratic management style is the task to force the employees to increase their current performance. The high mean values suggest that the SMEs in the study adopted autocratic management style.

*Table 22 Mean and standard deviation scores of autocratic management*

Dimensions of Autocratic Management Style	Mean	Std. Deviation
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Often decides without consulting others	3.6183	.85708
Gives direction about how to do things	3.6237	.81093
Talk to others into doing things based on the	3.6935	.74809
Needs to push the employees to work harder	3.7742	.85903
Forces the employees to increase their current	3.8118	.78642

### 8.6.2.2 Participative Management Style

The following tables present the means and standard deviation scores of the seven items that were used in the study to measure participative management style. According to the figures shown in Table 28, the mean values of the participative management style ranged from 3.68 to 3.87. The highest mean (3.87) in this participative management style is the task to treat all group members as equals.

*Table 23 Mean and standard deviation scores of participative managements*

<b>Dimensions of Participative Management Style</b>	<b>Mean</b>	<b>Std. Deviation</b>
Treats all group members as equal	3.8710	.82168
Grants full freedom to the employees, so that they	3.6774	.87810
Grants autonomy to the employees, so that they	3.7903	.90888
Provides all information to the employees	3.7849	.85550
Let the employees jointly find the solution to a	3.8118	.82663
Decisions made by the manager are always by a	3.8226	.75389
Allow employees to share their ideas and	3.8441	.87758

### 8.6.2.3 Nurturance Task Management Style

The means and standard deviation scores of the six items used to measure nurturance task management style are summarized in Table 29. As shown in Table 29, the figures show that the mean scores of employee participation ranged from 3.76 to 3.83. The highest mean (3.83) in this nurturance task management style is the task to give specific directions to the employees when necessary.

*Table 24 Mean and standard deviation scores of nurturance task management*

<b>Dimensions of Nurturant Task Management Style</b>	<b>Mean</b>	<b>Std. Deviation</b>
Take special care that work gets top priority	3.7688	.78863
Expects the employees to increase their knowledge	3.7581	.82565
Always keeps track of the progress of work	3.7796	.80526

Believes that one can grow up by learning to do a job	3.8011	.73389
As and when necessary, gives specific directions to	3.8333	.79128
Sees that employees work to their capacity	3.8118	.86498

#### 8.6.2.4 Paternalistic Management Style

The means and standard deviation scores of the six items used to measure paternalistic management style are displayed in Table 30. The figures in Table 30 indicate that the mean scores of paternalistic management style ranged from 3.43 to 3.84. The highest mean (3.83) in this paternalistic management style is the task of generously giving advice and support when the employees seek their opinion.

*Table 25 Mean and standard deviation scores of paternalistic management style*

Dimensions of Paternalistic Management Style	Mean	Std. Deviation
Generously gives advice and support when the employees seek the opinion	3.8387	.83557
Consults the employees when making decisions, but for the final decision, the manager tends to remain with his/her original idea anyway	3.4355	.96905
Feels responsible in looking after their employees	3.5699	.86865
Often involved in family matters of employees	3.6828	.83273
Often helps employees with non-related matters	3.7688	.82874
The atmosphere in this company is family-like	3.8280	.75156

#### 8.6.2.5 Laissez-Faire Management Style

Table 31 provides the means and standard deviation scores of the six items that were used in the study of the laissez-faire management style. The figures in Table 31 show that the mean values of laissez-faire management style ranged from 3.71 to 3.87. The highest mean (3.86) in this laissez-faire management style is the task to frequently allow the employees to decide on how to do their tasks.

*Table 26 Mean and standard deviation scores of laissez-faire management style*

Dimensions of Laissez-Faire Management Style	Mean	Std. Deviation
Believes that employees in this organization will come up with the best working methods when given minimal instruction	3.7097	.76520
Often consult with employees	3.8118	.80005

Often let the employees make their decision, but the manager is responsible for the decision they make	3.8548	.86080
Often let the employee analyse the situation	3.8226	.80251
Often allow the employees to determine what needs to be done	3.8011	.81087
Often allow the employees to decide on how to do their tasks	3.8656	.84354

The results of the study show that in general the 186 SMEs adopted five management styles that have been emphasized in past studies. More specifically, the empirical evidence obtained from the study indicates that the SMEs involved in this study appeared to adopt five styles of management that include; autocratic, participative, nurturance task, paternalistic and laissez-faire. In addition, of these five management styles, the results seem to suggest that participative management style is most dominant among the SMEs.

As mentioned previously, despite the importance of management styles to organizations, research in this area remains limited, particularly in the local context. This suggests opportunities for researchers interested to further explore the management styles of SMEs. Although the results of this study suggest that SMEs adopt five types of management styles, this conclusion should be regarded as only suggestive since it is based on one study. Therefore, more empirical research is needed and will be particularly useful in providing more empirical evidence to support the findings of this study as well as to identify other management style that is not included in this study which may also be useful to the SMEs.

## **8.7 DEVELOPMENT OF NEXT-GENERATION LEADERSHIP IN MALAYSIA**

One of the most important, yet hardest tasks for corporations in Malaysia today is finding and retaining the leadership talent capable of effectively leading the organizations tomorrow. The next generation leaders need to run organizations that are global and culturally diverse, in an ever-changing business and technology

landscape. The section will investigate the most important aspects of developing the next generation leaders towards executive positions. Secondly it is to highlight opportunities for improving current leadership development practices in the Malaysian socio-economic context.

The findings of this study derive from 42 semi-structured interviews conducted with current executive level leaders and high potential leaders in 11 selected Western multinational corporations in Malaysia. By analysing the differences and similarities in how current executives and high potential leaders view the expectations and realities of leadership development, the findings evidence a need for more practice oriented and coordinated talent management strategies. High potential leaders are ready to take on executive leadership positions once they have developed a level of executive maturity. Executive maturity is a concept introduced by this study, and is defined through five dimensions that should simultaneously be developed through practicing leadership and strategizing in learning environments that are out of high potential leaders' comfort zones. In doing so, the high potential leaders are expected to become the change agents in driving towards innovative workplaces and open leadership styles in Malaysia.

This section of the study will focus on basic four questions. The study also views the potential differences in the context of the main business challenges in Malaysia. Efforts will be made to outline the main hindering factors to the development of high potential leaders to be better prepared to take over executive leading positions in coming 5-10 years.

**Q1:** Given the rapid socio-economic development of Malaysia over the past decades, what are the key challenges to the MNCs' business strategies for the

future?

**Q2:** How high potential leaders' views differ from how current executives perceive leadership and leadership development?

**Q3:** What is important for high potential leaders to develop in order to be effective leaders in the future?

**Q4:** How do MNCs ensure that leadership development in today's business context is matching with what is needed for business strategies in the future?

The definition of MNC is following the one employed by Encyclopaedia Britannica, which states that MNC is a company that is registered and operating simultaneously in more than one country and typically adhering to economies of scale both vertically and horizontally.<sup>366</sup> All MNCs included in the scope of the study employ between 16 000 and 150 000 employees globally and operate in more than 70 countries. The sizes of Malaysian subsidiaries vary from about one hundred to several thousand employees. The study is limited to only MNCs that are present in Kuala Lumpur, Perak, Selangor and Putrajaya regions, as these in combination employ nearly 30% of the country's labour force<sup>367</sup> and host larger amounts of MNCs compared to other areas<sup>368</sup>.

In the year 1980, when the country was still in the early phases of industrialization (UN, 2012). Within thirty years the population doubled and the age groups became more equalized. Both UN and Malaysian authorities estimate the pace of growth to slightly decline due to controlled fertility rates and international migration, but still grow by about 10 million during the next forty years<sup>369</sup>. The productive age

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<sup>366</sup> Britannica, 2014

<sup>367</sup> Department of Statistics Malaysia, 2014

<sup>368</sup> Ernst Young, 2012

<sup>369</sup> DOS, 2014; UN, 2012

group, 15-64 years, is predicted to increase, while at the same time the population aged over 64 years is expected to grow three-fold and thereby transform Malaysia to an aging society (DOS, 2014).

### **8.7.1 LEADERSHIP CHALLENGES FOR MNCS IN MALAYSIA**

The business environment today is characterized by increasing globalization, fast changing workplace dynamics, disruptive technologies and new competition entering markets (Caligiuri, 2006), hence the leaders of today and tomorrow need to deliver in a world with far less continuity and higher uncertainty (Pardey, 2008). This generates new demands and challenges on leaders to create and sustain their organizations in highly competitive markets (ibid). MNCs see leadership development and talent management as a top priority (Stahl et al., 2012b), as developing and keeping a sustainable pool of high potential leaders is the main way to gain competitive advantage (McCall, 1998).

Over the recent decades, Malaysian government has been taking actions in developing towards a knowledge economy, including efforts in boosting entrepreneurship (Cheng et al., 2009). Formal entrepreneurship education has however failed to teach the skills needed for leading knowledge intensive industries (Cheng et al., 2009). The transition towards a knowledge economy requires the business leaders in Malaysia to be systematic in how they ensure the sustainability of their organizations, by achieving business targets without compromising the cohesiveness of their communities (Hallinger, 1998). Leadership approaches therefore need to be rethought as the firms' priorities change, as Wahat, Krauss, & Othman (2013, p. 298) point out, the development of leadership in Malaysia should go hand in hand with organizational strategy, *"As leaders are the ones who define an*



*organization's future."*

As elaborated in the previous chapters, the main leadership challenge for all companies not just Western MNC in Malaysia is the lack of skilled labour that is becoming less loyal on one hand, while still maintaining a distinct mix of Malaysian values on the other hand. Dun & Bradstreet (2013) estimates that the demographic structure in Malaysia remains favourable in coming decades from the economic point of view, as the increase in productive population will balance the healthcare and pension costs of the growing aging population, as well as drive domestic demand in the medium to long term. Consequently, together with redesigning the organizations to remain competitive in the transforming economic landscape and new type of competition on both local and global markets<sup>370</sup>, the retention of skilled labour is the key challenge for MNCs in Malaysia<sup>371</sup>.

### **8.7.2 THE VIEWS ON LEADERSHIP AND LEADERSHIP DEVELOPMENT**

In the development of leaders and the development of leadership, it is important to make a difference between the two (Day, 2001). Leadership development goes back many decades; hence a broad range of definitions exists for both. Also, there is confusion between the meaning of leadership and management both in academia as well as in organizations, where definitions overlap or are non-excluding<sup>372</sup>. Kotter (1999) argues that people say leadership but explain management. The differences between leader, leadership and management are:

- A leader is the actions that one takes, leaders reward excellency, encourage personal and professional growth, act as role models and set future directions

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<sup>370</sup> Pearson & Entekin, 1998

<sup>371</sup> Rahman, 2012

<sup>372</sup> Day, 2001; Day et al., 2014; Kotter, 1999

(Winston, 2007). Leader skills are the human knowledge and skills (Day, 2001).

- Leadership refer the roles that come with and without formal authority (Day, 2001), it is the ability to inspire others to follow (Pardey, 2008). Leadership is the social interaction and influence that engages people in the organization through building mutual commitment and trust (Day, 2001).
- Management is a typical process defined by the employee's role, it is position- and organization-specific (Knippenberg, 2011). Management requires a certain skill set, for example, management in budgeting, sales, or quality

### **8.7.3 LEADERSHIP STYLES**

There has been a paradigm shift in the studies on leadership styles during the last two decades (Pardey, 2008). In comparison to transactional leadership, trends in the research show a shift in which transformational or charismatic leadership is seen as the recommended way to lead today, as it adopts a higher level of social involvement<sup>373</sup>. In a study by Penney & Neilson (2010), the authors present that the views of emerging leaders reflect a need for change in today's organizations, and argue from the view of emerging leaders that they do not like top-down leadership, instead, they value integrity and honesty as the most important values of leadership.

Transformational leadership is about motivating and mediating positive energy to followers, being an inspiration, creating a vision for the future and raising the importance of collective interests. Researchers are building new theories by looking at transformational leaders, who adopt a higher level of social influence by

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<sup>373</sup> Ivan, 2012; Pardey, 2008

providing followers with self-confidence to deliver beyond what is expected. In a recent version of the transformational leadership theory, developed by Antonakis, Avolio, & Siva Subramaniam (2003), five key dimensions are described:

- a) Socialized charisma, and if the leader is perceived as being confident and powerful;
- b) The behaviour of the leader and the charismatic actions that are centred around values and beliefs;
- c) Way leaders energize their followers by being visionary and optimistic about the future, pushing for ambitious goals, mediating and communicating the vision to followers;
- d) The leader challenges the followers to think creatively and problem-solve;
- e) Leaders are supporting, advise, and paying attention to the individual's needs.

In contrast, the transactional leadership style is based on command and control thinking and is arguably a less complex leading style compared to transformational leadership. When employing a transactional leadership style, the leader controls the decisions and the mindset of the follower, leaving very little room for the follower to express ideas and thoughts. Transactional leadership is framed by using three dimensions<sup>374</sup>:

- a) The leader focuses on clarifying roles and task requirements and providing followers with material or psychological rewards depending on the fulfilment of the tasks;
- b) The leader makes sure that their goals meet predetermined standards;

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<sup>374</sup> Antonakis et al., 2003

- c) Only intervene after noncompliance or mistakes have already occurred.

Although the trends are favouring transformational ways of leading, this style is still argued to be lacking in some dimensions. Mittal & Dorfman (2012) argue that transformational leadership style is missing the connection to adopting the leadership style to national cultures and local communities. This is important as leadership styles normally are both organizational and culturally dependent, depending on the values, norms and cultural prejudices that the people have.

The degree of local adaptation to leadership also affects the organization's financial performance and the success of the organization thereafter<sup>375</sup>. This is especially so when bringing MNCs to developing countries, like Malaysia, and other Eastern societies, which on one hand are westernizing in the globalization turmoil<sup>376</sup>, while the deep rooted cultural and religious values remain to affect the business conduct on the other hand<sup>377</sup>. Thus, if a link is created between effective leaders and the cultural values, transformational leadership style is likely to be effective in MNCs globally, and leaders will successfully lead across different cultures<sup>378</sup>.

#### **8.7.4 TRADITIONAL LEADERSHIP STYLES IN MALAYSIA**

Scholars typically define leadership in Malaysian context as the ability to influence and inspire, it is an attribute that one has to inspire others to want to do things<sup>379</sup>, or the power to make others follow leader's vision (Selvarajah & Meyer, 2006). Leadership style in Malaysia refers to how the leader is giving direction to the employees<sup>380</sup>.

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<sup>375</sup> Newman & Nollen, 1998

<sup>376</sup> Lo, Ramayah, Min, & Songan, 2010

<sup>377</sup> Selvarajah & Meyer, 2006

<sup>378</sup> Mittal & Dorfman, 2012

<sup>379</sup> Ahmad, 2001

<sup>380</sup> Gharibvand et al., 2013

Lim (2001) argues that the leadership styles in Malaysia have traditionally been top- down, and even though the collectivism would assume decision-making to be consultative, it is in practice rather autocratic. Kennedy (2002) agrees that even though Malaysian managers find the idea of participative style of leadership to be more effective compared to autocratic styles, they find it unnatural and difficult to put in practice. Despite so, as Malaysia is progressing towards knowledge economy, the leaders are compelled to establish higher employee involvement levels in order to keep the talented high performers interested, challenged and satisfied<sup>381</sup>. Naturally, supportive and collaborative work environment is also a prerequisite for elevating the level of innovation in Southeast Asian work organizations<sup>382</sup>.

Leaders in Malaysia are expected to genuinely care for their employee's well-being<sup>383</sup>, to be generous, compassionate and patient (Kennedy, 2002), and to act much like caring parents who serve on the needs and concerns of subordinates while keeping authority and mutual respect intact (Ahmad, 2001). Effective leader in Malaysia should use paternalistic leadership style, and is driven by advocating the strategic vision, continuous improvement and recognition for the good organizational performance<sup>384</sup>. Paternalistic leadership style is an alteration of the transactional style, in which the directive command and control approach has become more considerate (Jogulu, 2010). An effective leader of knowledge workers in Malaysia balances between different bases of power, predominantly expert and reward power<sup>385</sup>.

One of the most important elements is the knowledge and level of trust

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<sup>381</sup> Gharibvand et al., 2013; Rahman, 2012

<sup>382</sup> Rodsutti & Swierczek, 2000

<sup>383</sup> Gharibvand et al., 2013

<sup>384</sup> Selvarajah & Meyer, 2006

<sup>385</sup> Jayasingam, Ansari, & Jantan, 2010

attributed to the leader<sup>386</sup>, which a leader can gain by sharing knowledge and experience with the subordinates<sup>387</sup>. Most importantly, the leader is guided by social, religious and cultural principles and acts as a role-model<sup>388</sup>, which essentially means that they remain indirect, diplomatic and avoid internal disputes when conducting business (Kennedy, 2002).

Discussions about transformational and transactional leadership styles have also gained foothold in the Malaysian leadership studies. Based on the example of higher education in Malaysia, Lo, Ramayah, De Run, & Ling (2009) have found that transactional leadership yields better commitment to change compared to transformational leadership. Lo et al. (2010) found that in the context of MNCs, the commitment to change is significantly higher when transformational leadership style is employed instead of transactional style. The differences imply that the traditional values are more likely to remain superior in the local organizations, while the work culture in MNCs is more likely to be affected by the global corporate influences and therefore be able to adapt to change more rapidly. This also supports the view of Lim (2001) in that the Malaysian values are converging with Chinese and other nationalities that have brought new business practices to the private sector.

Even though the leadership behaviour in Malaysia has traditionally been evolving along the ethnic lines, what one can call a Malaysian leadership style today is only in its baby steps<sup>389</sup>. The history has left its legacy in shaping the most appropriate cultural norms, but has also left the door open in terms of fostering

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<sup>386</sup> Selvarajah & Meyer, 2008

<sup>387</sup> Gharibvand et al., 2013

<sup>388</sup> Rashid & Ho, 2000

<sup>389</sup> Selvarajah & Meyer, 2008

openness and willingness to experiment with new leadership approaches<sup>390</sup>. Leaders in Malaysia run organizations that are culturally diverse, either by comprising local ethnic groups, or increasingly even more nationalities than that.

Along with the transformational style of leadership, leaders therefore must take a multicultural orientation, which is usually demonstrated by empathy and respect for cultural diversity and long-term perspective in cultivating business relationships. Multicultural management style entails highly developed skills in people management, more specifically, the diversity can increase firm's profitability and return on assets when it is leveraged by consistently involving employees in decision-making to a great extent<sup>391</sup>.

#### **8.7.5 LEADERSHIP SKILLS FOR EFFECTIVE LEADERS**

Doss (2013) argues that there is a need to start thinking differently on how leaders and leadership are viewed. He argues that in order to cope with the faster changing business environment in Malaysia there is firstly a need for innovative leaders, and secondly, for leaders who would be capable of driving innovation.

The success of an organization is heavily reliant on the ability to develop effective leaders who guide the organization forward<sup>392</sup>. An effective leader is defined as one who successfully manage diverse groups of talented employees in meeting challenging business needs (Winston, 2007). Furthermore, there are several leadership skills that are important of a leader to develop, and can be categorized into several areas. Mumford, Campion, & Morgeson (2007) uses a 'leadership skill requirements strata plex' to highlight different skills that are

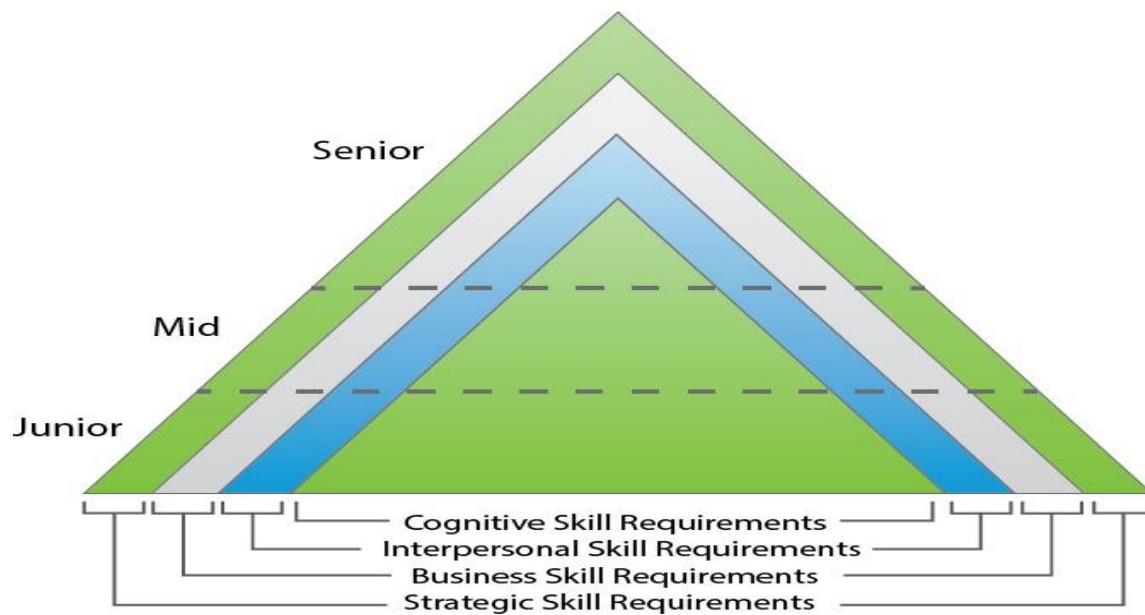
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<sup>390</sup> Newman & Nollen, 1996

<sup>391</sup> (Rodsutti & Swierczek, 2002

<sup>392</sup> Kotter, 1999; Winston, 2007

important as a leader develops towards more senior job executive position. As leaders are starting to develop towards more senior positions, the acquisition of strategic and business skills become more important for effective performance than the acquisition of individual and social skills.



Source: Mumford et al., 2007.

Figure 69 The leadership skill requirements strata plex

The cognitive skills are seen as the foundation for developing leadership skills, and are described by Mumford et al. (2007) as the following:

- ! Communication skills: how well the leader communicates and engages with other leaders;
- ! Active listening: the ability to see which information is important and why certain information should be mediated in a certain way;
- ! Communication through effective writing: so that a message is clearly understood and the ability to understand complex written information.

Interpersonal skills involve a higher level of interaction than the cognitive skills and the



ability to influence others<sup>393</sup>. More specifically, it includes skills such as the ability to coordinate actions, see to individual differences in employees and mutually satisfy relationships, influence others to accomplish organizational objectives in an efficient way. Interpersonal skills are also about being open minded and dealing with a broad range of people. From the perspective of followers, leader's ability to mediate self-development will also inspire others to continuously develop<sup>394</sup>.

Business skills include making prioritization of resources and allocation of products, technology and materials. Furthermore, skills for leaders are also, to understand the core competences and skills required to meet challenging business goals. More specifically, as argued by Winston (2007), important business skills for effective leaders are fostering and developing besides themselves also other leaders to champion change, continuous improvement and innovation. Business skills also include abilities to nurture cross-organizational learning and aligning the executions among leadership teams at all levels in an organization. Additionally, Winston (2007) argues that organizations should view these activities, developing to champion change and nurture cross-organizational learning's, as a source of sustainable competitive advantage.

Strategic skills include the leader's ability to understand complexity, deal with ambiguity, significant problem-solving skills, and the ability to affect and influence change in the organization. Strategic skills are about seeing relationships between problems and opportunities and creating a strategy to address those. Pardey (2008) argues similarly and elaborates that effective leaders must focus on both their immediate targets as well as on long-term goals. Malay leaders also need to take a

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<sup>393</sup> Mumford et al., 2007

<sup>394</sup> McCall, 1998, p. 78, p. 78

more international and global scope into account when working with business decisions and strategy development

#### **8.7.6 IDENTIFICATION OF HIGH POTENTIAL LEADERS IN MALAYSIA**

Malaysia does not have a talent pool they can go to if they need leaders. In the process of creating a sustainable talent pool, the identification of high-potential leaders is the first step in the talent management process. When employees perform over average, they are typically identified by the organization as future executive talent, i.e. a high potential leader<sup>395</sup>. A high-potential leader can be defined in numerous ways, for instance, McCall (1998, pp. 128-129) defines a talent according to eleven dimensions used for the early identification of global executive talents:

1. *“Seek opportunities to learn;*
2. *Acts with integrity;*
3. *Adapts to cultural differences;*
4. *Is committed to making a difference;*
5. *Seeks broader business knowledge;*
6. *Brings out the best in people;*
7. *Is insightful, sees things from a new angle;*
8. *Has the courage to take risks;*
9. *Seeks and uses feedback;*
10. *Learns from mistakes;*
11. *Is open to criticism.”*

The most important part of leadership development lies in the person’s ability

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<sup>395</sup> Hollenbeck et al., 2006

to learn from a collection of experiences (McCall, 1998, pp. 128-129). For example, the willingness of an employee to see beyond own development and gain an understanding of the business outside own work scope, as well as being a person that brings out the best in others (ibid.). It is suggested that the organization monitors talents' abilities to learn, more specifically, if a talent is able to learn from experience. After this, the next step follows up the learning by assessing how much the learning becomes a part of the individual's leadership capabilities<sup>396</sup>.

There are two places for an organization to look for and identify high potential leaders, either inside or outside the organization. McCall (1998, pp. 135-136) argues that a competitive advantage for an organization lies in creating an exclusive talent pool through well thought through development practices, instead of relying upon outside talent pool with high competition that everyone can draw from. However, one of the common problems for firms is having a short-term focus in talent management practices, which limits their abilities to develop high potential leaders.

Groves (2007) argues that a long-term perspective in identifying and developing high potential leaders through the organization should be adopted in order to create a more effective succession planning and avoid the 'replacement approach'. The replacement approach relies on the hierarchy in the organizational structure when identifying likely successors, which risks ending up with a less diverse senior team, as people tend to identify talents that they see themselves in.

For an organization to gain a better understanding of which talents are needed to identify, develop and retain, and what learning and challenges future leaders need to face in their development, it is argued that the corporate strategy is the natural

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<sup>396</sup> McCall, 1998, p 137-138

starting point for thinking about talent management<sup>397</sup>.

There are two approaches for identifying high potential leaders: selection perspective and development perspective. The selection perspective, also called leadership competence model, is the most common approach, in which talents are identified according to a set of characteristics that are considered to sufficiently describe effective leaders<sup>398</sup>. Although this approach is widely adopted among MNCs today, Hollenbeck et al. (2006) argue for the danger of using this model, as it is rooted in the transactional, command and control leadership style, and has outgrown today's way of detecting high potential leaders. It is not argued that looking at a set of competences is bad, but the competences should rather be put in interaction with situations and outcomes, since it is how talents are using their skills and learn from mistakes and experiences that creates a high potential leader.

The development perspective identifies those high potential leaders who are best able to take advantage of development opportunities when provided. McCall (1998) argues that organizations should look for high potential leaders with capabilities to run the business tomorrow, not today. MNCs that are considered to be the most successful in creating sustainable talent pools make a great effort in early identification of people with leadership potential and provide the high potential leaders with development experiences that challenge and develop them.

#### **8.7.7 LEADER AND LEADERSHIP DEVELOPMENT TOOLS FOR MALAY MANAGERS**

Several authors argue that in order to have effective leadership development practices, creating a link between the business strategy and the development of

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<sup>397</sup> McCall, 1998; Stahl, Björkman, Farndale, Stahl, et al., 2012a

<sup>398</sup> McCall, 1998, p. 136; Hollenbeck et al., 2006

leadership is crucial<sup>399</sup>. Day (2001) further argues for the importance of distinguishing between leader and leadership. It is therefore important to link three dimensions – leader development, leadership development and business strategy – when developing executive talents, as illustrated in the Figure.



Source: Day, 2001; Day et al., 2014

Figure 70 Leader and leadership development with business strategy

Firstly, Day (2001) argues that it is important to create a link between the leader and leadership development, as firms need to focus on developing both individual leader skills (intrapersonal skills) and collective leadership (interpersonal skills), in order to match future talented needs with the development practices<sup>400</sup>. Most commonly organizations focus on developing the individual skillset, the leader development, as a method for developing leadership. The development of the individual skillset and collective skills, which refer to the practice and ability to build up commitment and trust among employees in an organization, play important roles in successful talent development, which is why it is necessary to combine both in

<sup>399</sup> Beer et al., 2005; Day et al., 2014; McCall, 1998; McDonnell et al., 2010; Stahl et al., 2012b

<sup>400</sup> McCauley, Eastman, & Ohlott, 1995

developing future executives.

Furthermore, creating a link between the leader and leadership development and the business strategy, will better prepare the organization and future leaders for the challenges put forth by future strategies and business environment<sup>401</sup>. Organizations in Malaysia also need to have strategic flexibility in adapting to the changing business environments and to adapt the talent development approach thereafter.

Besides connecting executive development to the business strategy, McCall (2004) argues that the development of executive talents does not happen all at once, rather it takes time for the complexity of knowledge, abilities and skills to be mature enough to take on executive jobs and to perform efficiently. Therefore, it is important that Malaysian organizations have a long-term focus for executive development, to make sure to develop effective leadership.

#### **8.7.8 LEADERSHIP DEVELOPMENT IN MALAYSIA**

Talented graduates and skilled labour in Malaysia tend to look for more lucrative and adventurous job opportunities abroad. Keeping and nurturing the talent in Malaysia is however the key to reaching Wawasan goals (TalentCorp, 2011), and MNCs in Malaysia bear an important role in this. The ownership nationality of a firm has been found to have little correlation to the employed HRM practices in MNCs in Malaysia (Halid & Othman, 1998). However, it has been evidenced that proper internal training and employee development programs are present almost only in MNCs, even though from a cultural perspective the leader of any company is expected to help his subordinates to succeed. Lo et al. (2010)

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<sup>401</sup> Colvin, 2009; McCall, 1998, p. 83

add that it should be the top management's responsibility to provide sufficient learning opportunities for leaders to adequately evaluate and develop their leadership skills.

Leadership development in Malaysia has been found to happen when people are collectively engaging in leadership roles and are learning from authentic experiences (Wahat et al., 2013). Learning how to lead is a continuous learning process, meaning that organizations should focus their efforts on improving their organizations' ability to collectively learn in order to keep up with the speed of today's marketplaces. Ahmad (2001) adds that leadership capability development in Malaysia takes time, since building the needed trust and relationships is an iterative process and is further complicated by the expectation for leaders to simultaneously be managers and a leader.

Following McCall's (2004) assertion that the predominant way of learning how to lead is through experience, Wahat et al. (2013) have studied the role of informal and incidental forms of learning in Malaysia. They found three main themes in which most of the leadership learning happens through an interaction of three main areas:

- " Informal mentoring;
- " Reflection and observation;
- " Challenging assignments.

These areas relate well to the collective leadership tools presented earlier. Difficult challenges stretch leaders' abilities to use their full capacity and interact across the organizations, and in combination with mentoring, the leaders learn leadership skills, attitudes and behaviours from multiple viewpoints. Self-reflective and constructive observation capability over past experiences, such as own, mentors' or

peers' leadership challenges, is arguably related to transformational leadership. Much in line with these three learning themes, Idris & Ali (2008) claim that the organizational capability to change its management approach is necessary for becoming a world-class organization, and propose using best practices approach together with transformational leadership style as a suitable option for organizations in Malaysia.

High degree of fit between talent management processes and the firm's business strategy constitutes a powerful tool for successful strategy implementation and thereby affects how well the business needs are met in the future. Global succession planning is one of the most important parts of talent management, as it on one hand creates a sustainable talent pool with more high potential leaders to draw from, while it also helps to retain more talents on the other hand.

#### **8.7.9 FOSTERING COMMITMENT AT ALL LEVELS OF THE ORGANIZATION**

Tichy (2003) suggests that Malaysian firms should become teaching organizations in which information and knowledge is shared between all levels continuously. Tichy & DeRose (2010) add that teaching organizations enable the development of leaders at all levels of the organization, which is needed for encouraging contribution to the organizational knowledge across the organization. Dalakoura (2010) further argues that having leadership developed at all levels of the organization in turn creates more ownership and entrepreneurial mindset in the employees, who will be more likely taking initiatives and willing to experiment, and gradually leading to more diverse senior leadership teams. Considering the pace of the business in 21<sup>st</sup> century, the qualities of CEO leadership are needed also beyond the board rooms, they are needed across the organization to teach people how to learn to be better at leadership and how to pass the leadership skills on to



others.

MNCs are suggested to create ownership over the leadership development at all levels in the organization. At the local MNCS subsidiary, this means not only HR involvement, but also that managers at all levels, including the CEO, need to take responsibility and buy in to the leadership development strategy. Similarly, Ready & Conger (2003) argue that pointing a single organizational entity to be responsible for leadership development would not be sufficient due to the complexity of global enterprises, and therefore the accountability should be shared between the top team, line managers, HR specialists and the high potential individuals. Building accountability for leadership development at all levels of the organization allows for flexibility in developing high potential leaders for key executive positions and develops a stronger organization-wide networks and visibility for the high potential leaders.

Stahl et al. (2012b) argue that although this is not very common in organizations, the senior team needs to actively engage in succession planning, recruitments, leadership development and retention as a top priority. The top leaders need to take the ultimate responsibility for the leadership development in the organization and energize other leaders to be the teachers, but at the same time make sure to not exercise too high level of control over the process because their information about high potential leaders might be too superficial. Furthermore, the line managers have a key role in the recruitment of talents and facilitating the development of skills and knowledge for the high potential leaders. The line managers also play a crucial role in communicating proper messages and behaviours to the people below them, and thereby teaching the high potential leaders how they are expected to act as

leaders. Finally, the employees themselves need to play an active role in developing themselves, by seeking out challenges, cross-functional projects, and new positions<sup>402</sup>. Groves (2007) suggests that all managers should additionally be engaged in mentoring relationships with high potential leaders across work units, creating project-based experiences for learning, and being involved in teaching courses. Ready & Conger (2003) argue that one of the main pitfalls for Malaysia leadership development frameworks in MNCs is measuring the high potential leaders' progress based on the leadership development activities that the company has invested in, rather than the capabilities that high potential leaders have built up to drive business results. Black & Earnest (2009) suggest that the leadership development should be evaluated at three levels:

- ! Personal growth: broadening the perspectives of high potential leaders, raising their self-confidence and sense of self-efficacy;
- ! Professional growth: learning new and innovative ways of doing business and leading people;
- ! Policy and practice: building strong networks and thereby becoming resourceful.

To further add to the complexity of measuring the success of leadership development processes, Conger (2004) points out that organizations often rely on too simplistic models for leadership development, especially when it comes to the versatility of capabilities needed for a top-level leadership role. He claims that even though the choice of leadership behaviour should always be context-specific and situational, the development programs often focus on preventing leaders from

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<sup>402</sup> Ready & Conger, 2003; Stahl et al., 2012b

derailing at their roles instead of building a capability for adapting the leadership approaches (ibid.). Furthermore, Dalakoura (2010) claims that leadership development efforts are in practice often not included in the strategizing process, while as presented in Chapter 3.2.5, leader and leadership development practices should be linked to the business strategy. This results in the high potential leaders developing strategic competency very late in their careers.

Y.-L. Wang & Ellinger (2011) have found organizational learning to have the most considerable direct impact on the individual's innovation performance, through which the firm-level innovation is heavily influenced. They further claim that the most important sub process of organizational learning is the distribution of information, referring to the transparency of communication structures and general openness for knowledge exchange (ibid.). In order to compete successfully, organizations need to align these structures and the business strategy with the environment, and maintain capabilities that match the strategy (Beer et al., 2005). Figure 6 illustrates the organizational learning process and its components.

The political leadership in Malaysia plays an important role in how several interviewed MNC leaders view future opportunities and threats in the business context. Mr. Abidin, the General Manager at CoEinstein, considers Malaysia to already be a developed nation instead of a developing one, and points out, *"It's not a good or a bad thing, it is whether the government has prepared the country to face the changes. Unfortunately, I must say that the Malaysian government did not, and that is a problem."* At the same time the government appears to have a strong say in how MNCs choose to staff their offices in terms of gender and ethnic quotas, as well as subsidiary ownership structures. Mr. Rajakumar, CEO at CoEdison explains, *"What government*

*wants to see is that we are committed to Malaysia and we are building Malaysian business, building Malaysian talent. That makes us better than let's say our competitors, that will help us win the business."*

The biggest drawback of governmental policies is the failure in grooming local talent to become effective leaders. Several interviewees think that the government initiatives to solve the skilled labour deficiency have so far been *"at best only a part of the solution."* (Mr Rajakumar, CEO at Edison). When talking about future challenges, Ms. Salam, the CEO at CoNewton, explains, *"Malaysia is going to struggle if they do not start building their future leaders, because right now what I see is, I see a fairly immature job market."* As two high potential leaders point out, the lack of talent issue holds true for leadership qualities in private sector, in the government itself as well as for the engineering talent: *"The majority of them are not educated and some of them probably only finished primary school."* (Mr. Hussin, Senior Manager at Aristotele); *"Malaysia is not a typical country where you can find competent engineers."* (Mr. Thirukumaran, Technical Manager at Marconi).

Political leadership today has been found to have a negative effect on the high potential leaders' generation in shaping how leadership is perceived as a discipline, as argued by one of the high potential leaders: *"The mentality of the employees depends on the Malaysian mentality, the Malaysian government. The political people can actually change the mentality of people, and that will also affect mentality of people in big organizations."* (Mr. Ibrahim, Purchasing Manager at Curie). Mr Hussin, a high potential leader at Aristotele, elaborates upon the openness and information abundance in today's global society, which further adds to the distrust towards the Malaysian political leadership and decreases the talents' willingness to stay in the

country: *“I think the younger generation, especially generation Y and generation Z, they see this kind of comparisons of what other cultures in other countries can do. And when they look at what we have here, they feel distrust and discontent.”*<sup>403</sup>

Mr. Rajakumar, CEO at CoEdison, brings another large global political challenge to the discussion, *“The second big thing we look at happening is the polarization of East and West. That could have a negative impact on our business because the world aligns with the US or with China, and that’s going to impact the companies who are unable to stay out of that. And of course, China is a very big export market for Malaysia. China makes a lot of foreign direct investment in Malaysia.”*

#### **8.7.10 HIGH POTENTIAL LEADERS FROM GENERATION Y ARE HUNGRY TO LEARN AND IMPATIENT TO SUCCEED**

The characteristics of the high potential leaders’ generation appear to be different compared to generation X, who has exhibited more humility and a ‘no questions asked’ mentality throughout their careers. One of the executive leaders, Mr. Thevar, Head of HR at Pasteur, observes that more individualistic behaviours are emerging: *“Next generation is much more ‘I want to shine’, which is interesting. But then you must give them opportunities, they are always hungry for opportunities.”* Another executive, Ms Ismail, VP of Marketing at Darwin, agrees: *“I think it’s the ‘me’ generation, [...], they were brought up to be about ‘me’.”* The interviewed high potential leaders at large agree that they have high ambition to grow and learn fast within the organizations. From a high potential leader viewpoint, Mr Lim, HR Manager at Pasteur, elaborates: *“I don’t know whether it’s a Gen Y thing, but we tend to want a lot of things.”*

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<sup>403</sup> The interviewees have referred to generational differences often as differences between Baby Boomers, generation X, Y, and Z. Baby boomers represent the people born roughly between 1940-1960, generation X between 1960-1980 and generation Y between 1980-2000. Generation Z is considered as the generation born after 2000 and haven’t entered the labour market yet.

*When I talk to my seniors, they always talk to me on the level you guys are just moving too fast, you need to relax. But I think that inside of us is that hunger to want to climb the corporate ladder as fast as you can."*

While the *"young people's optimism and hunger for success"* (Mr. Nyambek, President at Co Aristotele) is considered very positive as it is breaking out from traditional Malaysian hierarchy-oriented mindset and thereby showing signs for increasing openness to innovation at the workplace, the impatience is something that the executive level has mixed feelings over. Mr. Wei, President at Co. Darwin, explains a recent case with a young high potential leader: *"Here it's quite normal that they apply very high. We have another girl, she's 29, she applied for a CFO position and she didn't get it. Now she's going to another company."* Several interviewees attribute the impatience to the diminishing loyalty of this generation, as in *"whoever pays the highest, gives the best challenge in terms of job opportunity and such, they will jump ship quite quickly."* (Mr Shamshuddin, high potential leader at Co. NewtonB). One of the high potential leaders from generation Y, Ms. Yee, Co. Darwin, agrees: *"In average I don't work for more than 5 years in a company. I keep moving when opportunities come."* She argues that declining loyalty towards employers is a prevalent trend within everyone born after 1970, and it makes it very difficult for the business leaders to motivate the talented people to stay in the company for long term.

The general understanding among the interviewed MNC leaders is that the most important in leading the high potential leaders from generation Y is to ensure that they understand and buy into the bigger picture of what they are doing, what the MNC is envisioning and feel ownership over their work. An executive leader, Mr Majid, Business Line Director at Marconi, explains that it's necessary to understand that this

generation has different priorities compared to the older generations, they want to see the purpose of what they are doing and they have the bargaining power at the labour market to place demands on the employers. Ms Salam, CEO at CoNewton, explains: *“I would say my generation was much more willing to put in their dues so to speak, I think this generation has a perspective that they are in demand, or at least here in Asia they are in demand, and that they shouldn’t be required to give up too much of their time.”* Ms Salam further adds that although the high-potential leaders’ generation is hard-working and dedicated, they do need to be ready to put more effort into their work compared to others if they want to move higher up in the organization.

The high potential leaders from generation Y are no longer willing to take orders, and instead of looking primarily at seniority as noted by one of the high potential leaders, *“Evaluate a manager or the top management by looking at what they can do.”* (Mr Muhamad, Sales Manager at Corwin). This is different from previous generations, who according to high potential leaders rather prefer to *“follow the book, do everything by the book”* (Mr Ibrahim, Purchasing Manager at Curie) and traditionally attribute respect to people primarily according to age, job rank and job title. Several interviewees described that there have been strong clashes between employees from different generations due to these differences, while the older generation is starting to adapt to the younger one. Ms Salam, CEO at NewtonA, acknowledges, *“I think my generation, and maybe the generation above me, has to adapt better to the way that people want to work today. And it’s difficult, it’s tough for us to recognize that the way that we were promoted isn’t necessarily the way that we should promote people going forward.”*

One of the high potential leaders, Mr. Jackie, Sales Manager at Galilei, puts the generational differences in the perspective of the retirement age in Malaysia, which was recently been raised to 60 years. Even though the population in his company is rather young, he stresses: *“The company needs to grow, that means for instance the people who are talented, people who are ambitious, can move along.”* An executive leader, Ms Palaniappan, Director of Corporate Affairs at Hawking, believes in mixing the generations to benefit from the diversity in the leadership team that can be leveraged once the conflicts over different work approaches have been overcome, *“I have also seen that the gen X and gen Y are beginning to... What used to be head-on, is slightly more collaborative. [...] If you see them as a group of the leadership team, they make a good group.”*

The challenge of retaining talents is further deepened by the inherent respect for elders and hierarchical nature of relationships in Malaysia. Many interviewees express that Malaysians are more reserved compared to Europeans and Americans, *“Culturally people in Malaysia tend to be more reserved, so they have to be promoted and encouraged.”* (Mr. Ahmad, CEO at Galilei); *“They are very quiet, they are not the kind of people who would ask for things.”* (Ms. Jayanthi, executive Head of HR at CoEinstein); *“That’s a big thing here in Asia, people are afraid to speak their mind.”* (Mr. Rajakumar, CEO at CoEdison). The preference towards being reserved in communication and avoiding confrontation are seen as the most challenging cultural aspects, because they restrict the openness of the work environment.

Even though the high potential leaders from generation Y are starting to change the traditional culture as discussed earlier, the interviewed high potential leaders generally admit that they do feel a certain barrier towards the top levels. Mr. Lim, high



potential leader at Pasteur, explains: *“In the Asian culture we tend to respect our senior leaders, so we would never go out of our way to look like we are above them or we are better than them. [...] We’d like to drive a lot of innovation, but we are aware of these cultural boundaries that we have, maybe we don’t push ourselves too high.”*

Several interviewed executives see this as a challenge, both in terms of getting the people to contribute more to discussions with fresh ideas, as well as to understand their needs and thoughts regarding their own roles and thereby increasing the likelihood of keeping them within the firms. An executive, Ms. Ismail, VP Marketing at Darwin, explains: *“A lot of Malaysians they just sit and wait. That means that if the boss don’t give me the opportunities, I will look elsewhere beyond the organization*

*One of the biggest impediments of the reserved culture appears to be the way that conflicts are handled, as Mr. Manikavasagam, CEO at CoNewton, claims: “I think that the only frustration is more an Asian thing, when you got some good leaders, leaders who have a natural quality, but they tend to be reserved and they tend to shy away from conflict. And that is hard because you have to push them to feel comfortable and feel comfort.”*

## **8.8 LEADERSHIP AND LEADERSHIP DEVELOPMENT**

Comparing the views on leadership in Malaysia between the two leader generations, the top executive level and the high-potential leader, the findings illustrate that the views do not differ significantly. Mr Manikavasagam, CEO at Newton, states, *“The quality that one looks for in leadership are those that can connect with people, inspire them, lead them so that they can do more than they ever thought was possible before.”* Ms Jayanthi, Head of HR at Einstein, argues that the evidence of leader lies in people’s commitment to the leader and the

willingness to follow. It is similarly argued by the high potential leader, Mr Jackie, Sales Manager at Galilei, that a leader is, *“Someone who is able to inspire others, someone who can lead by example.”* It is further argued from both the executives and high potential leaders that, in order for a leader to be influential, charisma and the ability to be inclusive are crucial. A leader should also have the passion and the charisma to bring out the best in people and to make them walk the extra mile.

The following chapters will evaluate the development of potential leaders, reviewing what is important in effective leadership today and for the future, the identification process and development tools towards effective leadership. This chapter will end with a review of the progress and success in developing leadership in the Malaysian context today.

Findings illustrate from the reasoning among the interviewed MNC leaders that the traditional leadership approaches in Malaysia differ greatly from the corporate leadership styles mediated by the interviewed MNCs. The investigated MNCs in Malaysia evidence both Asian ways of leading, but at the same time are influenced by the corporate culture. Mr. Vadivellan, Head of Operations at Edison, argues that in traditional Asian culture people are used to a more hierarchical structure, taking orders and they expect to be told what to do. It is argued similarly by the majority of the interviewed MNC leaders, that the traditional leadership in Malaysia is top down. The leadership style in MNCs is seen to adapt a higher level of openness, where employees are encouraged to drive themselves to a larger extent. Findings also show that while the MNCs leadership style demands more consensus between different people, the Asian leadership style has a faster

decision-making process. Some people take all the decisions and the rest of the people follow orders, and pushing products out in a faster pace on the market.

While the top executive level argues the mindset is important to change in people, and to create a more open leadership culture is important. Findings clearly illustrate a stronger will from the majority of the high potential leaders to break free from the Asian leadership. Generation Y are no longer willing to take orders. High potential leader Mr. Shamshuddin, Head of Department at NewtonB argues, *“We are the generation of performance, no more task- orientation meaning that we are no longer order takers.”* He further describes that now they are given the objective and expected end results from their managers, while he needs to later figure out the way to get there. Another high potential leader states, *“Galilei are encouraging us to take our own way and to guide our own decisions.”* (Mr. Imran, Project Manager at Galilei). Furthermore, he argues, *“I like this style, it is more open and we can actually contribute and develop a lot. And we are able to talk to the leaders more, we can learn things about problems, a lot of things.”* It is argued by several high potential leaders that they will share more knowledge if they feel that they have a more family-oriented relationship with their leader.

Even if the majority of interviewed high potential leaders show strong evidence of wanting to change, executives still see people who adopt the Asian leadership style at all levels. Several interviewees at the top executive level see problems in getting people to adopt open culture and leadership style, in which the subordinates need to take charge of more decisions lower down in the organization. One executive claim, *“Some people may think that if you don't micromanage some people feel lost, because they are used to that kind of leadership style, to be told*

*what to do.*" (Mr. Woo, Commercial Director at Marconi). Furthermore, Mr. Vadivellan, Head of Operations at Edison, argues: *"Sometimes for new manager that we hire from the outside, they sometimes have problems to adapt to the culture, it will take a while for them to adapt to the culture."*

In order to change this mentality, one of the high potential leaders argues, *"If you are a better leader you don't spoon-feed but you teach them to catch their own fish, and tell them why they should do this. And at the same time, you tell them why they should manage change, because as time changes and as needs change, their job scope and mentality changes, and what is being expected of them changes."* (Mr. Tobias, Branch Manager at Einstein). Furthermore, several of the interviewed executive leaders argue for the importance of adapting their leadership style to the local conditions. This is seen as very important for being able to build trust in the employees, as building trust takes time and change is a gradual process. For example, one of the top executives presents, *"You have some employees that are more consistent because you need to know them personally, because some of them are very friendly oriented and you need to adapt."* (Ms. Ismail, VP Marketing at Darwin).

Findings show that for a leader to be able to develop an effective leadership style, there are several challenges around what kind of knowledge is needed for effective leadership in the future.

First and foremost, the executives as well as the high potential leaders argue for the importance of the ability to drive change in order to stay competitive in the long run. One of the high potential leaders, Ms. Samivellu, HR Manager at NewtonA, brings up the role of leaders in the changing business environment, *"As leaders, we have to make sure that our team are open to change."* In a changing environment the main

role of a leader is seen as aligning people in the organization to the change strategy, as for instance one of the executives, Ms. Ismail, VP Marketing at Darwin, argues: *“Share with them vision, the strategy, to make sure that they are communicated and so that everyone goes in one direction.”*

The ability to change applies not only to the leaders; rather the leaders need to be the change agents in transforming the mentality across the organization to become more agile in general. Becoming a service- and customer-centric MNC subsidiary implies implementing new ways of working, as a high potential leader, Mr. Shamshuddin, Head of Department at NewtonB, explains: *“It starts off internally, to really look at what the customer wants and we being able to take that first step, to break out of the old so to speak. Going out of your comfort zone to do, really do things.”* Mr. Majid, an executive leader at Marconi, also stresses that a leader cannot be stuck in the ways that things were done in the past, instead the leader needs to quickly grasp new situations and come up with solutions. The organizational learning extends to being in touch with macro trends and technological development, as one high potential leader, Mr. Singh, Senior Manager at Marconi, argues: *“We cannot be just reading about our industry. The kind of crisis in 2008 has taught us that the financial impact is actually a ripple effect. We can’t say we’re in the manufacturing industry, we’re not affected. Everybody’s affected when there’s less money.”*

Leadership in Malaysia is typically top down and hierarchal in nature. It is argued by several interviewed executives and high potential leaders that in order for MNCs to create a leadership culture that will have a good balance between the MNC and the Malaysian way, creating role models that can lead by example is crucial. Mr. Ahmad, Managing Director at Galilei, argues: *“First of all, we start from management,*

*we have to be more open. We have to be the platform to encourage openness.*” The leaders need to show the way and walk the talk. Another executive believes that people will always look for role models in the search for their own personal leadership brand. Therefore, in order to create a more open culture, Ms. Salam, CEO at CoNewton, claims: *“We need to develop the future role models that can follow it for the next levels down.* Furthermore, an important role of a future leader is according to an executive leader,” *Lead the people, groom the people to be more independent, to be able to take care of functions, to be able to lead the next group of people.*” (Ms. Jayanthi, Head of HR at Einstein). Another executive, Mr. Thevar, Head of HR at Pasteur, further states: *“The leader also need to be someone that engages their people and inspire them, coach them and help them through that journey of achieving objectives. And the third portion is to recognize, reward and also compensate them”.*

Future leaders should build teams from people with various technical expertise who complement one another. Along with the rapid development of the technological landscape, the interviewees stress that future leaders need to understand the technological base of their offerings in general terms, as one of the executive’s advocates, *“To be able to articulate what you are selling, even if you’re not selling.”* (Ms. Palaniappan, Director of Corporate Affairs at Hawking). Ms. Palaniappan further argues: *“CTOs and the CIOs will be the new CFOs. [...] I think the business decision maker, plus the technical decision maker, the line will be more blurred.”* Another executive, Mr. Muthiah, Head of Sales at Volta, further adds in the context of technological advancements, *“So as a leader if you are not in the peak of this change that is already happening in some cases, then you are setting yourself up for failure, according to me.”*

### **8.8.1 OLDER GENERATION LEADERS NEED TO ADAPT TO THE LEARNING DEMANDS OF HIGH POTENTIAL LEADERS' GENERATION IN ORDER TO NOT LOSE THEM TO OTHER FIRMS**

Ahmad (2001) further argues that self-actualization could be seen as a deviant behaviour in the Malaysian society. This could potentially explain the sharp differences between the generations in Malaysia leadership as described earlier. The findings illustrate that while the current executive generation is still more comfortable with conventional top-down leadership, the younger generation prefers performance to seniority, questioning to following orders, and is driven by continuous learning and feeling of contribution to the company. As the executive generation today naturally has higher decision-making power, the high potential leaders are held back by the inherent cultural traits despite their willingness to experiment with new work approaches and to actively contribute to setting and reaching the companies goals. The interviewed executives have expressed that it is difficult to adapt to the high potential leaders' ways of working because they are fundamentally different from theirs, but in a rapidly changing business environment it is necessary to do so to enhance innovation and keep up with the pace of the competition.

Further, in line with Rahman (2012), restricting young high potential leaders from higher levels of contribution could also be one of the reasons for the difficulties in retaining talents within the firms as it reduces their organizational commitment. As seen in previous sections, the high potential leaders have a high bargaining power at the Malaysian labour market as they are much in demand, which means they would in one way or another find a company that allows them to enter higher level discussions earlier than the others. D'Amato & Herzfeldt (2008) argue that although the loyalty towards organizations is decreasing in younger generations, the

commitment to learning is increasing and is tied to both innovativeness and willingness to stay within companies. It could be therefore argued that creating a higher level of exposure, involvement in strategic work and challenging learning opportunities for the high potential leaders within the MNCs would help to both increase the innovativeness of the MNCs because more entities will be involved with high potential leaders cross-functionally, and also help to retain the high potential leaders longer as they feel the sense of higher-level contribution to the company.

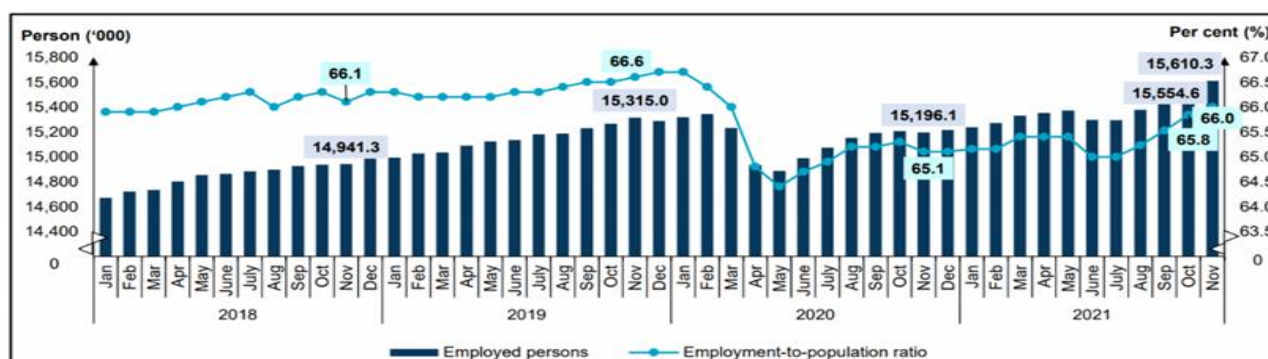
The empirical findings previously show a strong urge from the high potential leaders, the generation Y, to break free from the traditional leadership style, they see themselves as the generation of performance, and are no longer order-takers. Furthermore, some of the interviewed executives argue that even if high potential leaders have a strong urgency for change, there is still strong evidence of Asian top down leadership styles in the MNCs. In Malaysian context it is crucial that change is not stressed too fast, as that might risk losing valuable employees.

The adaptation of the transformational leadership style to the local country values is also crucial, and it is argued by Mittal & Dorfman (2012) as key for a leader to be successful across cultures, there need to be a connection to the local culture and community. This means that senior leaders also need to not stress the change too fast, rather acknowledging that the change takes time, and especially so in the Malaysian context.

The sources from which companies drew their managers and the criteria they used for selecting them reflected their overall attitude to management development, and the constraints under which they operate. Larger companies were responsible for



the bulk of recruitment: recruitment into FS3 and FS4 accounted for 95 per cent of total management recruitment in the sample.



Source: Department of Statistics, Malaysia

Figure 71 Employed persons and the employment-to-population

The smallest companies have very small stable managements and recruitment of a manager into any one company tends to be an infrequent occurrence, witness the fact that in the 32 respondent companies in FSI recruited only 5 managers, equivalent to 4% of their managers. This picture had changed with the 23 respondent companies in FSI recruiting 24 managers, or 15 % of their managerial cadre. It is in sharp contrast to the companies in FS4 where historical company statistics show they recruited an average of 8 managers per company in 1971 and 12 in 1975, equivalent to 12 per cent of the cadre in 1971 and 14 per cent in 1975 and again increased with another 4 in 2020. Because they recruit more managers on a regular basis the larger companies have a planned approach to recruitment. The big companies normally advertise, in some cases test the ability of candidates, and interview them either with a panel of the key people involved in the post or by a succession of these. They often maintain special contacts with universities both in Malaysia, and occasionally abroad, in order to recruit the best new graduates, and in many cases offer scholarships in the technical areas the industry requires to ensure a supply of suitably qualified recruits.

Smaller companies on the other hand almost never advertise. Because the management team is so stable they feel they are recruiting someone for life and because these are usually family companies they only want to recruit people with whom the family can get along, or who will fit in with the very small management groups. As a result, recruitment is almost entirely by personal recommendation and selection by a very brief interview.

The method of recruitment affects the sources from which managers can be drawn. The larger companies draw roughly a quarter of their management recruits from university or college. Indeed, in FS4 the proportion from these two sources increased from 25 per cent to 31 per cent. The other main sources of recruitment were non—managerial grades and the private sector. The largest company's promotion from non-managerial grades tends to be part of a company policy of management development that includes promoting able staff from the supervisory level. Some of the largest companies like to develop managers in the company culture and, therefore, either to promote from within or to recruit direct from university and develop a man throughout his career. Nonetheless, the private sector was the single largest source of recruitment since 1971, for almost every size group.

A number of companies mentioned the problem of other companies poaching management staff and this trend seems to have increased slightly from 33 per cent of total recruits to 39 per cent. Along with this has gone a slight decrease in the proportion of managers being promoted from the ranks, from 30 per cent of total recruits to 24 per cent. Although these figures are far from startling they do hint at a possible slackening of interest in management development. The public sector on the other

hand is a relatively minor source of recruitment, indeed many companies complained that they kept losing staff to the public sector.

Smaller companies had no time for university graduates, who they considered too theoretical and insufficiently practical. They also admitted that few university graduates would be attracted by the pay and working conditions in a small company. Hunter records: as I was forcibly told in Singapore, small employers in countries that make their way in an intensively competitive world by cheap labour drawn from a poor population simply cannot afford to employ the Rolls Royce technicians, they pick up a handyman who has some experience and expect him to "make do and mend" on second hand obsolescent machinery<sup>404</sup>.

This reflects very well the position of many of the small employers in Malaysia as well. Because of the importance such companies attached to practical experience and the inability of the company to train management they preferred to recruit management staff from the private sector or non-management grades, who had proven their ability and could go straight to work. The attitude of the service industry that no amount of education or training can teach a man to sell is reflected in their choice of management recruits with experience either from non-managerial grades or the private sector.

While recruitment from the ranks had gone down, recruitment from the private sector had shot up to 51 per cent of the total. Manufacturing industry with its greater technical requirements recruited roughly a quarter of its staff from university. However, its largest single source was the non-managerial grades and, in contrast to the service industry, the proportion from this source grew between 1971 and 1975, so that by 1975

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<sup>404</sup> 14 G. Hunter, "Issues in Manpower Policy: Some Contrasts from East Africa and South East Asia," Manpower and Education. F. Harbison and C. A. Myers, eds., P. 342.

44 per cent of all management recruits in the manufacturing companies in the sample came from the ranks. The numbers drawn from the private sector, on the other hand, declined to 20 per cent, the smallest proportion of any of the industries. The implication is that manufacturing companies are training and developing their own staff who are drawn from the ranks or recruited from university and either do not have the need or find it unsatisfactory to attract managers from other companies in the private sector.

The recruitment pattern of the extractive industry reflects the emphasis these companies put on recruiting the best qualified people. It drew a higher proportion of its recruits from technical college and university, than either of the other two industrial groups. Indeed, both the tin mining industry and the plantation industry offered scholarships for students to attract them to the industry. The apparent shift towards greater recruitment from university, though, is a result of the upgrading of Serdang Agricultural College to University status. The public sector was a small but not insignificant source of recruitment and in this case particularly ex—police and army officers. Over 4000 servicemen were demobilized in 1972 and the Government provided a scheme of compulsory retraining to prepare them for employment. The plantation industry found the experience in handling people and the discipline of military life fitted such recruits well for the management requirements of estates. It is noteworthy that in this case a particularly small proportion of recruits came from non—managerial grades. This was apparently because such staff lacked the educational and professional background necessary for management.

Turning to the recruitment patterns of the different business communities, Chinese companies follow the pattern of FSI, drawing almost all their management recruits either from non-managerial grades or the private sector. This is in keeping

with their frequently stated policy of only recruiting people with business experience and in most of these firm's recruitment was restricted to relatives and close friends<sup>405</sup>. Since a high proportion of the Chinese companies are trading firms dealing with, at times, substantial sums of money, they feel it is imperative to employ someone who is trustworthy. The criteria mentioned by Chinese companies choosing a manager were trustworthiness, personality and willingness to work hard<sup>406</sup>. They prefer to recruit staff who are Chinese—educated, because, having no English, such recruits can only find employment in the Chinese business sector, where jobs are scarce and depend on knowing someone in industry; consequently, the Chinese-educated tend to work harder, for lower pay and are less likely to leave. Indeed, Chinese companies tend to capitalize on the educational and linguistic handicaps of their employees.

Another factor may well be a cultural one — that those who have been through Chinese schools are likely to have the sorts of attitudes and values best fitted for Chinese business. On the rare occasions when university graduates were recruited they were generally from the University of Taiwan or from Nanyang University in Singapore, both of which teach in the Chinese language. However, professional or academic qualifications were not considered particularly important and ability was seen to be related to diligence and experience<sup>407</sup>. The preference of these companies

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<sup>405</sup> This pattern of recruiting extends in a modified form to the employment of labour. Siew Nim Chee noted in relation to Chinese tin mines: It is a well-established fact that the mine-owner always tends to employ men of his own race or district on his mine. This characteristic feature of the tribal relationship between the miner and his employees has been maintained to this day, and an inspection of the schedules showed definite proof of such a custom. Siew Nim Chee, "Labour and Tin Mining in Malaya, Readings in Malayan Economics. T.H. Silcock, ed., p .420 fn.

<sup>406</sup> 16 This emphasis Chinese companies put on trustworthiness and loyalty both in the recruitment and, as will be seen, the promotion of managers, is a characteristic that has been noted by a number of researchers. See F. C. Deyo, *op. cit.*, p. 93.

<sup>407</sup> This set of criteria for the selection of managers is again reflected in the Chinese tin industry: most of the responsible occupations. . . are held by men between the ages of forty and sixty. . . The very backbone of the labour force of any mine is formed by their experience, long service with and loyalty to their employers, their industry and clear-headedness as workers, as well as the respect in which they are held by their labourers. . . The Kepala, who can make a mine a success or a failure are mostly between fifty and seventy years of age. Siew Nim Chee, "Labour and Tin Mining in Malaya", *op. cit.*, p. 421.

for promoting from within combined with the fact that most non-management recruits enter with a very limited education has meant that Chinese companies find themselves with poorly educated managers who often only speak Chinese and who feel themselves at a disadvantage compared to managers from foreign firms in taking advantage of publicly available training facilities.

European firms recruited a particularly large proportion of their management staff from the private sector. The trend is probably linked to the anxiety many of them felt in 1975 which made them reluctant to invest in training staff and more inclined to recruit experienced managers who did not require training. The multinational companies show a strong tendency to draw managers from non-managerial grades<sup>408</sup>

While in the Chinese companies this was done for the purpose of recruiting an experienced and trusted manager, in the multinationals it was to develop men with proven ability and potential, and they were in a favourable position to do this. Compared to other business communities, the multinational companies also draw the highest proportion of recruits from university.

The preference that both the European and multinational companies show for university graduates is interesting. Obviously, they wish to choose only people with the strongest professional qualifications. However, they are also selecting those who will have been exposed through higher education to Western attitudes and values, methods of problem solving, and culture generally; that is, people for whom the cultural gap between company and manager will be at a minimum. It is noteworthy that the

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<sup>408</sup> Referring to both European and foreign firms, the Executive Director of the Malaysian International Chamber of Commerce has noted there is a continued preference for recruitment to executive grade through the ranks, especially for those appointments which do not necessarily require professional or tertiary technical qualifications. There is much emphasis on promotion of those with sub-professional qualifications and experience" D.C.L. Wilson, 't A Business View of Higher Education in Malaysia. pp. 3—4.

multinationals are stronger in their preference for university graduates than the European companies: they will have had more experience of recruiting managers in a range of developing countries and so will have a clearer man specification. On the other hand, many of the European companies have been in Malaysia for so long that one might assume that the company culture has been modified by the local culture, the gap, therefore may not be so great and the need for acculturation through higher education, correspondingly smaller.

Companies were asked about their satisfaction with recruits from the various universities and technical colleges. A marked phenomenon was the preference of European and multinational firms for graduates of overseas universities, particularly from Britain, Australia, New Zealand and United States<sup>409</sup>. Although in some cases such recruits were on industry scholarships to obtain a training not available in Malaysia, for example students at the Cambourne School of Mining in Britain, for the most part comments on this preference related not to the specialization or quality of the education but to personality factors. Graduates from such universities were considered to be more mature, more self—confident, and to be better at man management. However, underlying this preference for overseas graduates appeared to be the feeling that prolonged exposure to Western culture meant that they shared a common core culture with the company, and its executives, head office, and principals, and that having one foot still in Malaysian culture they may be able to mediate between the company and its employees more effectively than the graduate of a local university.

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<sup>409</sup> The planting companies were the exception to this in that they took quite a number of recruits from Indian agricultural universities

Amongst graduates of local universities, the greatest number came from the University of Malaya, other universities being so new. The University of Malaya is the oldest and most respected university in the country, and its faculties include a Faculty of Business Administration which comprises seven divisions, Analytical Economics, Applied Economics, Rural Development, Public Administration, Business Administration, Accounting and Statistics. In 1976 the Faculty had 60-70 staff, roughly two—thirds its full complement of 90, and morale appeared low. The rapid build-up of the new universities, particularly the Universiti Kebangsaan, had given the impression that the University of Malaya was being neglected in terms of financial resources; for example, the Universiti Kebangsaan was receiving special aid in order to build up its staff by sending them abroad for higher degrees. Government policy towards the use of the Malay language — all courses were meant to be taught in Malay — and towards discipline was said to have taken much of the enjoyment out of teaching.

The principal criticism made of the education graduates of the University of Malaya received was that it was too theoretical. Graduates were said to have a narrow outlook, to be ambitious, rather filled with their own importance, but not able to manage men and to be reluctant to get their hands dirty. It was said that they were attitudinally not prepared for the commercial world. A few companies appreciated that it was the quality of the recruits rather than the immediate relevance of their education that was most important and in 1972 the quality of engineering and accountancy graduates was particularly commended.

Other sources of recruitment included the Universiti Pertanian, Universiti Teknologi, Military College, and I TM. (I TM and the Universiti Kebangsaan being primarily Malay institutions Will be dealt with separately in Chapter 9.) Very few of the



companies in the sample had experience of students from the Universiti Sains Penang since it was started only in 1969, however, those that had — usually for vacation training — voiced reactions similar to those to the University of Malay students: that while the education was sound students were unwontedly sure of themselves. An important source of recruitment for the plantation industry is the Universiti Pertanian, formally Serdang Agricultural College. Courses there are specifically geared to the needs of the industry and comment was generally favourable, with graduates said to have a sound, practical training. Graduates from the Technical College, now the Universiti Teknologi, were also well regarded as having a good, practical technical training, but the bulk of them went into Government employment. The Military College was another source of recruitment mentioned as producing well-disciplined and highly adaptable graduates.

There were areas where there was clearly a shortage of suitably trained candidates to recruit. This seemed to be particularly the case at the supervisory level, and in the scientific and technical fields especially amongst Malays<sup>410</sup>. The Government has recognized its role in solving this mis—match between supply and demand: The challenge will be to equip them / i.e. Malaysian youth/ through education and training to participate productively in the agricultural and industrial development of the country. To this end, education and training in the sciences, technology a}} business management will require much more emphasis.

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<sup>410</sup> David Lim, in a report on the manufacturing industry in Peninsular Malaysia, found the shortage of supervisory staff was such that it was an important factor contributing to the underutilization of capital in the industry. D. Lim "Capital Utilization in West Malaysian Manufacturing. p. 51.

### **8.8.2 SUCCESSION PLANNING AND PROMOTION**

Relatively few companies had the sort of succession plan that enabled them to plan the development of managers to fill future posts. Table 7.9 summarizes the scores companies received on succession planning. Those that were most active in this area were once again the largest companies, and their scores actually improved between 1971-75. One of the main reasons for the careful planning that goes on in these companies is the fact that they have to plan for Malaysianization, and now, racial balance in management. Some of the companies in FS2 and FS3 were relatively new and succession planning was, reasonably enough, not seen as a priority with a young management group. Amongst the Chinese family company's succession planning was an internal family affair and, in a few cases, it was considered bad luck to plan for succession until after the death of the head of the firm. In the planting industry it seemed superfluous in a situation where there was virtually no growth and many experienced, competent managers. In the large tin companies, the uncertainties of the political situation as well as the depletion of tin reserves made it difficult to plan in the long term and so to plan for succession.

Systematic training for succession was uncommon because most training was ad hoc and related to specific technical skills rather than to the long-term development of managers. In a few small companies where, individual managers could be given a lot of attention ad hoc training for succession appeared to be successful. Promotion was an aspect of succession that was explored. With the exception of Malay managers, who will be dealt with separately, the European and multinational firms promoted almost entirely on the basis of performance. However, a number of these

companies mentioned that local managers preferred to have age and seniority considered and the older European companies did Succession Planning<sup>411</sup>.

Those identified or in line for succession give some preparatory training, not always carefully related to the job: and no conscious and systematic development of managers -to take over any senior positions. No special training for succession and no real awareness of the need for it appear to consider such factors. The succession planning was more of a “are you likable and part of the team” The lack of mobility of Malaysian managers was brought up in this context. Many companies also found their managers reluctant to accept transfer to a different part of the country as they will move them outside their comfort zones. In the extractive industry which is inclusive of mining timber and in some cases manufacturing, promotion is, of course, very limited indeed. In Chinese companies’ promotion is carried out using the same set of criteria as for recruitment into management, criteria which rate loyalty and honesty above ability. Indeed, one Chinese company stated this very explicitly; it was a company dealing in precious stones and needed a manager who was absolutely trustworthy. It was, therefore, promoting a clerk who had been with the company for many years and proven his loyalty although it recognized he was not sufficiently able to make a good manager.

### **8.8.3 APPRAISAL**

Appraisal and feedback as to how well one is performing and where one could improve one's performance is an important aspect of self-development for the manager, and should provide the company with objective information about him so

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<sup>411</sup> Deyo work suggests that seniority is an important factor in promotion in Chinese firms, although it was not mentioned by the companies in the sample. This may account for the preference on the part of local managers.

that it can assist him in developing his abilities and make the best use of his potential. In Malaysia appraisal is common but feedback and counseling rare. Appraisal is frequently a part of the annual salary review and has an immediate impact on rewards. In Chinese companies there is a year-end bonus related to company rather than individual performance, but since, this bonus can be as much as a year's salary it is a considerable incentive.

In the planting industry managers submit an annual operating budget and are judged against this largely self-set target. In an industry that specializes in managing estates for other companies, not surprisingly, a careful check is kept on managers through biannual tours of inspection by a Visiting Agent (VA). In the multinational companies standardized appraisal forms developed in the international context of the company are often used, indeed many of the European companies also use this type of standardized form for annual appraisal. Feedback and discussion of performance is almost never carried out. The few exceptions include a handful of multinationals which have brought in 'Management by Objectives (MBO) with the manager taking an active part in the setting of his objectives, and his performance in relation to those objectives discussed with him. Other than this it is generally agreed that discussion of a man's performance is a highly sensitive area likely to lead to loss of face' and misunderstanding and therefore unsuitable in Malaysia.

Since human relations are one of the problem areas of management in Malaysia it is not surprising that such sensitive exercises are eschewed. Nonetheless the plantation industry seems to succeed in that VAS discuss each manager's performance with him. A vital point in both cases is that appraisal is entirely performance - rather than personality - oriented. Many of the standardized appraisal

forms used by companies in fact have a large subjective, personality element and discussion and possible criticism of a manager' s personality is bound to be sensitive, especially when carried out by a foreign company.

Because Chinese companies are generally so small - an average of only 7 managers per company in 1971, 10 in 1975 appraisal is not formalized but consists of daily observation of a man's performance. These companies therefore tend to do poorly when compared with the normative model of appraisal used in Table 7 .10, indeed it is very difficult to determine exactly what is going on in a company where such fluid informal systems are used. This chapter has examined the characteristics, policies and practices of the companies in the sample towards some of the elements of a management development program, in particular, their overall level of performance, basic philosophy or approach, their recruitment practices, attitude towards succession planning and promotion and use of management appraisal. The next chapter will complete this picture by examining the training practices of the sample companies.

## CHAPTER 9

### 9.0 MANAGEMENT TRAINING PRACTICES AND PREFERENCES

The previous chapter have looked into Management development. Training and management development are very similar and related but not the same. It is appropriate to explain the difference before I move on with this chapter that will focus on management training practices and the preferences, not just by management but also the preference of managers. While formal management training is only one aspect of management development it is a particularly important and obvious one. It is to be noted that manager development is directly related to skilled workforce.

“Training is the process of teaching employees the basic skills they need to perform their jobs. Management development refers to teaching managers and professionals to increase the knowledge, skills, and attitude needed for future jobs. Training is present-day oriented. Development is future-day oriented.

*Table 27 Main Differences Between Training and Development*

<b>Training</b>	<b>Development</b>
Training is the process of teaching employees the basic skills they	Management development refers to teaching managers and
Training is present-day oriented.	Development is future-day oriented.
Training programs are arranged for employees.	Development programs are arranged for executives.
It is a lower-level learning program.	It is a higher-level learning program.
Training is imbibed to enhance much more skills and knowledge of	Development is imbibed for enhancing specific skills and knowledge
Skill level is changed through Training.	The behaviour level is changed through development.
Training is a narrower concept focused on job-related skills.	Development is a broader concept focused on personality
Training is aimed at improving job-related efficiency and	The development aims at overall personal effectiveness, including job
Training refers only to instruction in technical and mechanical	Development refers to philosophical, theoretical, and educational
Training courses are typically designed for a short-term period.	Development involves a broader education for long-term purposes.

Source: iEdunote

It is to be noted that manager training is directly related to skilled workforce. Management training is critical for development and without it there will be no skilled workforce and one has no pool to select managers from. It will be fundament to cover

skill training as well in this section. The general attitude of a company, or the senior executive in a company, towards management development, though perhaps the most important factor is difficult to assess, and in the case of local companies, difficult to identify. Training, on the other hand, is relatively concrete involving countable individuals undergoing a specific learning experience. It is, therefore, the easiest manifestation of management development on which to obtain reliable data and will be dealt with here at some length. There is, of course, still a great deal of variation in what any particular company may identify as on the job training, or the use it makes of external training courses, so an assessment has been made of the various aspects of the companies training program. This assessment is based on the interviews and literature reviews rather than direct observation of specific forms of training, nevertheless it provides a useful guide.

In examining the degree to which companies train their managerial cadre a number of factors should be borne in mind. There is the relative youthfulness of the population generally which will be reflected in management. Although higher education has expanded very rapidly the impact of increasing numbers was just beginning to be felt in 1976 and even then, it was primarily the large multinational and European companies who were recruiting managers direct from university.

That is to say, the vast majority of managers in Malaysia would not have enjoyed a university type education. In secondary schooling the expansion of places came immediately after independence and a high proportion of younger managers are likely to have received secondary education. However, a very small proportion of the older generation will have had the benefit even of that level of schooling. As has been shown, it was the English schools which provided the best quality of instruction.

However, students from these schools were ill-suited to the demands of the Chinese business sector and attracted to the more lucrative positions open to them in foreign companies. European and multinational firms have managers with a higher level of general education than Chinese companies.

These European and Multinational companies employ a larger management cadre, and have more reason to concern themselves with the training of their managers. Senior management in Malaysia is usually European and as a result of this feels a need to train its Malaysian staff in company and provide skills and methods. Added to this there is the compulsion for European and multinational companies to Malaysianize their management, and if they are pioneer companies very clear stipulations may have been made in regard to the provision of training.

The direction of the development of manufacturing has meant that there has been a heavy demand for technically trained management that had, at the time of the study, and in particular the first half of the study, outstripped the supply. As a result, one would expect manufacturing companies to be particularly involved in training to meet the immediate technical needs of the company.

The extractive industries, on the other hand, are hardly expanding their management, with very low rates of new recruitment and an emphasis instead, especially in the planting industry, on increasing the efficiency of existing management. One might therefore expect a shift in emphasis from junior to middle management training. The service industry has expanded its management more rapidly than those in either of the other two sectors especially in the twentieth century, often through diversification into manufacturing, and this will have created a need for training at the junior level.



## 9.1 MANAGEMENT TRAINING PRACTICES ANALYSED BY SIZE GROUP

The following figures is based on small elective samples and do not represent the country as a whole. The sampling was done in planting and logging companies as they were the dominating company with the most none Malay managers. Turning now to what was in the beginning of the government affirmative action implementation. Table 33 will present the number of managers trained, and what the main training methods used during the early stages of management training in order to start the government compliance. The two most salient facts that emerge are, first the contribution of the two largest size groups to training, FS3 and FS4 accounted for 96 per cent of all managers trained by companies in the study sample. It was also observed that there was a period where the total number of managers trained dropped both in absolute and in relative terms and the number of companies that carried out no management training rose, particularly among the smallest companies.

	FS 4	FS 3	FS 2	FS 1
Total managers Trained	694	132	19	12
% of Manager Cadre trained	35%	18%	17%	9%
No of Companies trained no managers	6	6	9	12
<b>Types of Training</b>				

On the Job	264	82	10	3
In Company training	275	3	0	1
External courses	134	25	7	2
Overseas Training	106	22	2	6

The overall fall in managers trained is the result of a decline in training in FS4 which does by far the most training of any of the size groups. Indeed, even if grossed up for the universe to get a picture of the comparative training contribution of the different sizes of company in the business community at large, FS4 is seen to be responsible for more training than any of the other size groups. These figures emphasize the very different orders of magnitude in training activities and possibilities in different sizes of company in the early stages of management training.

*Table 28 Show average managers trained by company size*

The companies in FS4 were far more aware of and involved in training, while the majority of companies in FS1 did little and is highly sceptical of the value of formal training. Differences between the size groups both in the numbers trained and in the attitude towards training reflect as much, if not more, the different approaches to management development in the business communities and the different training requirements of the three industrial groups.

*Table 29 Management Training Practices Analysed by Size Group*

Company	Sample size	Companies responding "None"	Non-Respondents	Total Positive
FS 1	32	16	1	15
FS 2	16	5		11
FS 3	21	7	2	12
FS 4	29	5		24

Table 30 Types of Management Training by Size Group

Subject of training	S.G 4			S.G 4			S.G 4			S.G 4		
	Snr	Mid	Jnr	Snr	Mid	Jnr	Snr	Mid	Jnr	Snr	Mid	Jnr
Production												
Quality Control	0	7	7	5	7	6	1	2	3	2	7	6
Work Study	0	5	5	3	6	6	1	2	0	1	5	5
Production Control	2	9	6	4	6	4	2	3	2	3	5	5
Layout Scheduling	1	5	3	3	7	4	0	1	0	3	4	5
Maintenance	0	6	8	2	8	7	4	2	4	0	5	7
Stock control	2	7	6	2	8	3	2	1	2	2	3	8
Finance Control												
Financial planning	11	11	4	10	5	2	8	2	1	6	3	2
Costing and Cost Relationships	4	8	10	7	8	6	4	5	2	5	7	3
Budgetary Control	8	9	9	8	9	7	5	2	1	4	5	2
Investment Appraisal	10	3	5	9	1	1	5	1	0	4	4	2
Organization and methods	2	6	3	6	8	2	3	3	1	3	4	2
Personnel												
Personnel management	8	10	8	4	7	4	4	3	1	3	4	4
Industrial relations	9	15	8	4	6	2	5	2	2	3	6	5
Human Relations	7	15	10	5	8	8	3	3	3	2	4	5
Supervisory training	1	6	12	2	4	7	1	4	5	2	5	4
Marketing												
Marketing Profitability Analysis	8	9	6	7	6	3	3	2	0	4	4	3
Sales Training and Control	4	10	8	3	8	6	1	4	2	2	5	4
Forecasting	6	11	5	7	5	4	3	6	2	2	3	3

Source: Field surveys

## 9.2 MANAGEMENT TRAINING PRACTICES ANALYSED BY THE BUSINESS

### COMMUNITY AND INDUSTRY

#### 9.2.1 THE CHINESE BUSINESS COMMUNITY

Chinese companies are characteristically found in the low technology sections of each industry. In Chinese tin companies the technology used for extraction is simple and the main requirements for management seem to be the trust and respect of the Chinese business community, an ability to organize manual labour, and a capacity for hard work. These companies therefore see no need for management training as such. Experience of the industry is considered the most important and relevant means to develop a manager. The same applies to the Chinese planting sector. The Chinese owned sector of this industry is considerably smaller than the European and therefore

the need to think through the training needs of the managers is not as urgent. Companies again prefer to stress practical experience.

The same strong emphasis is to be found in the Chinese segment of the service industry which is made up of a very large number of extremely small enterprises. In manufacturing the Chinese dominate the older low technology industries such as foodstuffs, footwear, the processing of wood products. It has therefore been possible for them to manage without formal training, or with a minimum of such training. The stability of the management cadre in Chinese companies has made training appear superfluous. "Everyone knows his job and therefore there is no need for training", one general manager explained. The conservatism of large parts of the Chinese business community prevents them from trying out the training available. As one manager put it, 'If managers go on courses, the workers won't like it'.

Educational and cultural barriers to training were also frequently mentioned. The majority of managers in Chinese companies had little education and that was at a Chinese school, consequently either they did not speak English or spoke it poorly and felt handicapped by their limited education<sup>412</sup>. As one company explained, "There are no men suitable for training". From the point of view of a manager in this position a training course would almost certainly result in embarrassment, a loss of 'face', and would therefore be avoided. The perceived cultural gap between the Chinese companies and the training institutions was probably an even greater barrier. Training institutions in Malaysia teach what has come to be thought of as generally applicable management theory and practice, but its origin in the West, and its basic applicability to Western companies, not to mention the employment of Western advisers by the

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<sup>412</sup> Dr Cheng Peng Lim found 74.8 per cent of the entrepreneurs in small industry in Malaysia did not have any upper secondary education. Cheng Peng Lim, *op. cit.*, p. 20.

institutions, makes conservative Chinese companies feel that there is nothing the institutions can offer that is relevant to the Chinese practice of management. The extremely practical orientation of these companies makes the theoretically based training courses seem all the less relevant.

Management is kept to a minimum and all major decisions are taken by the chief executive, the principal entrepreneur. To such an individual formal management training often seems totally irrelevant. The amount of work Chinese entrepreneurs put into their business and relate to 12-14 hours a day, seven days a week, was said to be not uncommon when trying to build up a business — means that they have no time to approach management scientifically even if they knew how to do so, and they have no time for training.

That is not to say the Chinese business community carries out no training at all. It must develop its entrepreneurs and this process starts at birth. The revered combination of experience and hard work forms the basis of the apprenticeship through which many of the Chinese entrepreneurs interviewed had served and indeed were putting their sons. Practical training on the job under the guidance of a senior manager was also mentioned as being used on the rare occasions when there was no one with the requisite experience

The Indian family run firms were very similar to the Chinese in this approach as far as management is concerned. They began developing the new generation of managers as young children by instilling the values of hard work and obedience into their sons. They were then given the best possible education, followed by a long period of apprenticeship in the family firm, or possibly partly in a trusted friend's firm prior to

assuming a managerial position, although not managerial authority, which still resided with the senior family members available.

When new skills were required the first reaction of the Chinese company is generally to try and find a manager with the requisite skills rather than sending an existing manager for training. This is a natural reaction in a small company. A need for new skills suggests expansion or diversification and existing management may well be fully occupied. The small company will usually not have the training capacity within its resources and will prefer to bring someone in who can get to work immediately rather than spend time training.

The only segment of the Chinese business community that did not entirely fit this pattern was that of the new manufacturing companies. There was not the influence of a well-established industrial group; management tended to be younger, consequently better educated, and more open to outside influences; and finally, and probably most important, there was the need to acquire the technical skills involved. Nonetheless, there was a tendency for such companies to acquire the minimum amount of training to function.

One Chinese family firm venturing into a field in which it had no experience bought the necessary machinery and sent the younger brother on the manufacturer's course to learn how to operate it. When he came back and proceeded to operate, however, his knowledge was very limited and there were many mistakes, some costly, and when the equipment broke down he had to go on another course to learn how to mend it. This has created major issues and people did not trust the training and created chaos. Nevertheless, the company kept sending the manager to acquire the necessary skills, the company expanded and with this the customers changed and

developed, new equipment was brought in and the production manager sent off on further courses. The business was a flourishing concern.

In marked contrast, and in relation to another Chinese family business in the same industry, a model of progressive management, whose senior managers had a thorough theoretical and practical understanding of their production process and had received the best possible training in both technical and management skills. It was pointed out as a constant example of what an enlightened Chinese company could achieve; not long afterwards the company was on its knees.

The conservative Chinese approach of minimizing the amount of money tied up in equipment and management and of keeping overheads down had enabled the former company to weather the recession of 1975; the latter company, with money heavily invested in equipment and management found itself overextended when the banks were clamping down. In the uncertain business environment of Malaysia, the reluctance of the Chinese business community to expose themselves to the risk involved in adjusting their approach to management and to management development is scarcely surprising. However, the great majority of conservative Chinese family firms will probably not last another generation unless they do change.

The attitude of the Chinese companies to training is clearly reflected in the numbers they actually did train and the scores they received on the various aspects of their training program. In 1971, only 7 companies in the Chinese group trained any of their managerial staff, by 1975 this had increased to 15 although the number of managers actually trained had dropped slightly. It is very difficult to assess an approach to training that starts almost at the cradle. Compare today with 1975 the approach to training have totally changed. Now the Chinese and Indians will send their

children from an early age to the best schools and universities. This is not just to train managers but also to become dominant in business. In the past, the Chinese have fared very poorly in the assessment of their training activities. This is not to say that effective training does not go on, but it is a training in the attitudes and values, as well as the capacity for sheer hard work that go into developing an entrepreneur rather than a manager.

The study revealed that only four companies from the study group have had mounted any in-company courses and external courses had been used by only seven of the 51 respondent companies in 1971. Many Of the 44 companies which did not use external courses did not even know of their existence. There were, however, a few interesting exceptions which suggest a possible change in attitude. Many of the companies involved in the rubber industry mentioned that they attend the RRIM conferences and those that do not attend them keep themselves up to date with the latest technical developments through their contacts in Kuala Lumpur and through the Chinese newspaper which carries a regular half page on the rubber industry.

The Selangor Chinese Engineering Merchant's Association has ventured considerably further collaborating with the National Productivity Centre to mount courses in Chinese specifically tailored to the needs of the industry. The Plastics Association similarly has enlisted the assistance of a University of Malaya lecturer to run a specialized training program. This type of external training, closely related to the needs of the industry, is an important development that could pave the way for the inclusion of management as well as technical training.

Overseas training, although carried out only by a handful of Chinese companies, was one of the most effectively used types of training. Generally, it was



related to practical, technical skills either for the manufacturing industry, or for servicing equipment sold by the wholesale and retail trade, and a few companies mentioned they regularly attended sales fairs around the world to get new ideas. All the Chinese companies that used overseas training were convinced of its value: it gave managers "a more receptive approach" made them "more open to criticism and suggestion", "more receptive to new ideas", "ready to try harder", managers who had not been abroad and had little education were said to be inflexible and resistant to change. Compared to the present industry Chinese companies do not engage in on the job training and local agency training. They prefer external, European and overseas training.

### **9.2.2 THE EUROPEAN BUSINESS COMMUNITY**

The great majority of the European companies in the sample were long established companies in either the service or extractive industries. Of the 27 respondent European companies, 16 were in the service industry, eight in the extractive industry and only three in manufacturing. This reflects the historical preoccupation of the European companies, although it does not consider the fact that many of the old agency houses and managing agencies are diversifying out of their principal industry, and in some cases have extended their interests beyond the South East Asian region. Nonetheless they do not tend to have the characteristics of the big multinational companies with their strong central core of control and advisory services.

With the exception of mining, the old European companies have been involved in labour intensive, low technology industries. In the managing agencies, their business was related to the quality of the management services they provided and

therefore, arrangements for the training of new recruits were established very early on. At first management trainees were all European, drawn from such places as Aberdeen Agricultural College. Training for the specific requirements of the job was done through on the job training (the quality of which varied according to the ability and disposition of the estate manager) and through the requirement that trainees sit language and planting knowledge examinations. A few companies organized these internally but more commonly trainees sat for the Incorporated Society of Planters (ISP) exams. The ISP is the professional association of the planting industry and has played an important role in improving the quality of the training received through its Technical Education Scheme, the publication of planting manuals and the sponsorship of rubber and oil palm conferences and symposia<sup>413</sup>.

With independence and particularly from the mid-sixties on, plantation companies began to recruit Malaysians as management trainees and to step up the training of new recruits. One company started a Cadet Training Scheme as early as 1954, another opened a school for trainees. On the job training was carefully planned to cover all aspects of plantation management. However, with the expansion of Serdang Agricultural College and the establishment of the ITM plantation management course the quality of pre-experience training recruits has received has improved and this has enabled the period of training on the job to be reduced.

Once this initial technical apprenticeship has been completed, the training of plantation managers continues to be primarily on the job training consisting of job rotation, through different types and sizes of estate, and regular assessment by VA's.

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<sup>413</sup> The ISP was founded in 1919, promoted the first rubber conference in Malaya in 1924, and launched its Technical Education Scheme in 1928. In 1937 it published A. T. Edgar's Manual of Rubber Planting (Malaya) which became known as the planters 'Bible'.

It also includes attendance at the professional conferences run by the RRIM and the ISP and to a very limited extent external training course. The importance of management in this industry has led it to emphasize practical experience in a variety of situations rather than specific training courses. The remoteness of many of the plantations has made attendance on courses difficult and reinforced the bias towards on the job training. One form of external training that has been found particularly useful by the plantation companies is 'Outward Bound Courses' which build up the fitness and self-confidence of new recruits. Nonetheless, the area over which a plantation manager has responsibility and the amount of administrative work has grown steadily. Recognizing the growing need for a training course to prepare managers to cope with this new situation in 1977 the planting industry collaborated with the Malaysian Institute of Management to begin running a plantation managers' course bringing together the theoretical expertise of MIM lecturers and the practical experience of the best Visiting Agents. Overseas training is used to a limited extent by planting companies.

There are only three large tin managing agencies compared to about nine in planting, and these face the problem of declining tin reserves, as well as Government action to acquire a controlling interest in the industry. In the past all managers were Europeans who came out to Malaya with a suitable training in mining technology. Because of the shortage of Malaysians with appropriate qualifications the industry has been allowed to Malaysianized very slowly. Training within the industry consists of pre-experience professional qualifications, such as a university degree in mining engineering, and a system of on the job training and examinations for the new recruit. Once this is completed there is generally no regular use of any other form of training

although people are occasionally sent on external courses. In only one company were in-company courses mounted and was training undertaken on anything but the most modest of scales.

There were only three European companies in the sample categorized as being in the manufacturing industry, that is whose main activity was manufacturing, and of those two were long established companies. Despite the very different technical requirements of the former two, both tended to have little time for any form of management training. Unlike the planting industry where natural conservatism with regard to management training has been modified by the pressure to improve efficiency and by the sheer numbers of managers over which they have control, these companies continued to believe in a suitable technical background followed by on the job experience as the best means of management training.

The European segment of the service industry is dominated by agency houses. Historically they have played an important role in the economic development of the country, however, with the changes in the direction of economic development that followed independence - the emphasis on industrialization and import substitution - the future of the agency houses looked uncertain and as a result they have been going through a period of adjustment and reorientation. In some cases, the agency houses established a market and this drew the original manufacturer to Malaysia, in others the agency house itself began manufacturing under license. They have seen Government policy cut their business from beneath their feet and have been the target of official criticism, this has made them extremely sensitive and aware of their vulnerability, at the same time it has forced invigorating changes on them.

In the past these companies recruited their managerial staff from Europe and little training was given. Although they are now fully Malaysianized, they still do less training than the other industrial sectors. The wholesale and retail trade are not seen as demanding a high level of training except in cases where the products being handled are technically sophisticated. This accounts for the fact that only 27 per cent of their managers received any form of management training in 1971 compared to 53 per cent in manufacturing, and 27 of the 56 companies carried out no training at all. In 1975, the situation was substantially unchanged, however the amount of training done by the manufacturing industry had fallen off markedly and so in comparison the performance of the service industry appeared better. On the job training for most of the companies in the service industry tended to involve a fairly unstructured program of learning by doing. Where in-company courses were mounted these were short and practical, aimed usually at junior to middle management.

External training courses were used but they did not seem to form part of a comprehensive training program, being ad hoc with little, if any, follow-up. The increase in the number going on external courses has been at the expense of on-the-job training. This may suggest a move towards more systematic, formal training and reflects the expansion in the provision of training facilities in Malaysia, however it is also likely that it reflects an increasing tendency for companies to opt out of responsibility for planning and implementing in-house training.

This rather gloomy picture of training in the European sector of the service industry is modified in the case of the very large agency houses which have a considerably more progressive attitude to management training, run in-house courses

for their management, and make extensive use of external courses and of overseas training.

Overseas training was most commonly used in the service industry and was generally the most carefully and constructively planned. It frequently involved visits to the principals whose merchandise the company handled and, in some cases, this included attendance at technical and management training courses particularly in Britain. Despite the high cost of this form of training the service industry firmly believed in its usefulness. The most important practical advantage was the acquisition of specialized skills and familiarization with the latest models and developments in different product lines. However, there was general consensus that overseas training was a broadening, maturing, revitalizing experience that gave managers a new self-confidence and status. The training of managers overseas was also considered to "get them thinking the way top management does".

### **9.2.3 THE MULTINATIONAL COMPANIES**

The multinational companies had given more thought and planning to the total development of their management than any of the other groups within the Malaysian business community. Over half the multinational companies that appeared in the sample were in manufacturing industry and had clearly established international standards of quality, efficiency and overall performance. While Chinese companies, if they were interested in training at all, were purely concerned with the acquisition of practical technical skills, and European companies having largely made the necessary arrangements for technical training were beginning to consider management training, the main concern of the multinationals was management training.

Their technical training was on the whole superbly planned and organized and the company could draw on local, regional or international company training centres, and managers could be seconded to sister companies within the international framework for specialized experience. But it was the need for management training that the multinational companies emphasized.

There were two main aspects of management development that seemed to concern the multinationals: first was the need to develop the managerial skills of their staff; and second, was the need to adapt their staff to the methods, attitudes and values of the company, to acculturate them. The view was expressed by many of the multinationals, as well as by some of the European companies that while the technical skills of their Malaysian staff were excellent, they lacked skill in human relations. They did not know how to delegate or supervise, and tended to be insensitive to the problems of their staff. They were weak at operating as a member of a team and there was a marked lack of exchange and discussion between people about their jobs.

One explanation for this was that Malaysia has been going through a period of very rapid educational expansion which has enabled the children of fairly humble backgrounds to gain the academic qualifications required by multinational companies, and at the same time the expansion of the industrial sector has meant greater opportunities for local graduates in what are seen to be prestigious, remunerative positions in large European and multinational firms. The result has been the rapid movement of people from traditional backgrounds into the modern sector. While this situation is particularly true of Malays, and this will be discussed in the next chapter, it is also true of Chinese although the terms 'modern' and 'traditional' are not quite so appropriate. In the case of Chinese managers, it has been more a movement from

one culture and style of business to another. The reluctance to delegate, the deference to authority and the preference for individual enterprise rather than teamwork, are characteristics of Chinese business, at odds with the management style of many multinational firms. The chronic insecurity the Chinese have felt historically and that has been aggravated by the Government's discriminatory racial balance policies is likely to have reinforced the Chinese managers natural individualism and his defensive introversion.

Another problem mentioned was the limited creative input local managers made. This tended to be put down to the educational system which, particularly, in the Chinese schools, encouraged rote learning, to the Asian family system which stressed obedience to authority, and indeed to the colonial heritage which also tended to emphasize these things. In order to cope with these difficulties' companies have emphasized the development of managerial skills through a combination of on the job development including job enrichment by giving increased responsibility through in-company courses in a whole range of management subjects but especially in human relation skills and creative thinking, through the extensive use of external training facilities, particularly to broaden the outlook of managers, and through the use of overseas training.

The support multinational companies give to local training institutions was very noticeably despite the fact that almost all their training could in fact have been done internally. They lent managers to teach these courses, in the case of MIM sat on the governing council, sent their staff to attend the courses and generally gave a great deal of moral and practical assistance.



Another interesting point that was mentioned was the motivation of local managers who were said to be primarily interested in financial rewards. This is easily understood in the light of the insecurity felt by both Chinese and Indians. Maslow's theory of motivation asserts that the higher-level needs become motivating forces only when the lower level needs, including the need for safety and security, are met. This attitude will, therefore, be difficult to change during the present period of social upheaval in Malaysia.

Multinational companies take conscious steps to minimize the cultural gap between themselves and their managers by the recruitment of university graduates, particularly from overseas universities, and by the use of overseas training. Considerable store was set by such training for many of the same reasons as the European companies. The development of management skills and attitudes was particularly mentioned, as was the importance of exposure to international management thinking, and familiarization with head office functions. It was felt it enabled the manager to identify more closely with the aims, methods and attitudes of the parent company and broadened his personal horizons.

The multinational companies were by far the most involved in management development at all levels, both on the technical and management side. They had the expertise, resources and commitment to provide the best possible training. But if one compares back to 1975 their training activity declined sharply which was almost certainly related to political factors, for as large overseas companies they are the obvious target of economic nationalism. On the other hand, they also tend to take a long-term view and appear to try far harder to take Government priorities into consideration in their planning than do the smaller companies.

### 9.3 THE USE OF TRAINING INSTITUTIONS IN MALAYSIA

In the start and after the independence of Malaysia, there was limited management training provides and businesses had to rely on self-training, some government agencies or Universities for their training, today there is a network of training providers. According to Human Resources Development Corporation in Malaysia's internal data, as of April 2021, there are 5,568 active training providers registered under HRD Corp. As most of the economic activities are concentrated in Selangor, there is a high number of active registered training providers located in the state, which is 45% (2,498) of all providers. The state with the lowest number of registered training providers is Labuan, with only four (4) training providers (0.1%).

Total Active Training Providers: 5,568

Total Trainers: 11,730

Training Activities by Registered Training Providers

2017 -54 000

2018 - 92,876)

2019 - 110,482

2020 - 67,578

2021- 23,163

The trend shows registered training providers' activities increased by 67% (92,876) and 19% (110,482) respectively in 2018 and 2019. It started to decline as COVID-19 hit us in 2020 by 39% with 67,578 training applications approved. Earlier in 2021, there were only 23,163 training activities due to the pandemic.

Map show distribution of Active registered Management training Providers by State

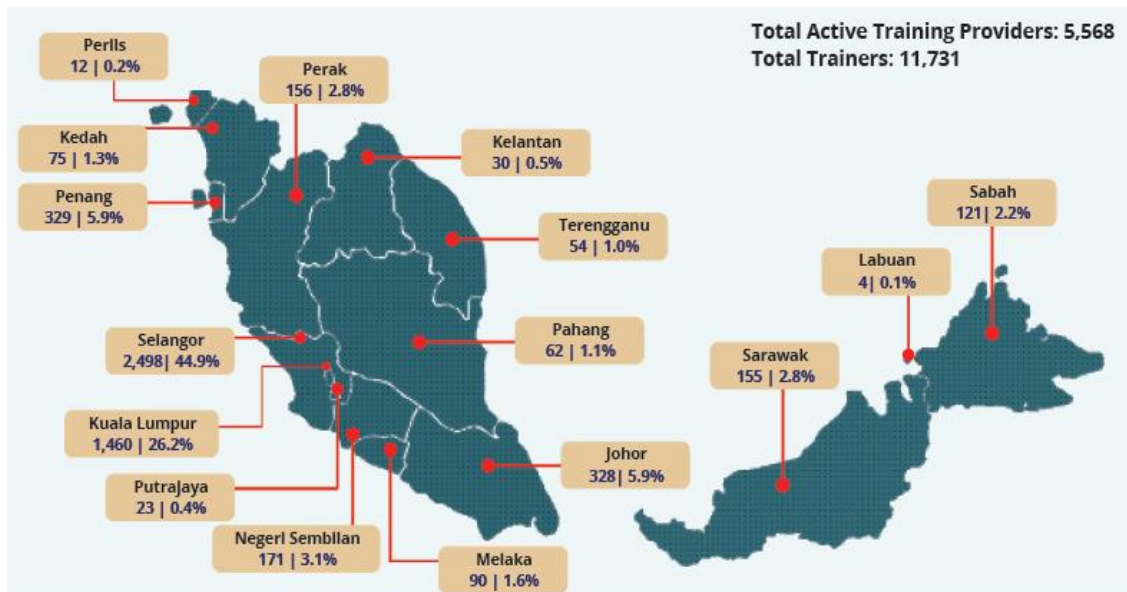


Figure 72 Distribution of Active Management training Providers by State

It is worth showing the breakdown of the type of training and how they have evolved from 2018 to 2020

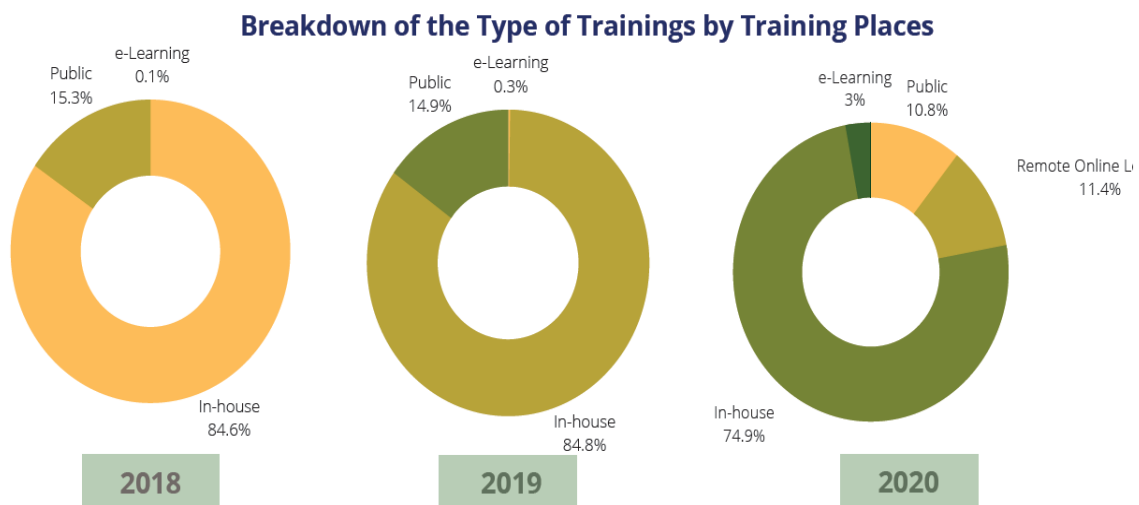


Figure 73 Type of Training Types by Training Places

I will further look at companies and their requirements for external training facilities and satisfaction with the training institutions that provide them. Companies in the survey were asked:

- (1) To list all the external training courses on which they had sent managers.

(2) To complete a Management Training Preferences Form indicating the subject areas in which they would like to see courses offered and the length Of course most suited to them.

(3) To make recommendations as to how the training institutions could be improved.

The two main management training institutions for the private sector are the Malaysian Institute of Management (MIM) and the National Productivity Centre (NPC). The NPC was established by the ILO in 1962 and in 1966 it became an autonomous body subsidized by the Government. Its aim is to provide training at both management and supervisory levels and it has expanded rapidly to provide a wide range of training courses. It is located in Petaling Jaya, at the industrial and commercial heart of the country, but has become increasingly active in providing courses in other industrial centres as well as in East Malaysia. The NPC has also been ready to collaborate with companies to arrange tailormade training program and has entered the field of consultancy. It has had the advantage of a permanent home, a Government allocated budget, and the assistance of overseas consultants in building up its training program. On the other hand, it has been obliged to offer civil service salaries that have made it difficult to attract and keep the calibre of staff it would like.

The MIM was founded in 1966 by a group of senior managers from both the public and private sectors to provide a national organisation for the training and development of managers in Malaysia. It receives no Government funding and must rely for its revenue on membership subscriptions and the income from courses. In 1972 it was still very small with a tiny office; by 1976 it had acquired a permanent home, a full-time general manager, a training adviser, a program executive, and was

recruiting a small core of training staff. It was running a wide range of training courses for practicing managers including a two-year part-time Diploma in Management and a twelve-day Basic Management Program for management trainees. Besides these two companies particularly in Johore, made occasional use of the Singapore Institute of Management (SIM). Very few companies also made use of consultancy firms to run training courses for them.

By 1976, interest in training had grown and there were a number of organizations that had sprung up to meet the new demand. These included consultancy firms such as Price Waterhouse, FSV, Kassim Chan, and PA Management Consultants, for whom training was simply one of their services; professional interest groups such as MAP, an organization of past NPC participants and the Malaysian Institute of Personnel Management (MI PM) set up in 1975 to upgrade the profession of personnel management; and TACK, a training firm. This list does not cover institutions providing or organizing specialized technical training such as the Selangor Chinese Engineering Merchants Association, the Plastics Association, the RRIM, or the ISP, already mentioned. These institutions perform an extremely valuable role in upgrading the professional and technical skills of management in specific industries.

The larger companies, FS3 and 4, are clearly the main customers of these private agencies, and in the case of Malaysian Institute of Management and the smaller training bodies, the only users in the sample was FS1 and FS2 organizations. The resistance of small Chinese companies to external training is influenced by this pattern of use. Since the main customers are the larger companies the courses tend to be geared to their needs and will not be particularly relevant to companies in FSI

and FS2. Chinese companies queried how great an understanding a body like Malaysian Institute of Management could have of the problems of small business when the principal office bearers were drawn from large Westernized firms. In fact, it drew both its council members and its membership from a range of institutions in both the public and private sectors and from both Malaysian and Western companies. However, the driving force Malaysian Institute of Management has tended to be committed individuals particularly from the multinational companies. Indeed, the Malaysian Institute of Management has not sought to cater for small entrepreneurial establishments but to provide management training for medium to large firms, and possibly even more important, to interest senior executives in management development.

National Productivity Corporation (NPC) is the only training organization in Malaysia Offering training to the smaller companies within the sample. Yet these are the companies which need training most, in that they are not able to provide it for themselves and they serve "as a breeding ground" for 8 developing the skills of industrial workers and entrepreneurs.

There was a very marked increase in the number of courses attended as well as a shift in the subject areas used from 1971 to 1975 and then again after the recession and World War 2. In 1971 more personnel courses were still the most heavily used but courses in finance and control came second particularly finance for non-financial managers.

### **9.3.1 MANAGEMENT TRAINING PREFERENCES**

Companies were asked what types of management training they would like to see provided - in what subject areas and what length of training courses at each

level of management. The results of the surveys indicate the strong demand for courses in Personnel and Finance Control that manifested itself in the courses.

### **9.3.2 EXISTING PROGRAM**

During the early boom of management training in Malaysia the National Industrial Training and Trade Certification Board (NITTCB), under the Ministry of Labour and Manpower in co-operation with the private sector, has developed national standards at basic, intermediate and advanced levels for 19 industrial trades. To assist training institutions, the NITTCB has prepared national training syllabuses for 18 trades at basic level and work is now in progress to prepare syllabuses for these trades at intermediate and advanced levels. It was also decided that the Board will also undertake the specification of training standards and syllabuses for other industrial trades. The certificates to be awarded by the NITTCB will command acceptance in both public and private sectors.

The Directorate of Technical Education was put in overall charge of lower-level technical supervision education. The training is provided in three institutions - Ipoh Polytechnic, the National Institute of Technology, and the MARA Institute of Technology. Engineering degree courses had been run by the National Institute of Technology. This Institute also runs diploma courses in engineering, which are mainly broad-based and conventional. The University of Malaya has an engineering degree course of four years' duration. Ipoh Polytechnic runs diploma courses on a sandwich pattern of two years' duration, so in this institution efforts are made to link technical education with practical training in industry in an effective manner.

One more polytechnic, at Kuantan in Pahang, is in process of development. This polytechnic is understood to be designed to run agricultural product processing

courses besides sandwich technician courses, and will have an enrolment of over 1,000 mid-level and training manager students. The Government has given high priority to the development of technical education and training at all levels. It was heartening to note that the expansion and intensification directed towards strengthening facilities for technical education are being coordinated at the highest level by the Economic Development Division of the Prime Minister's Secretariat. Also, through the National Advisory Council on Industrial Training, the various training program conducted in the industrial institutes are being effectively monitored so that they are related to actual needs of industry and the economy as a whole. This in the long run will check the haphazard growth of technical institutions, and as a result the labour market will not suffer from fluctuations in supply.

The Technical Teachers' Training College was developed to train trainers and conducts a three-year trade teachers' course for training vocational teachers in the engineering trades. This is one field where shortages of properly trained and qualified teachers at all levels continuously hamper the development effort. The Government has utilized, and is still anxious to make the best use of, training facilities offered by other countries in the Asian region. MARA also runs training for small bumiputra firms and a number of other Government bodies offer consultancy to small industry. But as one observer has commented, "the rather imposing and inaccessible buildings in which these institutions are located have discouraged all but the most audacious small industrialists from seeking their assistance."<sup>414</sup>.

Despite the small company's assertion that external training was of no relevance to their businesses, quite a few were sufficiently interested to complete the

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<sup>414</sup> Cheng Peng Lim, op. cit., p. 36



training preferences form. Nonetheless, the factors militating against training in these companies were still clearly very strong. Despite the limited number of courses in the production field companies said they would like to see courses provided in a range of production subjects for middle managers. In the field of finance and control the response reflects the patterns of use: a large number of companies are interested in courses in this subject for middle to senior managers. Certain subjects such as financial planning and investment appraisal, as well as organization and methods are seen as being of particular use to senior managers, while others, such as costing and cost relationships and budgetary control, are seen to be of special interest to middle managers. Of particular interest to the respondent companies were courses in personnel management at the middle and senior level, in industrial relations at the middle level, and in human relations and supervisory training at the junior level. In the marketing sphere there is a demand for training in profitability analysis for senior and middle managers, and in sales training and control and forecasting for middle managers.

For the training institutions to identify the types of courses of interest to companies of different sizes, the data was broken down by size group. First, it should be noticed that fewer than half the companies in FS1 and FS2 completed this section of the questionnaire. The others put 'none', 'not applicable' or simply left a blank. Thus, the number of companies in these size groups interested in the subjects suggested is very small indeed and it is difficult to draw any conclusions. That said, a few slight trends are noticeable, namely an interest in the general areas of finance and control, marketing, and production. In contrast to the companies in FS2 and FS1, companies

in FS3 and FS4 completed this part of the questionnaire and they are largely responsible for the patterns already discussed.

Finally, companies were asked to list any other areas in which they would like to see courses offered. The number of further suggestions made indicates a remarkable interest in training and varies from training in group dynamics to supply distribution systems.

Companies were asked for their preferences regarding length of training. The most desirable length of course was felt to be 1—2 weeks, followed on both occasions by short 2—3-day courses and evening courses. The number of companies interested in one-month courses is striking, given the cost in terms of managers' time involved. There is a clear relationship between seniority and the preferred length of course: short 2-3-day courses being more suited to senior managers as against 1—2-week courses for middle and junior managers, and evening courses, particularly at the middle and junior levels.

Finally, companies were asked how they thought the existing training institutions could be improved. The considerable time and effort companies put into responding to this question is a good indication of the interest and concern they have in the training currently available. It must be remembered in interpreting the data that the questions were completely open-ended and so each company has probably made only the most salient suggestions. In other words, this list is not necessarily comprehensive.

There were certain clear themes running through the suggestions. First was a concern for relevance and practicality. Companies expressed a willingness to work with the training institutions to ensure that courses were tailored to meet real needs

and an offer that should clearly be taken up by the training institutions. Implicit in these suggestions is an acknowledgement that the training institutions are providing a valuable service, but are out of touch with the practical requirements of the business world. Not only is it desirable that courses be planned in collaboration with industry but also that there be close liaison after the course is over to see whether there is in fact an improvement in the performance of the participants and to use such information in the planning and design of future courses. Another suggestion is the development and use of local case studies to which close collaboration between training institutions and companies could well lead. Sequential or sandwich courses were suggested as one way of improving the practicality of training. Chinese companies questioned the degree of understanding bodies like MIM and NPC had of the problems of small Chinese firms. They too urged greater collaboration between the training bodies and local firms and urged that courses be made available in Chinese. Second, there was criticism of the course leaders who, it was felt, had little, if any, practical experience of industry. This was a point first raised in 1972, and is obviously difficult to correct if there is to be a staff of permanent trainers.

Few practicing managers can switch over to full time training without jeopardizing their long-term career prospects and so training in Malaysia seems to be the preserve of the university graduate or lecturer who is making his way into industry. The solution would appear to be to make far more use of practicing managers as part-time course leaders and, given the interest in external training expressed by companies both in the questionnaire and during interviews, there would seem to be considerable potential in this area. Particularly singled out for criticism in visiting lecturers from abroad, who had no understanding of local conditions. Companies

repeatedly came back to the need for immediate practical relevance and the choice of instructors who could provide it.

Finally, companies made many suggestions dealing with practical details. The first suggestion noted here deals with the need for specialization among the various training institutions to avoid wasteful competition. Already there is a tendency to specialize. The Malayan Institute of Management is patronized by the larger companies, the National Productivity Centre by the medium and small companies, and Price Waterhouse is known to offer good courses in finance. But other organizations are seeking a share of the training market and could well undermine the existing institutions.

Other suggestions cover length, timing and level of courses. What appears to be wanted is greater variety in the range of courses offered with a particular demand for shorter and weekend courses. The problem of providing training for companies outside the Kuala Lumpur, Petaling Jaya area has now begun to be tackled. The short course modelling started in 1976, a few day-long courses had been run in Penang and Johore Bahru by MIPM and NPC but the response has not always been encouraging. Companies in Penang and Butterworth particularly mentioned the need for locally run courses, companies in Johore can and do use the facilities in Singapore.

Companies were asked whether they would like to see an MBA program provided in Malaysia. There was general agreement that this was neither necessary nor desirable. The Malaysian business scene, it was felt, did not need managers with that level of academic qualification. Companies were also asked for their views on the Asian Institute of Management (AIM) in the Philippines. Very few companies had used its facilities and none expressed any enthusiasm for them. They felt that if they were

going to send their management abroad for training they would rather send them to Europe which would introduce them to the culture and way of thinking of their head office and or principals than to the Philippines which would do neither.

### **9.3.3 OVERSEAS TRAINING**

In view of the shortage of high-level manpower, efforts have been made to augment the supply from local institutions through the provision of more scholarships for overseas training. During the period 1971-73, a total of 1,962 scholarships, including the MARA awards, were given in various fields - most of them in science, technology and education. In addition to such Government scholars, there are an estimated 18,000 private students undertaking a variety of courses in foreign institutions.

According to the Open Doors data, for the 2019-2020 school year, Malaysia had 6,910 students studying in the U.S. For the 2020-2021 school year, the number of Malaysian students studying in the U.S. was 5,280, a decrease of 23.6 per cent. The steep decline in the number of students was due to the COVID-19 pandemic and travel restrictions that have been imposed by Malaysia.

Malaysia is among the top non-EU countries sending students to the UK for higher studies. In 2013-14, there are 16,635 students, a significant increase from the previous 15,015 in 2012-13

Of the total 76,600 recorded Malaysian students in the UK, about 68,300 students are starting their first degree while nearly 5,000 are doing their postgraduate research and study. For more information, click [Study in the UK](#), Australia offers international students a world-class education with more than 22,000 courses and

1,110 institutions. About 20,000 Malaysians choose to study in Australia every year, in schools, universities, vocational institutions and private colleges.

### **9.3.4 SALIENT FEATURES OF TECHNICAL EDUCATION PROGRAM**

Industrial training is being organized in vacations. Facilities offered by industry are utilized by the MARA Institute, the National Institute of Technology and the University of Malaya. Training facilities are offered by most sizeable industries. The training program run by the Tele-communications Centre, the National Electricity Board and the Railways Training Institute are by far the most satisfactory both in quality of training and in material resources. The training is meaningful in that it caters for the needs of the Government as well as of the private sector. In Malaysia they have injected a technical/vocational stream into the education system from the lower secondary level. The result is that the end-product is job oriented and the basic skills and knowledge are those sought after by employers. Two-year program for ordinary grade technicians is run in the Ipoh Polytechnic. Engineering and commercial subjects are also run at diploma level. It is expected that the Ipoh Polytechnic will have an intake of 1,273 technicians in 1975 compared with an intake of 4-93 in 1970.

Vocational schools are run to prepare appropriate manpower for employment in accordance with precise requirements. The MARA Institute also runs vocation-oriented courses. In Malaysia newer and diverse types of industry will require more and more technicians and middle-level personnel trained in specialized fields. During the pre-independence period the emphasis was mainly on the production of raw materials requiring technicians for a few narrow fields.

Now that special and technology intensive industries are coming up, the country will require technicians of a wider range. The technical and engineering personnel

required to man and manage the industries will have to be fully equipped so that they can match their capabilities with the changing requirements of modern technological advance. The country will thus face a shortage of adequately trained engineers and technicians in the various specialized fields and emerging technologies for some time. It will certainly seek effective assistance and technical co-operation from countries that have developed proper expertise and training facilities in the diverse specialties. Malaysia has in the past utilized training facilities available in the countries of the Asian region for the training of technician teachers. It will certainly want to continue to avail itself of such facilities. The present demand both for middle (diploma) and professional (degree) technologists is very great for both public and private sectors. An example was shown in a report by the Economic Planning Unit of the Prime Minister's Department entitled "Manpower Requirement in Malaysia in 1955-1970". Malaysia during that period alone needed at least 575 technologists a year at diploma level and 320 at degree level. The shortages are still serious.

### **9.3.5 MALAYSIA MANPOWER NEEDS**

The shortage of skilled manpower has in the past few years been one of the constraints on the expansion of not just the industry, also shrink the pool for potential managers. The overall constraints however, include not only skill shortages but also shortages of managers. A Survey of 'Professional Engineering Needs' conducted by the Government in 1973 indicated that the public sector had very high vacancy rates: nearly 25% at professional and sub-professional levels. During 1971-1975, the requirements for professional manpower (in engineering, architecture, surveying, etc.) were estimated at 8,000, and for technician-level manpower at 2,200.

These figures pertain only to the public sector needs broadly at university and college and polytechnic levels. The requirements at these levels and at the craftsman level in both the public and the private sector are not known with any degree of certainty. During the five-year period (1971-75) output of degree graduates from engineering courses has been about 600, and from diploma courses in Engineering, Architecture, Surveying, and Town and Country Planning about 1,750. About 300 to 400 students - including those on scholarships and private students in Engineering, Architecture, Surveying, Town and Country Planning etc. - have been returning to Malaysia during the five years, after training in institutions overseas. Thus, in total, the availability of professional level manpower in the related areas for the five-year period is about 900-1,000.

The Manpower requirements in Malaysia have changed drastically and the original projections in not relevant anymore. It is also worth mentioning that Malaysia is also very dependent on foreign low skilled workers and will be discussed at a later stage.

Malaysia's competitive position is being challenged by emerging economies such as the People's Republic of China, India, Indonesia, Vietnam, Central European countries and Latin America. To enhance its competitiveness, the nation needs to increase its availability of skilled and knowledge workers in major categories that can become managers. However, the present mismatch between the supply and demand for skilled workforce will need to be resolved before the management development problem can be solved. Hence, several aspects of manpower must be given priority in development planning to ensure that the manufacturing sector continues to contribute towards maintaining Malaysia's overall global competitive position.



Providing some latest and basic forecast future manpower requirements in industry by different occupational categories under the Third Industrial Master Plan (IMP3). This data will also give indications on the managerial needs of the country, and for this purpose, unpublished data from the manufacturing survey and Malaysia input-output table will be utilized. The method of forecasting is based on the manpower requirements approach (MRA). The results of the analysis show that the amount of labour required to produce the same unit of output over a period has decreased and output growth is faster than employment growth, implying an increase in labour productivity in the manufacturing sector and other sectors, especially in the high skilled categories.

The manufacturing sector in Malaysia has experienced rapid structural change in its production process and the process is expected to continue as Malaysia move towards a high value-added economy. From techniques of production that were labour intensive, Malaysia have gradually shifted to more capital-intensive production methods that require upgrading in the skills composition of its labour force as well as management<sup>415</sup>. It is therefore important to give some focus on aspects of manpower planning in line with the priority given to it in the development planning of the country if Malaysia are to continue ensuring the manufacturing sector maintains its overall global competitiveness.

In the Third Outline Perspective Plan (OPP3, 2001-2010), Ninth Malaysia Plan (RMK 9), 2006-2010 (Malaysia 2006) and the Third Industrial Masterplan (IMP3), 2006-2020 (MITI 2006), labour in the economy is projected based on average annual growth of labour (historical data on labour) and output targets. While projection of

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<sup>415</sup> Consequently, the structure of labour and management demand in the economy has also changed, favouring more professional and skilled labour (Rahmah and Idris 2001; Rahmah and Idris 2002; 2006).

labour for 2010 in IMP3 is presented by sector only and projection of manpower for 2010 in OPP3 is presented by occupation only for the whole economy. It is important to project manpower requirements by sub-sector and occupation categories. Projecting manpower requirement is normally based on the past trends of labour and manpower productivity. The study will first estimate future manpower productivity, considering direct and indirect technical change and then determine how changes in the final demand structure influence future manpower requirements.

*Table 31 Employment classification*

Group 1	Professional Technical and Related Workers
Group 2	Administrative and Managerial Workers
Group 3	Clerical and Related Workers
Group 4	Sales Workers
Group 5	Service Workers
Group 6	Agriculture, Animal Husbandry and Forestry Worker, Fishermen and Hunters
Group 7	Production and Related Workers, Transport Equipment, Operator and Labour's

Source: Poo (2006)

*Table 32 Manpower requirements as per the Ninth Malaysia Plan*

Sector	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7	Total
Meat diary	2352	848	1561	141	615	0	18137	23654
Veg fruit products	919	481	828	172	319	0	16470	19189
Oils and fats (Preserved food)	22154	1601	6164	75	6561	0	95828	132383
Grain mill	4638	816	4867	713	1893	0	22907	35834
Bakery products	2518	772	1878	1666	1452	0	29589	37875
Other foods confect. products	5164	1723	5079	2274	3708	0	47252	65200
Animal feed	1297	326	1274	4	623	0	4673	8197

Beverages	975	298	319	60	238	0	5143	7033
Tobacco	942	521	548	724	215	0	12384	15334
Textile	6075	969	2248	399	4434	0	37894	52019
Wearing products	6735	943	4677	5539	4794	0	101851	124539
Wooden apparel	10143	2303	5304	522	3449	0	203644	225365
Furniture products	2909	1119	2341	548	533	0	56312	63762
Pipefitters	12511	4384	11255	436	3456	0	82864	114906
Industrial printing products	12396	2695	3418	5	1516	0	21721	41751
chemicals Paint	1845	499	1021	0	190	0	5411	8966
lacquers Other	2193	533	1373	99	145	0	9475	13818
chemical products Petroleum,	2855	788	631	1	132	0	13119	17526
coal products Processed	2153	368	1507	10	1392	0	25182	30612
Rubber	9171	1422	3795	44	1190	0	89440	105062
products Plastic products	14911	3102	6575	123	2735	0	99614	127060
China, glass & clay product	6924	1363	2339	150	1112	0	39328	51216
Cement, lime plaster	2224	309	1191	40	1666	0	6107	11537
Other non-met mineral products	7692	1144	3648	607	3049	0	36948	53088
Basic metal products	35144	7558	13756	4984	6972	0	201072	269486
Other metal products	7798	2274	3098	341	1205	0	45974	60690
Non-electrical machinery	15803	1398	3113	190	858	0	68622	89984
Electrical machinery	48685	8688	10020	20	3547		246804	317764
Motor vehicles	5012	2001	1431	108	568	0	34920	44040
Other transport equipment	5928	2883	2110	249	574	0	46770	58514
Other manufacturing products	8578	914	2757	869	1134	0	55279	69531
Other sectors	926074	541928	1070076	1068002	1292560	1117288	2940346	8956274
Total	1194716	596973	1180201	1089114	1117288	1352834	4721081	11252207

Source: IMP3 (2202-2010), Ninth Malaysia Plan (2006-2010)

This data indicates the immediate needs of different-level managers.

Training of middle-level manpower is primarily the concern of the MARA Institute of Technology, the Ungku Omar (Ipoh) Polytechnic, Tunku Abdul Rahman College, and similar institutions. Their enthusiasm, clarity of purpose, and wide spectrum of work enable them to be involved in the training of supervisors, clerks of-works, building technicians and others. Another institution which should concentrate on the training of middle-level manpower is the former Technical College which, as a result of growing aspirations, has been transformed into the Institute of Technology. Provided that its courses are not too theoretical and its output is not geared entirely to the needs of government technical departments, this Institute could well pioneer a wide variety of courses outside the formal system. Skilled worker training is currently provided at the Industrial Training Institute in Kuala Lumpur and in Prai which, according to their published information, would have a capacity of about 700.

Because they are new, these institutes suffer from inadequate staff, salary and status compared with those with a corresponding responsibility for the manufacturing industry. In addition to these government program, agencies such as PAM (Persatuan Akitik Malaysia), Malaysia Institute of Engineers, MIP (Malaysian Institute of Planners), TAM (Technical Association of Malaysia), while not primarily devoted to education and training, can improve the occupational competence of their membership by means of organized courses, demonstrations of technological improvements, "coaching" technicians, and helping to set up quality training program. The Malaysian Institute of Engineers and the Faculty of Engineering at the University of Malaya can, for example, undertake a program of up-grading technical assistants, while the PAM can independently provide training courses for professional personnel needed in architectural offices. It may be useful also for these organizations, in collaboration with

the University of Malaya, Universiti Sains Malaysia in Penang, Institute Teknologi Kebangsaan and Institute Teknologi MARA, to organize further training courses for engineers, architects and planners which would enable them to deepen their knowledge of the general and theoretical aspects of their profession.

Since the Malaysian Armed Forces now use highly technical equipment and advanced types of organization they should, like other employing establishments, be required to help train many kinds of qualified personnel. As much of the training is directed toward imparting knowledge, skills and personality traits that apply equally to civilian pursuits, there is much to be gained by accepting their training capabilities for development purposes. Like any other developing country, Malaysia suffers from shortages of qualified personnel at all levels and in all key posts. However imperfect the available statistics may be, they reveal shortages of professional manpower, middle-level personnel and skilled workers; shortages which exist, paradoxically, side by side with unemployment. Among the measures by which such qualified manpower can be trained and increased, stress is laid on the need for training a new breed of professionals described as graduate technologists, who can combine a broad understanding of physical development processes with specific implementation skills. The main point of emphasis is that universities in this country have an obligation to embrace technology as a discipline.

The training of middle-level personnel, on the other hand, is considered to be the proper function of institutes of technology. At the moment there are four institutions of higher learning providing courses for the professional and management group, namely University of Malaya, Universiti Sains Malaysia, Institute Teknologi MARA, and Institute Teknologi Kebangsaan. For the training of technicians, there are three

institutions: Polytechnic Ungku Omar (Ipoh), Institute Teknologi MARA, and Institute Teknologi Kebangsaan. The Polytechnic Ungku Omar is specifically set up to train technicians only, while the Institute Teknologi MARA and Institute Teknologi Kebangsaan also provide courses at the professional level. The sources of supply for the other categories of worker are the vocational schools, the Institute Kemahiran MARA and the Industrial Training Institute.

### **9.3.6 EXPECTED MANPOWER SUPPLY**

The four higher institutions listed above should take care of the total supply of the required manpower at professional level which include the development of potential future managers. In view of the considerable number of students overseas, the manpower situation is not too bleak. The output of technicians from Ipoh is now getting into its stride. It is optimistically forecast that, even if there are not enough technologists for the building industry by the end of 1975, they will certainly have them by the Third Malaysia Plan period.

### **9.3.7 SUITABILITY OF TRAINING**

Because development in Malaysia has not yet reached a take-off position, the demands for technicians and engineers are not so diverse and specialized as to require extra training facilities. The government however have not kept track with the demand in new technology and continue to depend on foreign labour to fill high demanding technology jobs. The development and planning of technical education have now been monitored and coordinated effectively, so that the training imparted is sufficient in academic content and well-oriented to industrial needs.

### **9.3.8 INDUSTRY, TRAINING AND TECHNICAL INSTITUTIONS**

Craftsman Training This is dealt with by the Manpower Department which was established on 8 May 1969, and provides three services, a training service, an employment service, and a labour market information service. The training service has the task of formulating and implementing industrial training program to meet the nation's needs for skilled labour. It provides apprenticeship courses, preparatory trade courses, skill up-grading courses, instructional techniques courses, and trade instructor training courses.

Trade Test Standards Procedure in developing trade test standards is now well established and, to date, standards for three trades - refrigeration and air-conditioning, gas welding, and earth moving equipment and constructional machinery mechanics - have been drawn up at the Central Trade Standard and Testing Committee level. In-Plant Training The in-plant training service is expected to have its full complement of staff by the end of 1975, and the improved staffing position will enable the full range of planned in-plant training activities to be implemented. Skills Up-grading Courses In the skills up-grading courses, attention will be devoted to assessing the needs and interests of industry so that the training program can produce maximum results. Employment Service The object of the employment service is the effective utilization of the nation's manpower resources. It assists job-seekers to be placed in suitable employment and enables employers to obtain suitable workers. This is affected through a network of 20 full-time and 25 part-time employment offices in peninsular Malaysia.

Technician Education in Malaysia there are three Government appointed institutions where diploma-level education is imparted. A short summary of each is given hereunder.

Ungku Omar Polytechnic, Ipoh The Polytechnic provides two-year full-time courses in engineering technologies and in business studies, while the course in accountancy is of three years' duration. The Polytechnic's certificate is issued to candidates successfully completing the two-year courses. The three-year course in accountancy leads to the award of the Polytechnic Diploma.

The pattern of industrial training now in vogue provides the whole of this training in a six-month block, sandwiched between the first and second year, leaving the students free at the end of the second year to move straight into a job. Many industries participate in this sandwich program. The Polytechnic treats its industrial training program very seriously, realizing the importance of it and the prominent part it plays in shaping the otherwise inexperienced student into a responsible technician. The public sector has realized the importance of this training and co-operates whole-heartedly by having well-planned training schedules with gradually increased responsibility for the student. Some firms, particularly in the public sector, have anticipated the next logical step and have sponsored students. This not only helps the students at one of the neediest times of their life, but gives the firm a potential float of technical manpower and allows for greater flexibility in the prediction of staff requirements over a period of at least two years. It also encourages a sense of loyalty to the firm in the students whom it has helped. To date, approximately 70% of all students at the Polytechnic are sponsored, but as the message continues to get across, the Polytechnic is optimistic and looks forward to the time when there will be 100% sponsorship.



MARA Institute of Technology MARA Institute of Technology promotes the creation of a group of professional and semi-professional Bumiputras who will become equal partners with other ethnic groups in the commercial and industrial enterprises of the nation. In the current academic year, education is being provided to more than 5,000 students on four campuses. The Jalan Othman campus program offers extension education. The Kuching and Kota Kinabalu campuses presently offer first-year curricula for a number of specialized courses and will in the future offer full curricula for these courses. The Shah Alam campus is the main campus of a fully-equipped \$ 44 million complex. One problem facing Malaysia as it embarks on an intensive program of industrialization and economic development is training a sufficient number of engineers and technicians. The School of Engineering has established engineering and technical assistant courses in Civil, Mechanical and Electrical Engineering. All students admitted since July 1974 follow a two-tier system of engineering education. The first tier is of three years' duration, and after successful completion of the course the candidate is awarded a Diploma. Students who have done well in the first-tier examinations will be considered for admission to the second tier for an engineering course of a maximum of three years' duration. At the end of the second tier, successful students will be awarded the Advanced Diploma in Engineering. The objectives of the Practical Training and Employment Unit are fourfold, to provide students with practical experience in their respective courses of study and with insights into their eventual careers; to assist those courses where practical training is required for the award of a diploma or certificate, to equip students with practical experience so that they have improved opportunities for employment on graduation; and to help graduates secure suitable employment. These objectives are

achieved by performance of the following functions, maintaining liaison with various business organizations, and with government and quasi-government bodies for the purpose of placing students for practical training and employment. By virtue of close and constant contact with firms, business organizations, and other bodies, the Practical Training and Employment Unit is able to assist graduates in securing employment.

National Institute of Technology was formally established as a university on 14 March 1972 under the National Institute of Technology (incorporation) Order, 1972. Since its establishment the Institute has had three faculties: The Faculty of Engineering, the Faculty of Architecture (now known as the Faculty of Built Environment), and the Faculty of Surveying. Also, there is a centre known as the Centre for Science and Humanities Studies which is of faculty status. Courses offered at the Faculty of Engineering, Architecture and Surveying are at two levels, viz. diploma and degree levels, and are divided into the specializations shown in the table on page 66. For the degree level courses, the entry requirement is unique when compared with the other universities in Malaysia. The qualification required is the Malaysian Certification of Education with a minimum of second grade and with credits in Bahasa Malaysia, Mathematics and a pass in English Language or Special English, as well as credits in at least three of the following subjects: Additional Mathematics, any physical science subject, any technical subject, General Science and Additional General Science.

The University of Malaya, Faculty of Engineering runs, alongside the degree courses in engineering, courses leading to a doctor's degree and post-doctoral

research. The Faculty also runs a one-year pre-engineering course. After completing this course, a student is admitted to the first year of the four-year, Degree Courses.

### **9.3.9 MID-TERM APPRAISAL OF THE TECHNICAL EDUCATION SECTOR**

"Mid-term Review of the Second Malaysia Plan 1971-1975" the Government reports the following progress made by technical institutions. Malaysia Enrolment at the Ungku Omar Polytechnic increased from 493 in 1970 to 915 in 1973. The intake of students more than doubled and triple in 1975.

A new second Polytechnic at Kuantan was built in 1974-75. This second polytechnic have an enrolment of over 1,000 students The Institute of Technology, MARA, continued to play a key role in producing professional and sub-professional manpower to meet the nation's need for qualified Malays and other indigenous people. Enrolments in professional and sub-professional courses in accountancy, administration and law, applied science, architecture, business management, engineering, hotel and catering management and library science expanded rapidly from 2,142 to 4,434 within a two year period. A significant development was the introduction of an extension education program. The aim of this extension program is to offer professional and semi-professional courses to qualified Malays and other indigenous people who are not able to pursue courses on a formal and full-time basis. The first intake of students for this program was 339 in 1973. The National Institute of Technology, formerly known as the Technical College, was raised to University status in 1972, offering a two-tier program at diploma and degree levels. Enrolments at the Institute increased from 692 in 1970 to 1,516 in 1973. Teaching, workshop and laboratory facilities were expanded to cope with this increase in enrolments. The new

degree program at the Institute offers courses in mechanical, civil and electrical engineering and architecture.

### **9.3.10 PRACTICALITY AND RELEVANCE OF COURSES**

Training organizations should run courses in consultation with companies to meet the particular needs of their industries even company regional training centres had not been as successful as expected largely owing to the strong sense of nationalism in the countries of the region. While the amount of training carried out overall had dropped slightly between 1971 and 1975, the activities of the training institutions had increased many times and the quality of their courses had improved. However, they are still little known and even less used by the small local companies, for whom the need for training is great. As Chinese companies enter the export market they are becoming increasingly aware of the organizational and professional gap between them and their competitors. They need specific, problem-oriented training and NPC is in a particularly good position to meet this need. Among larger companies there is still a need for top management to be convinced of the importance of training, for only then will it be given the degree of priority it requires. MIM is in the best position to undertake this missionary role.

## CHAPTER 10

### 10.0 RACIAL BALANCE IN MANAGEMENT - THE CHALLENGE AND THE PROBLEMS

#### 10.1 MULTI-ETHNICITY IN THE MALAYSIAN WORKPLACE:

The net balance of 65 Years of Affirmative Policies is still very relevant and active in Malaysia. This section will look into the net societal balance of post-independence affirmative action policies in Malaysia. The government faced social issues straight after the independence. Social imbalances prompted the country to implement affirmative policies to uplift the majority of natives (Malays and Indigenous people of Sabah and Sarawak, etc.). These policies were reluctantly accepted by the immigrant communities (Chinese, Indian, Eurasians, etc.). After 65 years of implementation, the different ethnic groups still struggle to share the country's economic resources. The presence of immigrants has always been a constitutive part of Malaysian history, ever since Parameswara (a refugee prince from what is today Indonesia) founded the city and the Sultanate of Malacca.

The coexistence of so many ethnic groups in the country has demanded great efforts of social architecture to share the country's resources without major disturbances. The history of contemporary Malaysia began in the 18th century. As Hirschman (1985) pointed out, colonial penetration and the development of an export economy in the nineteenth century set the stage for the emergence of a plural society of the twentieth century. In the 19<sup>th</sup> century the country's economy took off with the production of tin and rubber. According to Hirschman (1985), the shortage of labour was a major constraint on economic development, and few Malay peasants were willing to assume the role of cheap labour.

The terrible working conditions, low remuneration, and authoritarian environment in the early mines and plantations did not present attractive economic opportunities to the Malay peasantry. The result was an extraordinary wave of immigration from China and India and from Sumatra, Java, and other islands of the Malay Archipelago. Malaysia is, from any point of view, a fascinating, complex, and diverse country of 329,758 sq. kilometres. Its diversity covers any imaginable scenario: Geography, biology, ethnicity, religion, politics, economics, history, language, law, and so forth. In terms of ethnicity, Malaysia has been called “Asia in a microcosm.”

The country’s population in 2022 is around 32.78 million, distributed roughly as follows: Bumiputera 62.5% (Malays and indigenous peoples, including Orang Asli, Dayak, Anak Negeri), Chinese 20.6%, Indians 6.2%, others 0.9%, non-Citizens 9.8% in 2022. The study however, covers the period from colonization it is fundamental to reflect on the population at the start in order to build up a momentum for the study. During the time the country’s population is around 26 million, distributed roughly as follows: Malay 57%, Chinese 27%, Indians 9%, others 7% (includes Eurasians, indigenous people of the peninsula, Sabah, Sarawak, etc.). With their expansion from tin mining to commerce in urban centres, the Chinese emerged as the first middle class in the 20th century in Malaysia, eventually controlling the marketplace. Indians were brought in after the 1890 to work in rubber plantations, railroad construction, civil service, and security. They came mostly from south India and Sri Lanka and were mostly Tamil.

With time, the Indians moved up to professional disciplines (law, medicine, engineering, etc.). This division of labour served as a British mechanism to keep the

three main ethnic groups divided, and facilitated imperial domination. The challenge of ethnic tensions has existed in Malaysia for many years. It has gotten to the point of confrontation at several junctures in the country's history: 1913, 1945, 1957, 1963, 1964, and 1969. The ethnic-based riots of May 13, 1969 in Kuala Lumpur between Malays and Chinese became a turning point in Malaysian history. According to Mason and Omar (2003), "the alleged fundamental cause of the racial tension between the Chinese and the Malays was the unequal socio-economic standing of the two ethnic groups".

As a result of it, the National Economic Policy (NEP) was enacted to try to correct economic imbalances and reduce poverty, to the advantage of the Bumiputra population that had been historically lagging behind in terms of income generation, no Bumiputra middle class existed before 1969. A similar initiative, National Cultural Policy-NCP, was also enacted to promote national unity. It was the first attempt at creating a post-independence national ideology for the country.

The different ethnic groups seem to know very little about each other's cultural background. The building of walls between the groups has increased after 1969. Tensions also rise when poor Malay get incentives from the government and poor Indians, Chinese and non-violently replaced the cultural pluralism of post Malay Bumis do not.

As Oo (1991) put it, 'the 1969 racial riots independent Malaysia with a new era of increasingly ethnocentric articulations. People tend to make conscious choices regarding the places where they prefer to live, accentuating a tendency toward voluntary physical segregation. It is observed that many Malaysians of different ethnic backgrounds mix with each other during work time, but neither go together for lunch

frequently, nor get together after work. It seems that there is an economic reason to work together, but culturally speaking they are separated'.

Any observant visitor to the country will notice that ethnicity permeates every facet of Malaysian society. But uneven development, economic disparities, and social divisions characterized the later years of British rule in Malaya. According to Omar (2003), while paternalistic toward the Malay, British colonial authorities made only token attempts to rectify the widening gap between the Malay natives and the migrant communities. Although the Chinese and Indians initially came to Malaysia to get rich and go back to China and India, they stayed in the country for years in a legal limbo regarding citizenship. Ethnic bargaining started after independence and citizenship was granted to those foreigners born after 1957 or who have lived enough time in the country. As a result of this compromise, the Malays would retain political supremacy, but with good prework the Chinese and Indians prospered, to the independence networking and hard extent that the Chinese became the most important economic stakeholders in Malaysia.

Economic disparities characterized the early post-independence period in Malaysia. The National Economic Policy (NEP) was enacted under the promise that most Malays had not benefited from post-independence (1957-1969) economic growth and became frustrated. Therefore, there was a need for some type of economic strategy to help uplift the Bumiputras. The positive discrimination initiatives contained in NEP included ethnic quotas in higher education, regulation of access to state assistance, provision of business opportunities for the protected groups, ethnic based quotas in civil service recruitment, the goal for Bumiputra to acquire 30% of equity in private business, and more.



The goals were to restructure the economy so that Bumiputras got involved in the modern sectors of the economy, and to eradicate poverty regardless of ethnicity. According to Gomez (2003), NEP targeted to increase Bumiputra corporate equity ownership from 2% in 1971 to 30% by 1990. From colonial times and prior to the enactment of NEP, the prevailing practice was for the Chinese to own the business, the Indians to be their lawyers, advisors, and providers of other types of professional services, and the majority of Malays to be somehow detached from the marketplace except for their participation in the agricultural sector. According to Faruqi (2003), the policy of favouring Malays had its origins in the colonial period and was written into law in the constitution of the Federation of Malaya in 1957 and the subsequent Malaysian constitution in 1963. After the ethnic based riots of May 13, 1969, the National Cultural Policy (NCP) was enacted.

The objective was to strengthen the Malay identity of the nation, and “Rukun negara” was devised to give meaning to the purpose of racial harmony in Malaysia. Although the basic ingredients of Malaysian political culture were essentially Malay prior to May 13, 1969 (the traditional symbols from the feudal system, the institution of monarchy, Islam as the official religion, Bahasa Melayu as the national language, the NCP came to reconfirm it and reinforce it. In summary, ethnic diversity has always been at the forefront in the process of building the Malaysian nation and the development of the Malay Manager. It has played a pivotal role in all historical developments after the country’s independence, and is bound to be a determinant factor in its future.

The questions everyone ask is “What has been the net balance of 65 years of affirmative action in Malaysia?” and “How have affirmative economic policies impacted

the society, the workplace, and the educational system in the country?” as well as “Where will these affirmative policies take the country in the immediate future?” The study will make attempts at exploring affirmative action in multi ethnic Malaysia, and the impact of racism in the workplace.

For this part of the study the author visited schools, factories, universities, commercial offices, longhouses of indigenous people, non-profit organizations, farms, research institutes, palm and rubber plantations, business organizations of various sizes, and many other places. In order to obtain an overview and data and just as other parts of the study the author talked to educators, workers, professionals, students, business people, front-line supervisors, middle-and-upper managers, and common people everywhere in Malaysia. The study does not come without limitations and I recognize this limitation to make definitive statements regarding the subject matter.

It has taken 65 years to physically transform Malaysia, but it will take a little bit longer to transform the minds of Malaysians, according to what a management expert said during an interview. Multi-culturalism manifests itself in the Malaysian workplace in ways that represent both a challenge for its management, as well as an opportunity for the future of the country. The challenges for the country are many. I found it appropriate to discuss some of the issues here due to the magnitude of the issues in the racial domain. These issues have a direct impact on the development of Malay managers. One of the major contributions to racial conflicts is the existence of a highly segregated educational system with little opportunity for intercultural interactions. The second is the ghosts of inter-ethnic tensions as a latent phenomenon in the country the accentuation of intra-ethnic disparities that create potential for conflicts. Then there

are the new problems created by the policies designed to correct economic imbalances and some less productive by-products of ethnopolitics in the country.

As the National Economic Policy (NEP) was mentioned in other sections it is appropriate to dedicate a couple of paragraphs to it again as it is part of the problems and an attempt will be made to summarize these five themes listed above. The National Economic Policy (NEP) implementation period from 1971 to 1990 produced a net effect of transforming Malaysia from its pre-riot economic characteristics. During that period, there was a co-optation of the opposition to curb politics which provided for greater Malay pre-eminence in political, cultural, and national ideology, transformed the colonial division of labour, and propelled the state to move from a laissez-faire attitude to active intervention in the economy.

The division of labour imposed by the British during colonial times was transformed radically as a direct result of NEP implementation. Now civil service, police, armed forces, and the Foreign Service are dominated by Malays and non-Malays have been forced to the private sector. NEP also strengthened the state as an important economic stakeholder. From 1971 on, the state played the roles of creator of opportunities, regulator of business, and major investor in many sectors of the economy.

For instance, the state owned only 22 public enterprises in 1966; that number climbed to 1,149 in 1992. The National Development Policy (1991-2000) that followed NEP continued with NEP's twin objectives. The National Vision Policy (NVP), also known on the Malaysian streets as "Vision 2020," still carries some of the original economic goals of uplifting the socio-economic standing of Malays and other native ethnic groups. The Malaysian educational system is defector segregated. Educational

experts and scholars did highlight that the main ethnic groups tend to attend particular types of schools, and engaged very little in honest discussions about their similarities and cultural differences.

Three of the main types of schools in Malaysia are national schools, vernacular schools, (specialized schools geared to the Chinese and Indian communities), and, schools, (managed by Christian churches). Although the government funds all three, Malays attend mostly national schools, Chinese and Indians attend mostly vernacular schools, and all three ethnic groups tend to attend mission schools. After 1970, to increase the matriculation of Malays in college, the government encouraged the establishment of private colleges so that non-Malays still had a chance to get a college education. This has resulted in a predominantly Malay-and-other Bumiputras student population in the 12 public universities, and Chinese, Indians, Eurasians, and others matriculated predominantly in the hundreds of private colleges and universities across the country.

Non-Malay groups sometimes complain of a Malay cultural hegemony in the country. According to Kheng (2003), "in Malaysia during the period of British rule and up to the immediate post-independence period in the 1960, the nation's history textbooks were open, impartial, pluralistic, and accommodated every ethnic group. However, after the country's bloody May 13, 1969 interracial riots, the Malay-dominated government imposed Malay history and Malay cultural identity on the other ethnic groups." Kheng (2003) continues the argument by saying that "this was done in line with the demands of rising Malay technote country. There has been resistance from non-nationalism in Malay ethnic groups and from their political parties, so that the policy has not received full public endorsement. In recent years, Malay cultural policy

has been moderated and downgraded owing to the twists and turns of national politics.” There seems to be very little opportunities for intercultural interactions at school and at work.

The limited opportunities offered by the educational system for the youth seem to be reinforced by an unwillingness to engage in honest discussions about race at societal level, and a very weak system for intercultural training at the level of the workplace. This tendency towards voluntary cultural isolation seems to be a legacy from colonial times. In a still unpublished paper, Shakila Yacob (2005) wrote that “during the colonial period in Malaya there were very few opportunities for members of the three racial groups to interact socially. Indeed, their separation was preserved and reinforced in the premeditated colonial policy of maintaining a division of labour along ethnic lines.”

Still today, instances of racial intolerance, distrust, and defensiveness exist, after almost half a century of independence, with very little formal and informal opportunities for intercultural discussions and mutual understanding at macro and micro societal levels, such as the workplace. Another perspective that sheds light on this issue is the notion of “imposed cultural isolation” in modern times by specific government policies to suppress dissent. Guan (2005) explained it in these terms: “The ethnic preferential policy has invariably generated intense controversy in Malaysian society, with the majority Malays, Chinese, and Indians, taking diametrically opposing views.

This inflammatory public issue and the emotionally charged debate it has generated, however, have not deteriorated into outright ethnic violence as had happened earlier in 1969. A combination of punitive laws, such as the Internal Security

Act and the Sedition Act, and coercive actions were used throughout the 1970 and 1980 to stifle debate. However, because the state was suppressing the discussion, the quality of reasoned arguments for and against affirmative action also stagnated.” Because of the sensitivities aforementioned, diversity training as is known elsewhere in the world is very limited in Malaysia.

The ghost of ethnic tension is a latent phenomenon in the country. Oo (1991) described the notion of ethnocentrism as a challenge for the future of the country in these terms: “Malaysians display a potpourri of cultural diversity which, in itself, is a microcosm of Nusantara, Asian, and European lineages. There are incidents of some assimilation among different racial groups, either by choice or circumstances, over the passage of history. But generally, these groups have remained characteristically distinct in terms of their original heritage. Despite efforts at national integration through policy instruments, Malaysians have remained Malays, Chinese, India vs, Eurasian, Sarawakian, and Sabaeans” (Oo, 1991). The notion of “divide and rule” attributed to the British Empire in Malaysia still exists.

Apparently, it is easy to spark a conflict in Malaysia in any environment, and the workplace is one of them, due to the underlying threat of inter-ethnic tensions. Some ethnic segments of the society, part of the Chinese entrepreneurial class, which controls the economy, have been able to contain their dissatisfaction with the policies espoused by positive d discrimination because they would have a lot to lose if tensions become violent. Other segments of the society, low income Indians, for example, have turned to more political radicalization to make their voices heard. Race relations have become a lot more e complicated by the emergence of interethnic disparities. Some

segments within ethnic groups have become richer than others, adding to the complexity of race relations in the country.

According to Oo (1991), these interethnic disputes and hostile face totalism exist amidst dormant interethnic rivalries. This situation is more accentuated among Indians, rich and poor Malays, and marginalized indigenous populations (none Malay Bumiputras) in west and east Malaysia. Although NEP solved major societal problems, it also created new ones. For instance, economic disparities pre-interethnic in nature, but now in the 21st century they are intra 1969 tended to be almost exclusively ethnic as well. Besides, scholars who have studied the country for decades say that currently there is more government emphasis on wealth restructuring than on poverty eradication. Interrelated to class, interest groups, and generational conflicts ethnic disputes have been aggravated by new problems, which transcend ethnic differences. The chameleon like nature of Malaysian politics merely camouflages the real problems of race relations and national integration in Malaysia.

Not everyone agrees with the policies of affirmative action in Malaysia. Chinese and Indians resent the policies for college admission because the quota system favours Bumiputras, even when applicants from their ethnic groups document more merit for admission. On the other hand, Malays resent the fact that the private sector, dominated by Chinese and upper-class Indians, seems to discriminate against them; however, Chinese and Indians were virtually confined to the private sector by NEP policies implemented to uplift Bumiputras. In July 2005, at the UMNO National Assemble, the UMNO youth wing proposed to revive the NEP to finish the job of achieving Bumiputra participation in the 30% of the country's equity (Ritikos, 2005).

This notion of reviving the NEP was resented by the Chinese and Indian parties, which together with UMNO form the “Barisan National” ruling coalition.

In his opinion article published by The Star newspaper, Wong Sulong (2005) sadly commented that “after nearly 50 years of independence and 35 years of the NEP, Malaysians are still much divided on how the economic cake is to be shared;” adding later that “affirmative action policies will continue whatever the nametag. The question is how to make it more equitable and less divisive.” Sulong (2005) concluded that “Malaysians must stop chasing and biting their own tails through endless argument about who gets what share of the national economic pie. Ensure the pie gets bigger, and faster, first. What is there to share if it shrinks? And it will shrink if we are not globally competitive.”

Some intellectual circles in Malaysia recognize that affirmative action policies have created over dependence in some segments of the society. Undoubtedly, NEP, NDP, and NVP have contributed to the improvement of the economic conditions of the Malays and have led to the emergence of a sizable Malay middle affirmative economic policies have also created overclass. But these dependence on government inducements in some strata of the newly emerged Bumiputra middleclass. Paraphrasing the paper that Hamid (2003) “The Bumiputra Policy,” in Penang, presented at the Seminar on 25, September 2003, Mason and Omar (2003) said that this Malay middle business in 1997 was artificial, created by and dependent on government support.

Hamid (2003) attributes the debacle befalling Malaysians to overdependence on the government. As Guan (2005) put it, “since the 1990, however, a number of factors and developments have contributed to opening up the public space for



Malaysian citizens to debate the country's ethnic preferential policy. Perhaps the single most important development is that of the emergence from within the Malay community of voices that are sceptical and critical of the policy. Even from within the United Malay National Organization (UMNO), doubts and anxieties have plagued certain leaders regarding the negative impacts of affirmative action on Malays, individually and as a community." The best contemporary politician in Malaysia, former Prime Minister Mahathir Bin Mohamad has discussed some of these issues publicly, contributing to a better understanding of it<sup>416</sup>. Non-Malay groups also complain about the effects of positive discrimination policies.

This is particularly important for the Chinese; whose enterprising spirit and love of education finds obstacles in the quota system established by NEP policies. Chinese Malaysians value education so much that even under unequal conditions, for instance, Bahasa Melayu is the secondary school language in the country, Chinese students excel more comparatively, as measured by standardized tests and other educational measurements.

On the other hand, although NEP was implemented to level the playing participating field for Bumiputras, Malays have not yet achieved the goal of in 30% of the country's equity, and according to Fee (2002), many Indians find themselves marginalized and impoverished without much hope for uplifting themselves as other ethnic groups have done. Some researchers in and outside Malaysia point out that ethnic preferential policies have contributed to the formation of ethnic enclaves in the society. To exemplify how these ethnic enclaves manifest themselves in the workplace, Guan (2005) said that "the public service sector is an excellent example of

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<sup>416</sup> see Hong, 2001; and Loh, 2002

how preferential hiring has transformed a previously ethnically diverse sector into one that is almost ethnically homogeneous.

Prior to the implementation of NEP in 1971, although Malays dominated the public service sector, it had nevertheless quite a sizable representation of Chinese and Indians. Systematic preferential hiring of Malays at the expense of recruiting non-Malays had by the 1990 transformed the civil service into a wholly Malay enclave.” Furthermore, Guan (2005) reports that “anecdotal evidence would suggest that ethnic enclaves in the business sector are quite pervasive at the company level.

On the one hand, corporatized and privatized public services and enterprises, such as Petronas, Proton, Telekom, Tenaga, and so on have remained largely Malay entities. Malay owned companies generally also tended to have a predominantly Malay workforce. On the other hand, the majority of Chinese companies, especially small and medium sized enterprises, employ a largely Chinese, in fact Mandarin owned speaking, workforce. Interestingly, it is the multinational companies that are likely to have an ethnically diverse workforce.” Malays and other Bumiputras often complain about Chinese economic hegemony in the country.

These complaints resemble the dissatisfaction that Chinese, Indians and other non-Bumiputras express about Malay cultural hegemony. Commenting Gomez’s (2003) paper presented at the Seminar on “Bumiputra Policy” in Penang, 25 September, 2003, Mason and Omar (2003) said that “Gomez points out that in the initial stage of the NEP, Bumiputra participation in the private sector equity ownership were minimal. Among leading companies, prominent Malays were appointed to the boards of directors, essentially to secure access to the government and to bypass bureaucratic red tape.

These directors had equity ownership but were not active in the management of the enterprise. At the small and medium enterprises (SMEs) level, 'Aliforged, wherein MaBaba' relationships were Malays provided the contracts while the Chinese would implement them. Accordingly, Chinese economic hegemony was not broken or even challenged." A by-product of ethanol politics is the existence of an assortment of exclusionary practices in the market. Strong support for the private sector and the corporatization of the country has brought about economic prosperity to a big proportion of the population, it has also increased nepotism, cronyism, and other corrupt practices in both the private sector and government. Some people attribute this phenomenon to abuses of NEP, NDP, and NVP implementation.

By the same token, some ethnic groups have benefited the least from the state intervention in economic matters, such as the case of the Indians, some indigenous tribes, and some segments of the low Malay population. Income For some Malaysians that talked to the author, the political and managerial cultures of the country are very similar and linked at their core. In other words, the open and subtle links between "ethnic groups and politics," and "business and political leaders," are extremely strong in Malaysia. The strengthening of the state that resulted from NEP implementation since the early 70s, coupled with the growth in state participation in the e economy through direct investment in many sectors, has resulted in state control of many facets of the country's wealth, including the media. There is very little in terms of economic activity in the country in which the state is not involved. Therefore, in most economic sectors in the country, the party line tends to be the bottom line. Since politics is ethnic based, so is government and business.

Social scientists said that the process of privatization implemented lately has had uneven results. They argue that the government has awarded many projects and special benefits to Bumiputras with government connections, while other Bumiputras are left out of the economic cake. This situation has led to a deepening of political patronage, the rise of a Bumi bureaucratic capitalist class, and involvement of politicians in business and business people in politics in ways that make it difficult to distinguish one sector from the other.

Conclusions as professor Hirschman (1985) predicted 20 years ago, "Social change in Malaysia is often glacial in character but often not clearly visible to contemporary observers. However, in recent years economic development has led to truly revolutionary change. Although modernization is transforming many attributes of Malaysian society, the evolving patterns may not necessarily follow Western models. The examples of Japan and other Asian societies, the influence of Islam and other religious traditions, and the unique characteristics of Malaysia's past and present may well lead in new directions."

Malaysia, unlike some of its neighbouring countries in Southeast Asia, was able to recover from the Asian crisis of the late 1990 relatively quickly. Citing the CIA World Factbook, Rappa (2002) points out that "Malaysia made a quick economic recovery in 1999 from its worst recession since independence in 1957. GDP grew 5%, responding to a dynamic export sector, which grew over 10% and fiscal stimulus from higher government spending. The large export surplus has enabled the country to build up its already substantial financial reserves, to \$31 billion at yearend 1999.

This stable macroeconomic environment, in which both inflation and unemployment stand at 3% or less has made possible the relaxation of most of the

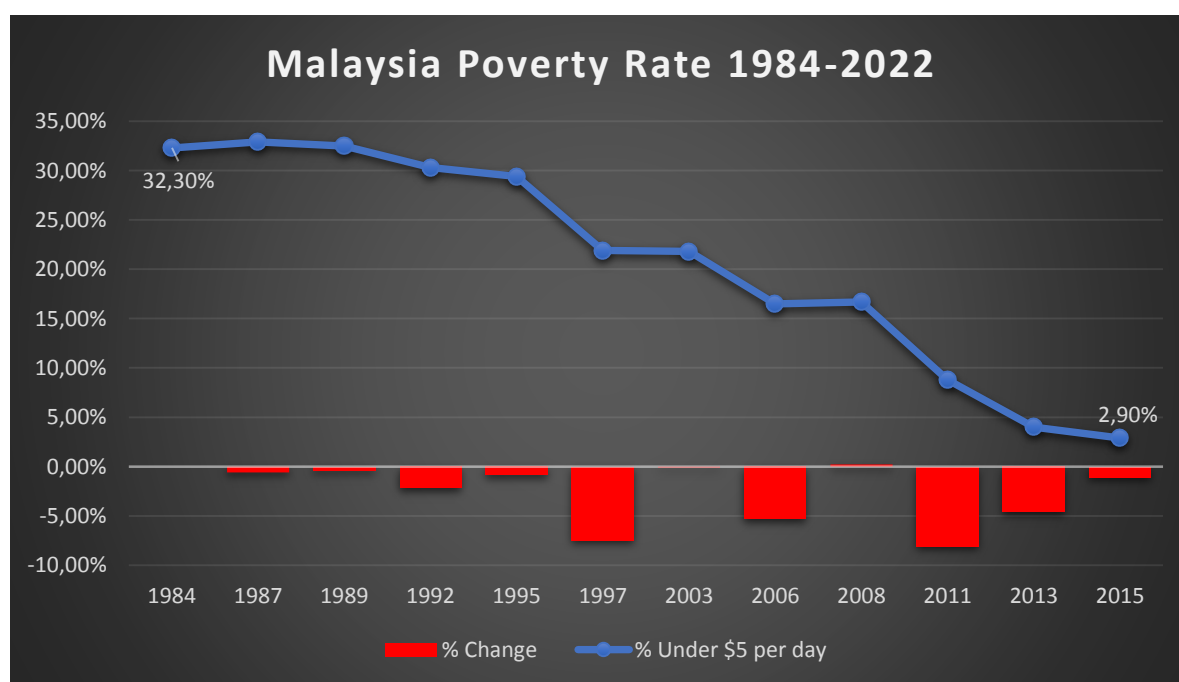
capital controls imposed by the government in 1998 to counter the impact of the Asian crisis.” Current economic trends are very promising. According to Welsh (2004), “Malaysia’s economy in 2004 resembled that of the boom years of the early 1990. The economy grew at a rate of 7%; the budget deficit shrank from 5.3% in 2003 to 4.5% by the end of 2004 and was projected to reach 3.8% in 2005, largely because of increased tax revenue. The Kuala Lumpur Stock Exchange, now known as Bursa Malaysia, hit a historical high in September 2004, and high oil prices boosted the country’s reserves to a record amount.”

The affirmative economic policies of the last 65 years account for promising trends in Malaysian society. Prior to the implementation of NEP, the gap in incomes for Malay and Chinese households was enormous. According to Guan (2005), “the gap between the Malay and Chinese households mean income disparity ratio narrowed from 2.29 in 1970 to 1.74 in 1999.” Guan (2005) also stresses that “segmentation of the economy along ethnic lines was omnipresent before. The division of labour of the colonial past has been transformed by affirmative economic policies. As Guan (2005) points out, “the success of the ethnic preferential policies in education and employment had led to the growth of a noticeable Malay professional class.

In terms of poverty reduction regardless of ethnicity, the country has also produced remarkable results. In 1970, half the population of Malaysia lived in poverty, and the incidence of poverty among the bumiputra, Chinese, and Indians was 66 per cent, 27 per cent and 40 per cent respectively (Guan, 2005). The overall incidence of poverty has been reduced from 52.4 per cent in 1970 to 16.5 per cent in 1990 and to 5.5 per cent in 1999. Rural poverty has declined to 21.8 per cent in 1990 and to 10 per cent in 1999, and Malay poverty, much of which is in rural areas, has declined to

20.8 per cent in 1990 and to 10.2 per cent in 1999 (Guan, 2005). Bumiputras have made significant gains in terms of the country's equity.

However, in 2019, UN disputed the poverty figures released by Malaysia. Malaysia stated that its poverty figures was down to 0.4% in 2016 when compared to 49% in 1970. This is because Malaysia defined poverty as household income per month less than RM 980. However, UN officials argued that Malaysia has set the poverty line too low and household income more than RM 980 but less than RM 2000 are in fact under the poverty category also. The UN also stated that realistic poverty rate in Malaysia is from 16% to 20%.<sup>417</sup> However, Malaysia stand firm of its claim while pointing that the UN assertions are incorrect.<sup>418</sup>



Data Source: World Bank

Figure 74 Malaysia Poverty Rate 1984-2022

Although the early period of NEP implementation did not accelerate the incorporation of Bumiputras to the private sector at the pace expected, during the 1990

<sup>417</sup> "Poorer than we think: Malaysia's official poverty figures 'vastly' undercounted, says UN expert". The Star (Malaysia). 23 August 2019. Archived from the original on 23 August 2019. Retrieved 24 August 2019.

<sup>418</sup> Sira, Habibu (23 August 2019). "Malaysia dismisses UN rep's claim of high poverty rate". The Star (Malaysia). Retrieved 24 August 2019.

some progress was made in that regard. Citing Gomez (2003), Mason and Omar (2003) said that “among smaller firms, including those listed in the Kuala Lumpur Stock Exchange, there was a growing evidence of interethnic business ties on equal partnership, unlike the ‘Alibaba’ arrangement of the earlier period.

They suggest that among the new generations of Malaysians, there was greater openness to inter business for mutual benefit. Non bumiputra Malaysians carried a strong Malaysian identity ethnic cooperation unity and were comfortable in interethnic relationships. In addition, the 1990 also saw the emergence of an independent bumiputra middleclass, confident in their ability to hold their own in business, possessing skills acquired through government support under NEP.” The economic disparities between the Malay and non Malay communities have narrowed significantly as a net result of the NEP, NDP, and NVP. According to Guan (2003), “in terms of ownership of share capital of limited companies, Malay and Chinese shares were 4.3 per cent and 38.3 per cent respectively in 1971, with foreign ownership taking the lion’s share of 61.7 per cent. By 1995, the Malay share had increased to 20.6 per cent while the Chinese share had reached 40.9 per cent.” As the country has become more open to the global economy, pragmatism drives the different ethnic groups to find middle ground and get the job done.

General differences among the immigrant communities reinforce their Malaysian identity above anything else. Although older generations of immigrants kept their emotional ties to their respective motherlands, new generations of Chinese and Indians no longer think of themselves as Chinese or Indians, but as Malaysians. Ethnic

bargaining and compromise permeate every aspect of the country's life. This pragmatic attitude transcends ethnic lines in ways that would amaze any foreigner in Malaysia. It seems that economic necessity pushes different groups to work toward a common goal, because although Malaysians are highly separated by cultures and languages, they are, essentially, united by the forces of the market. This clear market orientation, which began hundreds of years ago around the straits of Malacca, is a potent force for the future of this pragmatic glomerate of ethnic groups that is today's Malaysia. For some management experts, labour relations in Malaysia show promising trends for the future. As Mano Maniam (2001) put it, "the swelling urbanization and middleclass values and lifestyles are inviting able issues in characterizing the workforce of the new century.

A more educated, better informed, more discerning or choosy, mobile and demanding workforce has already emerged and will be the key challenge to economic and social growth. The knowledge worker, by replacing the preceding manual worker, will bear many qualities, which will have more far-reaching consequences than most people realize. The management towards a more equitable, just and harmonious real labour equation will be altered, most likely patronship from the traditional owner worker mindset".

There are attempts at national unity that might foster intercultural integration in the near future. Two of these programs aimed at national unity are worth mentioning: (a) The student integration plan for unity, (Rimup, short for "Rancangan Integrasi Murid Untuk Perpaduan"), and (b) The National Service (NS) program. According to the New Sunday Times, August 7, 2005, the Rimup program groups together the two main



vernacular streams in the country the Tamil and Chinese schools, with national schools.

Each group of schools under the Rimup program will then conduct joint cocurricular and academic fostering integration among related activities. If the pilot program is successful in the three main ethnic groups (Malay, Chinese, and Indian) at the school level, the impact could be enormous, considering that there are 5,756 national primary schools (predominantly Malay), 1,287 Chinese primary schools, and 525 Tamil primary schools spread nationwide with a combined enrolment of 3,045,975 pupils. The second program aimed at national integration worth mentioning is the National Service (NS) program. According to Ling (2005), the Parliamentary Select Committee on Unity and National Service has found that program participants had markedly changed attitude towards other races at the end of their three-month stint. Ling (2005) reported that the Chair of the Select Committee said that the NS program could be introduced in a dilute form in schools and universities, where racial polarization continues to persist. NS is already in the third phase. A total of 240,000 have participated. The Chair of the Select Committee said that “they are agents for national integration.” Malaysia is moving forward with optimism in terms of intercultural relations.

It is observed that Malaysians, generally speaking, are peace harmoniously for centuries. All ethnic group loving people, who for the most part now have lived and recognize that they need each other: The Chinese are the indispensable contributors to the country’s economy, the Indians provide essential manpower, the Malays contribute with the political legitimacy that keeps the country together. A middleclass that already transcends ethnic boundaries is gaining strength in the country. The hope

is that as this middle class becomes more pluralistic, tolerant, and inclusive, the latent phenomenon of ethnic tensions will diminish.

The country shows a clear economic improvement among the previously impoverished Bumiputra majority. The goal of reaching the status of “developed country” by the year 2020 was not achieved and a new target was set for 2030. This can only materialize if it is embraced by all and the country have unity, regardless of ethnic category or political affiliation. As Oo (1991) advocated, the key is for Malaysia to create an eclectic value system which transcends racial and ethnic differences as a basis for national integration. As long as the society as a whole wrestle with these issues, the workplace will resemble that struggle too.

Malays and other Bumiputra majority groups seem to understand that they have to share their ancestral motherland with immigrants that have contributed greatly to the building of modern Malaysia. Eurasians, Indians, Chinese, and other non-Bumiputra minorities seem to understand that they need to live in a country that, at least for the short term, will discriminate against them as a matter of national necessity.

Multiculturalism is both an asset and a challenge for any society. If one can imagine the perfect laboratory to study multi-ethnicity in the marketplace and see how intercultural relations conduce to both, productive behaviours and potential for conflict at work, that place should be Malaysia. Of course, multiculturalism as a social phenomenon has evolved in Malaysia in ways that differ from its evolution in other countries. It has also evolved differently in several regions within the country. In a society as heterogeneous as the Malaysian, managing its workforce is a huge challenge.

Paradoxically, the same factors that make the society as complex as it is work in favour of a work environment in which things can get done, people can work together productively, and ethnic relations can be managed in ways that facilitate performance. Multi-ethnicity is an asset and a challenge for the future of the country, and the Malaysian people seem to understand it very well.

### **10.1.1 THE NEW ECONOMIC POLICY**

The New Economic Policy (NEP) which began with the Second Malaysia Plan (1971–1975) and lasted until the Fifth Malaysia Plan (1986–1990), had three main objectives, namely<sup>419</sup>

- To achieve national unity, harmony and integrity
- Through socio-economic restructuring of the society.
- To minimize the level of poverty in the country through poverty eradication.

The NEP was conceived as a two-pronged strategy for eradicating poverty for all Malaysians, Malaysians in this context mean the Malays ethnic group, as well as reducing and subsequently eliminating identification of race by economic function and geographical location. The Policy sought to achieve its objectives through rapid expansion of the economy over time and set its target of substantially reducing the incidence of absolute poverty by 1990. To achieve this, the Policy called for aggressive improvement of economic status and quality of life for all Malaysians through:

- Access to land
- Physical capital
- Training

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<sup>419</sup> Jeong Chun Hai @Ibrahim. (2007). Fundamental of Development Administration. Selangor: Scholar Press. ISBN 978-967-5-04508-0

- Public facilities

Concurrently, the Policy also called for fairer distribution of opportunities to participate in the widening range of economic activities. The Policy opinion that the core problem that stood in the way of national unity was compartmentalization of racial groups by economic function, particularly the association of Malay and other indigenous races with subsistence agriculture. To dissociate Malay and other indigenous races with traditional agriculture, the Policy called on the Malaysian Government to aid all Malaysians in:

- Finding employment
- Securing participation in economic activities
- Acquiring ownership in various economic sectors

As Malay and other indigenous races progressed in the modern economic sector, other Malaysians were encouraged to introduce modern agriculture to eliminate the identification of Malay and other indigenous races with subsistence agriculture. The overarching principle of the Policy was the creation of 'a socio-economic environment' in which individual Malaysians find self-fulfilment within a system which provides for proportional participation, management and control in the economic life of the nation".

During British colonial rule in Malaya, Malays had always been in close contact with British officials by virtue of being the subjects of the Sultan's Court. Administratively, Malays displayed a highly structured system, which enabled the British to embed themselves into the existing structure with ease. To communicate effectively with the Malay Rulers, Malays were employed by the British to work in

Resident's Offices as clerical staff. However, Malays were mostly educated in Islamic madrasah, with little exposure to Western education.

To ensure a competent administrative workforce, the British established Malay schools to teach basic clerical knowledge. The discovery of tin in Malaya in 1820 led to an influx of Chinese miners. This discovery led to disputes among the Malay Rulers, Chinese miners, affluent chieftains and villagers, resulting in formal British colonial rule in 1874. By 1885, Malaya became the largest tin producer in the world, accounting for 55% of global tin output. The prosperity brought about by tin mining was primarily shared between the British and the Chinese. As mining towns grew larger and became more economically important, urban infrastructure improved and these mining towns became the seat of administrative power for the British and traditional Malay capitals became insignificant.

By 1911, labour imported from India involved in the rubber plantation sector totalled 126,665 people and Malaya became the world's largest producer of natural rubber. Educated Indians were employed in the estates' hospitals and clinics while the majority worked as rubber tappers. All these activities and the influx of foreigners that was willing to lead and take strategic decisions was an obvious problem and the government had to step in. The government established "The New Economic Policy (NEP)" which began with the Second Malaysia Plan (1971–1975) and lasted until the Fifth Malaysia Plan (1986–1990). Attainment of the targets set by the New Economic Policy (NEP) in management present the most serious challenge to management development in the private sector.

These new rules have suppressed the Chinese and other races that was in control of businesses and the economy. From the relatively small base of 11% of

management positions in 1971, Malays are expected to expand and hold at least 30% of management posts, in all sectors and at all levels, by 1990. Indeed, there is considerable uncertainty about the figure of 30%, at one period companies were being persuaded to aim for 40% Malay managers and if the Government insists that the target should be attainment of the same racial composition in management as in the population at large, it would be 55 %. The NEP policy was adopted in 1971 for a period of 20 years and it was succeeded by the National Development Policy (NDP) in 1991.

Wealth in the hands of the bumiputras went from 4% in 1970 to about 20% in 1997. The overall wealth of the country as a whole also grew; per capita GDP went from RM 1,142 in 1970 to RM 12,102 in 1997. During the same period, absolute poverty in the population as a whole dropped from 50% to 6.8%.<sup>420</sup> It is unclear what role the NEP played in these changes.

*Table 33 NEP Benchmarks over time*

	1970	1990	2004	2009	2012	2016
<b>Bumiputra equity</b>	2.4% (RM 477 m)	19.3% (RM 20.9 b)	18.7% (RM 73.2 b)		23.5%	16.2%
<b>Overall poverty</b>	52%	17.1%	5%			
<b>Rural poverty</b>	59%	21.8%	11%			
<b>Household income</b>	RM 660	RM 1,254	RM 2,996	RM 4,025	RM 5,000	RM 5,228

The effects of the NEP on wealth distribution are disputed. The Gini index declined from 51.3 in 1970 to 44.6 in 1997, and 1987 figures indicated the mean income of the Malays had improved relative to both the Chinese and Indian communities.<sup>421</sup> However, some have used 1997 statistics with 70.2 per cent of

<sup>420</sup> Funston, John (2001). "Malaysia: Developmental State Challenged". In *Government and Politics in Southeast Asia*, p. 193. Singapore: Institute of Southeast Asian Studies. ISBN 1-84277-105-1.

<sup>421</sup> Funston, John (2001). "Malaysia: Developmental State Challenged". In *Government and Politics in Southeast Asia*, p. 193. Singapore: Institute of Southeast Asian Studies. ISBN 1-84277-105-1.

households in the bottom 40% income group as Bumiputra, and 62.7% of households in the top 20 % income bracket as non-Bumiputra, to argue that inequities remain.<sup>422</sup>

The Gini index also began to increase in the 1990, going from 44.6 to 46.4 between 1990 and 1995; meanwhile, 1997 figures indicated that Chinese incomes were increasing at a rate double that of Malays'. Intra-ethnic income differences also increased markedly, especially among Malays.<sup>423</sup>

Bumiputra participation in the professions and private sector increased as well, although Bumiputras remain somewhat under-represented. Between 1970 and 1990, the Bumiputra share of accountants doubled from 7 to 14%, engineers from 7 to 35%, doctors from 4% to 28%, and architects from 4% to 24%.

The Bumiputra portion of the share market, a figure frequently cited as "a measurement of overall community wealth", despite claims that it was misleading – increased from 2 to 20% over the same period according to one academic's measurements. The Chinese share also increased from 37 to 46%, at the expense of foreign participation. Official Kuala Lumpur Stock Exchange figures from 1998 were even more optimistic, indicating Bumiputra share ownership stood at 28.6% in 1990 and 36.7% in 1996.<sup>424, 425</sup>

The Chinese community in Malaysia accepted the NEP as a necessary evil to avoid Indonesian-style aggression, which the ruling party consistently instigate and deemed appropriate as their threat-based policy. Furthermore, the Chinese

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<sup>422</sup> Funston, John (2001). "Malaysia: Developmental State Challenged". In *Government and Politics in Southeast Asia*, p. 194.

<sup>423</sup> Funston, John (2001). "Malaysia: Developmental State Challenged". In *Government and Politics in Southeast Asia*, p. 194.

<sup>424</sup> Funston, John (2001). "Malaysia: Developmental State Challenged". In *Government and Politics in Southeast Asia*, p. 193. Singapore: Institute of Southeast Asian Studies. ISBN 1-84277-105-1.

<sup>425</sup> Funston, John (2001). "Malaysia: Developmental State Challenged". In *Government and Politics in Southeast Asia*, p. 201.

community generally moved away from the public sector and set up businesses in the private sector, where the impact of the NEP was less pronounced. In spite of the policies implemented under the NEP, the share of the national wealth owned by the non-Bumiputra races increased beyond the 40% mark.

This figure, however, does not reflect that certain segments of the non-bumiputra population live in dire poverty. The Malaysian Indian and Orang Asli in particular form the lowest strata of the population in terms of economic ownership. The Orang Asli of Peninsular Malaysia are not considered Bumiputra under the Federal Constitution despite their indigenous status.

In recent years, the NEP has come under attack as being an inefficient system that promotes a laid-back attitude among the Bumiputras, it is racial-based and not deprivation based. Several policies of the NEP which give economic advantage to the rich Bumiputras, such as Bumiputra quotas in ownership of public company stock, and housing being sold exclusively to Bumiputras, are viewed as discriminatory.

Many of the NEP policies strive for equality of results rather than equality of opportunity, with NEP proponents justifying the concentration on results rather than opportunity as by pointing out that measuring equality of opportunity is difficult or impossible. When the NEP was implemented, for example, it was announced that one of its goals was to have 30% of all equity in Bumiputra hands.

NEP critics have argued that setting a target of 30% of Bumiputras trained and certified to run companies would represent a better equality in terms of opportunity. Still others suggest this target may not work as training and certification does not necessarily guarantee equality of opportunity. Tun Abdul Razak's predecessor as Prime Minister, Tunku Abdul Rahman, also opposed the 30% target, writing in the



1980 that "an attempt was made to fill the target without thought for the ability and the capability of attaining it". ... Some became rich overnight while others became despicable Ali Babas and the country suffered economic setbacks".<sup>426</sup>

The NEP is also criticized for not dealing directly with issues of wealth distribution and economic inequality; that it no longer helps the poor but is instead an institutionalized system of handouts for the largest ethnic community in Malaysia as the NEP does not discriminate based on economic class. Bumiputras of high and low economic standing are entitled to the same benefits. The statistical problems of categorizing wealthy and disadvantaged Bumiputras in one group also meant that the NEP's goal of having 30% of the national wealth held by Bumiputras was not indicative of a median 60% of Bumiputras holding 28% of the national wealth, but could theoretically translate into one Bumiputra holding 29% of the national wealth, with the remaining Bumiputras sharing 1%.

Some have alleged that because of this imbalance, some Malays remain economically marginalized. Criticisms also arose from the fact that there was no planned assistance for Malaysian Chinese and Indian communities to achieve their 40% goal during the actual implementation of the NEP. Problems related to the restructuring of the management cadre are legion and most of the companies interviewed talked at length about them. The first and most pressing problem, particularly in 1972, and to a slightly lesser extent in 1976, was the small number of Malays available for management, especially Malays with the appropriate educational and professional background.

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<sup>426</sup> Putra, Tunku Abdul Rahman (1986). Political Awakening, p. 98. Pelanduk Publications. ISBN 967-978-136-4.

The NEP was brought in with the SMP in 1971 at a time when the University of Malaya was the only local university producing graduates, and the demand for Malays, therefore, very rapidly exceeded the supply. Malays who received a higher education were almost all on scholarships that bonded them to serve the Government, and the few that were free to choose still tended to prefer Government employment the traditionally prestigious, secure employment of educated Malays eschewing the riskier dirtier jobs within the private sector. Malays at this time had a strong preference for Arts subjects and the numbers training in such fields as engineering, chemistry and pharmacology were very small. By 1976, graduates were coming from the new universities and the number of Malays going through university had increased dramatically. Nonetheless, there were still areas of acute shortage of trained Malays, aggravated by the very rapid expansion of the public sector.

A second problem was that of availability of positions within companies. Many European and multinational companies had been in Malaysia since the early sixties, and some of them a great deal longer. They had, therefore, Malaysianized their staff filling posts formerly held by expatriates with Chinese, and to a lesser extent, Indian Malaysians who were usually young and able. This left very little opportunity to recruit Malays into management other than through expansion or wastage.

In 1972 rapid expansion did not appear likely, although in fact 1973 and early 1974 were boom years, and the status and salary levels offered especially by multinational companies meant there was little staff turnover. In 1972 companies were very unsure how they could meet the Government's target, in 1976 they were less worried, although they had just been through the 1975 recession and were doubtful if growth would return to its 1973 levels. The recession itself had forced companies to

tighten their belts and distracted them somewhat from what was perceived as the less essential and rather costly task of restructuring their management.

The pressure placed on companies by the NEP and by the Government particularly in 1975/1976, created a considerable demand for Malays suitable for management at a time when the supply of able candidates was very limited. This naturally forced the price up and Malays were asking for a higher salary, more senior position and more prestige than their non-Malay counterparts. This created problems for companies reluctant to discriminate in favour of one group at the expense of existing staff. Nonetheless many companies were forced to succumb to the demands of the labour market and began offering Malays a premium. While such salaries were kept strictly confidential, non-Malay staff inevitably knew, especially when it came to favouring Malays in promotion and the target being 30 per cent "at all levels".

This was bad for staff morale and in one case that was reported in a bank, the staff tried to sabotage the accounts. Malays who took advantage of the market position were labelled opportunists, exploiting their position and having no company loyalty. The fact that as businessmen any of the senior executives would probably have acted similarly in that situation was ignored by all but the very few.

Besides raising the price, the increase in demand for Malays, and especially for Malays who had already proven their ability in the private sector, resulted in a high turnover of Malay staff and a good deal of intercompany poaching. The worst offenders were Government and quasi Government bodies, especially when the Government was entering the private sector and wanted a Malay with private sector experience to run the company. This was bitterly resented by companies which had invested a good deal of time, money and effort to develop a Malay manager for promotion, only to have

him lured away. Indeed, some companies felt that Malays only used private sector posts to work their way into Government employment at a senior level.

They came to see Malays as a bad risk because they required extra training yet as soon as they were trained they were snapped up by another company or a Government body. In one company, of 12 Malays recruited over a three-year period 8 had left, most going to Government. This problem, mentioned in 1972, had become considerably worse by 1976 as Government pressure on companies to recruit Malays was stepped up, and as the number of parastatal bodies and Government sponsored companies requiring able and experienced Malays also increased. Given the demand for Malays, the small proportion who had in the past had access to a university education or professional training, and the very recent expansion of university places for Malays, it is not surprising that most of the Malays coming forward as management recruits were very young and inexperienced.

Remembering that the quality of education provided in Malay secondary schools was poor and that universities were encouraged to take in Malays with minimum qualifications rather than select students purely on merit, it is clear that the educational standard of the Malay recruit was also weak. Yet companies were obliged not only to recruit such staff but to develop them rapidly for promotion. For many companies the time and effort involved in such an exercise, combined with the likelihood of their being poached if they proved able, was an unacceptable expense.

Parts of Malays in an industry have an overabundance of competing companies and this has meant profit margins are at a minimum with a consequent reluctance to take on staff who cannot pull their weight immediately. Even within those companies that have taken on Malays there has been a tendency to put them into non—priority

areas such as personnel or public relations. Smaller companies simply cannot afford the salaries Malays now command. Indeed, in restructuring the racial balance of their management only the large multinationals can offer the level of salary and status Malays are in a position to demand and those who have done worst are the small Chinese and Indian companies who can offer neither.

Besides these problems related to the supply and demand for Malay managers, there is the very major problem of the suitability of Malays for management in the private sector. Prior to the NEP, when companies were able to choose their management on the strict criterion of the best man for the job there were very few Malays in management. Companies tended to choose Chinese and Indians who had an orientation towards business, attitudes towards hard work and efficiency that suited business, and the necessary professional or technical training required. While it can be argued that for historical reasons such candidates had an unfair advantage in education and that the current measures to close the educational gap between Malays and non-Malays should rectify this, it will not necessarily make Malays better suited attitudinally to business.

Malays have no tradition of commerce and the values and attitudes of Malays, as has been shown, are supportive of a rural peasant society rather than an urban industrial one. The very rapid expansion of education has enabled increasing numbers of village Malays to acquire a higher education and to aspire to a prominent position in Government or industry but it has not substantially changed their attitudes. Indeed, in some ways Government policy, while solving one half of the problem the lack of higher education among Malays has prevented any change in village values by making the attainment of that education relatively easy.

By adjusting entrance standards, providing scholarships to virtually all Malays with the qualifications to enter higher education, and by creating a seller's job market, it has virtually eliminated the need for Malays to compete. Companies repeatedly complained that Malays were not technically or commercially orientated. They lacked a commercial or industrial consciousness, a business sense and they also seemed to lack the motivation to succeed in business. According to a Chinese businessman there are four virtues

1) integrity or trustworthiness,

2) thrift,

3) loyalty, and

4) diligence if Malays could be taught these four virtues they could succeed, without them no amount of training will help.

The Government has also continued to make employment in the Civil Service a desirable, usually the most desirable, option for qualified Malays by the proliferation of Government and quasi Government bodies. As one businessman put it, "Malays prefer to go into politics and run the country rather than go into business and be run by others". As another pointed out, the shortage of qualified Malays is an artificial one created by the plethora of Government bodies which absorb a large proportion of Malay graduates.

However, if it is true and at present there is no proof of this, that Malays are low in need for achievement, it may be that they are best suited to administrative work such as the Civil Service, there was no correlation between need for achievement and success in administration. This may also be an explanation of why Malays have done well in multinational companies in which a manager's role is likely to include a

considerably larger administrative element than in smaller entrepreneurial establishments, and one of the reasons why they are least suited to sales and marketing which, work correlates with a high need for achievement. Between 1971 and 1975 the attitude of companies towards Malays in management seems to have changed and there appeared to be a greater awareness of the role Malays could play within the management team. Characteristically the Chinese manager is an individualist which makes him ideally suited to the role of entrepreneur in which he has excelled to a high degree. It was suggested that Malay society is more group oriented and that, given suitable training and development, Malays may excel in the team approach to management which characterizes the larger corporate structures.

While part of the problem underlying the shortage of Malay managers lay with Malays themselves, with their historical position, and their job preferences, the attitudes of companies has not always been very helpful and Malays have had some very negative stereotypes to live down. In 1972 there was considerable reluctance on the part of many companies to succumb to Government pressures to employ Malays, especially in those industries where it was most difficult because of the nature of the business, the technical requirements of the job, or the extreme competitiveness of the industry. And indeed, at that time the main targets of the Government were the larger companies, which anyway tend to be more co-operative towards Government. By 1976, the Government had succeeded, in particular through the ICA, in putting pressure on virtually the entire private sector.

It has, therefore, become imperative to tackle and to overcome the problems of rapidly developing a cadre of Malay managers. It is a challenge that will test the

resources and skills of the business community to the full, a challenge that the larger companies are in the best position and have the most reason to meet and overcome.

### **10.1.2 RACIAL BALANCE IN MANAGEMENT EMPLOYMENT FOR DIFFERENT INCOME GROUPS**

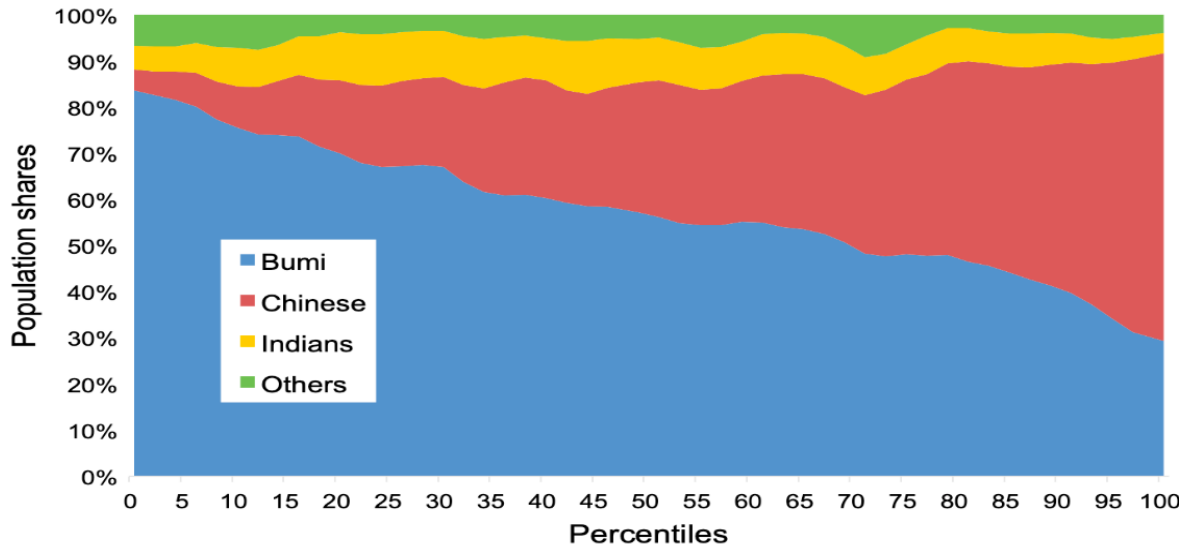
It is believed that a degree of racial balance is achieved. Real statistics paint a different picture. The share of the population that are Bumiputra, Chinese and Indians for different income groups, especially for the top 1% and the bottom 50 % Malaysian adults<sup>427</sup>. Figure illustrates the population share of Bumiputra, Chinese, Indians, and other ethnic groups by percentages of real income per adult for 2002. It is quite striking to see how the share of the Chinese increases when approaching the top, contrasting with the sharp decrease in the share of the Bumiputra.

Of the total Malaysian adults in 2002, 61% are Bumiputra, 30% are Chinese, and 8% are Indians; however, in the top 1%, Bumiputra account for only 24%, Indians account for 3% and the Chinese account for 72%. Clearly compared to Bumiputra and Indians, Chinese are over-represented. This gap was mitigated in 2014; however, the contrasting pattern persists: among the richest one per cent of Malays. This is also a clear indication that the NEP goals did not materialized.

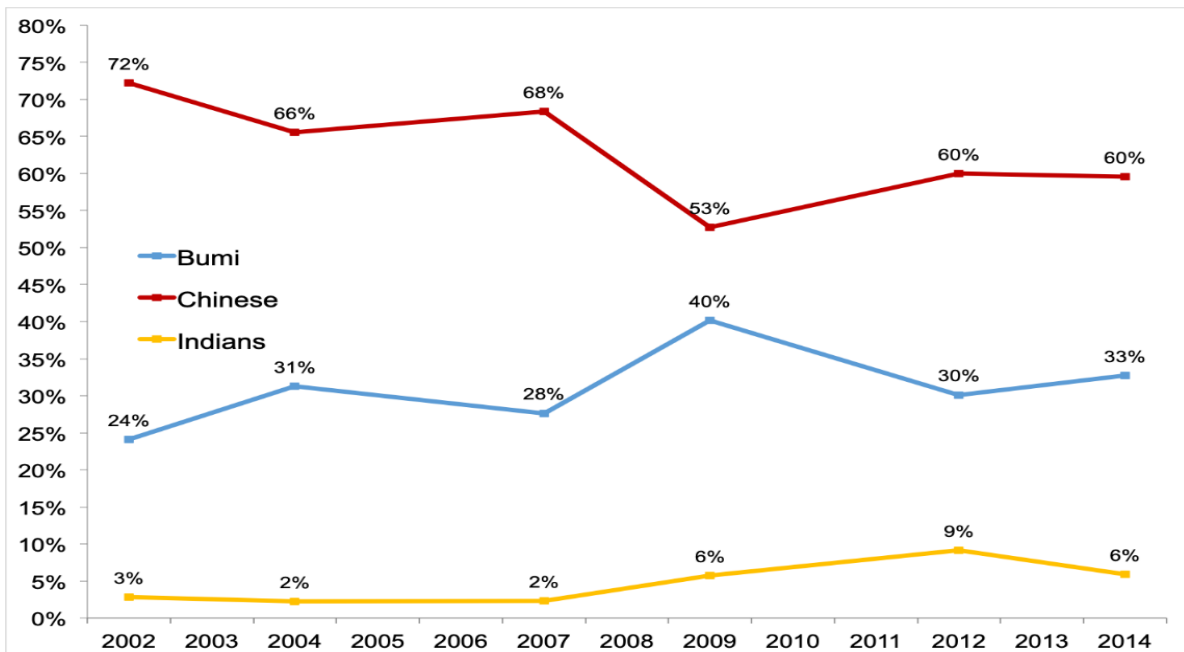
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<sup>427</sup> Muhammed Abdul Khalid, Li Yang, September 11th, 2019, Income inequality among different ethnic groups: the case of Malaysia





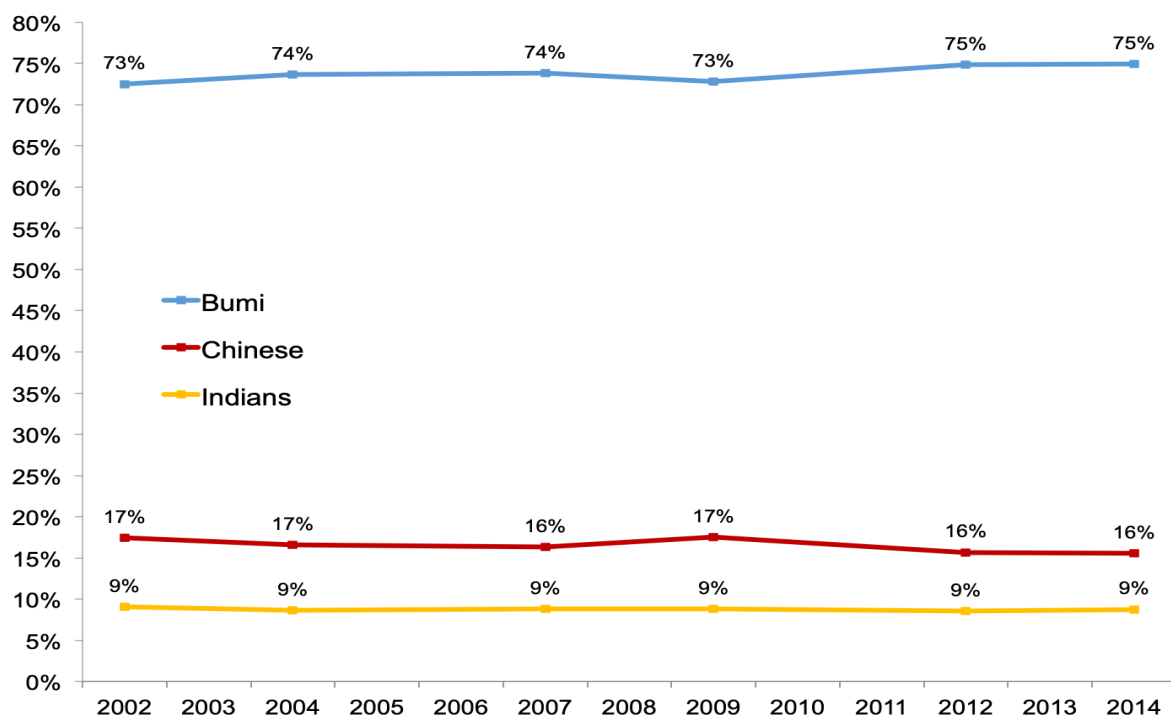
Source London School of Economics  
 Figure 75 Population shares of ethnic groups in each percentile



Source London School of Economics  
 Figure 76 Population share by ethnic group

As important as it is to understand the unbalanced population distribution at the top, it is equally crucial to look into the poorest segment (e.g., the bottom 50% Malaysian adults), especially when policymakers and the general public evaluate affirmative policies. In the bottom 50% of Malaysian adults, 73% were Bumiputra, 17% were Chinese, and 9% were Indians. Until 2014, the trends of the three ethnic groups

were very stable. Thus, when pro-Bumiputra policies improved the economic status of low income Bumiputra, approximately one-quarter of the population in the bottom 50% was left behind. This segment of the population is made up of non-Bumiputra Malaysians, approximately 29% of total Chinese and 56% total Indians.



Source London School of Economics

Figure 77 Population shares of ethnic groups in the bottom 50 %

### 10.1.3 RACIAL BALANCE ETHNIC DIVERSITY IN MALAYSIA

Malaysia has long been concerned with the ethnic dimension in its society. Today, this concern pervades all debate whether on education or politics. Indeed, it dominates coffee room discussions on any area that relates to achievement of human potential, whether in the area of human capital, physical capital, financial capital, entrepreneurship, politics or government.

The diversity evident in the ethnic fabric of Malaysians is officially acknowledged and celebrated in Tourism Malaysia's slogan 'Malaysia, Truly Asia'.

More importantly, it is a critical and powerful driver in the design and implementation of many public policies. With the multi-ethnic, multi-lingual, multi-cultural and multi-religious composition of the populace, national unity remains the main stated objective of economic, social and national development. The New Economic Policy (NEP) was introduced in 1971 in response to the ethnic disturbances of 1969. Its primary objectives were reduction of poverty irrespective of race, and restructuring of Malaysian society to eliminate identification of race with economic function to reduce inequalities in income distribution between races and to reduce the identification of race with economic activities. More than three decades later, the ethnic dimensions of public policy remain important, for instance as reflected in 2007 under the National Vision Policy.<sup>428</sup>

Data on ethnicity is therefore very important for monitoring and strengthening public policies that seek to address ethnic imbalances. It is not surprising then that measuring ethnicity in Malaysia extends beyond the decennial census and is an important element in the production of official statistics. Today, it seems like information on ethnicity is collected by almost every institution, whether public or private. The question is, given the difficulty in measuring ethnicity, whether the meaning and measurement of ethnicity is the same in the different surveys and documents, and over time. The most important enumeration of ethnicity in the population occurs every 10 years or so with the taking of the census. Ethnicity information is regularly obtained in other censuses (such as ethnic profile of employees in the Economic Censuses), surveys (such as in the Labour Force Survey)

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<sup>428</sup> In 1991, aspects of the policy changed and were implemented as the National Development Policy (1991–2000), with a further change in thrust under the National Vision Policy (2001–2010). In the rest of this paper, we use ‘NEP’ to refer to these three set of policies.

and as a by-product of administrative procedures (such as birth registration). The next section first introduces the diversity in the ethnic fabric of Malaysia.

#### 10.1.4 ETHNIC DIVERSITY IN MALAYSIA

The concept of ethnicity is somewhat multi-dimensional, as it includes aspects such as race, origin or ancestry, identity, language and religion. As Yinger (1986) remarks, in practice ethnicity has come to refer to anything from a sub-societal group that shares a common descent and cultural background (e.g., the Kosovar Albanians) to persons who share former citizenship although diverse culturally (Indonesians in the Netherlands), to pan-cultural groups of persons of widely different cultural and societal backgrounds who, however, can be identified as 'similar' based on language, race or religion mixed with broadly similar statuses.

Table 34 Malaysia, population by ethnic group, 2000.

Ethnic group	Number (thousands)	Per centage distribution
Total population	22198.2	100
<i>Malaysian citizens</i>		
Malays	11164.95	51
Kadazans Dusun	456.9641	2.1
Bajau	329.9529	1.5
Murut	80.07225	0.4
Iban	578.3544	2.6
Bidayuh	159.5528	0.7
Melanau	108.275	0.5
Other <i>Bumiputra</i>	695.7017	3.2
Chinese	5291.277	24.2
Indians	1571.664	7.2
Other Malaysian citizens	243.3723	1.1
<i>Non-Malaysian citizens</i>		
Singapore	16.66528	0.1
Indonesia	704.9711	3.2
Philippines	197.9126	0.9
Thailand	33.33057	0.2
India	28.10418	0.1
Bangladesh	64.09725	0.3
Other Foreign Citizens	164.582	0.8

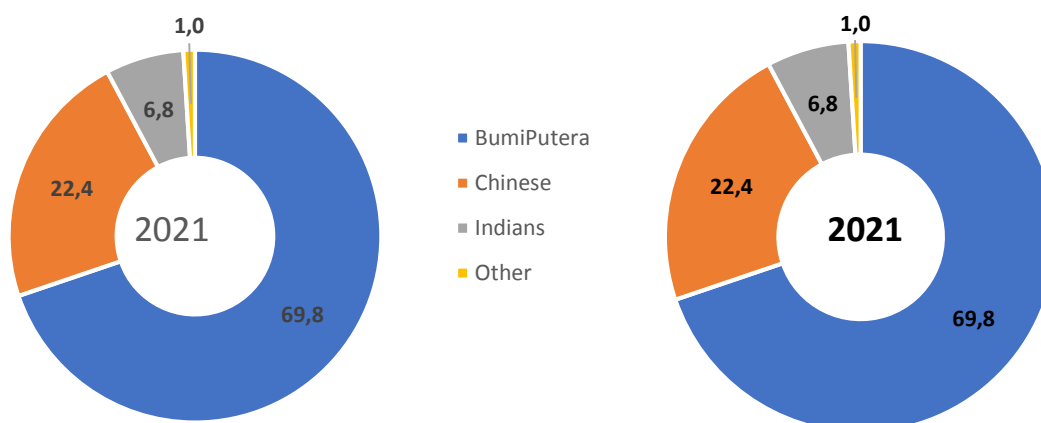
Source: Based on Tables 2.10 and 2.11, Department of Statistics, Malaysia (2005) Malaysia, population by ethnic group

These categories are as different as Yinger notes, referring to groups that share a common descent and cultural background (e.g., the Chinese), persons whose parents share former citizenship although diverse culturally (e.g., the Indians) to pan-cultural groups from different cultural and societal backgrounds broadly considered 'similar' (e.g., the Malays).

#### 10.1.4.1 MAJOR ETHNIC GROUP COMPOSITION

Indians and Others composition remained at 6.8% and 1.0%, Out of 30.0 million Citizens population, the Bumiputera composition increased by 0.2 per centage points to 69.8 per cent in 2021 as compared to 69.6 per cent in 2020. However, the Chinese population composition declined to 22.4 per cent (2020: 22.6%) while Indians and Others remained at 6.8 per cent and 1.0 per cent respectively.

Figure 78 Percentage of Citizens populated by ethnic group, Malaysia, 2020 and 2021



Source: Department of Statistics, Malaysia (2005) Malaysia, population by ethnic group

Some of the 18 groups listed are categories summarizing the population of smaller groups. The degree of ethnic diversity in Malaysia is apparent when we examine the Ethnic Fractionalization Index (EFI), an index that measures the racial

(phenotypical), linguistic and religious cleavages in society (Yeoh 2001). This index is based on the probability that a randomly selected pair of individuals in a society will belong to different groups<sup>429</sup>.

The index for Malaysia is not as high as say, India, about the same as Canada and much greater than, say, the UK. One reason for great variety of ethnic, religious and linguistic groups in Malaysia can be traced to its geographical location. The region that is now Malaysia comprises Peninsular Malaysia, a peninsula jutting out from the Asian continent and East Malaysia, comprising Sabah and Sarawak, two regions in the island of Borneo. Peninsular Malaysia lies at the crossroads of maritime trade between the West (India and Arabia) and the East (China). The seas between North Borneo (now Sabah) and the Sulu islands have been an important trading route between Australia and China. There have thus been far-reaching movements of peoples between the West and the East and within Southeast Asia itself.<sup>430</sup>

The richness of the ethnic heritage can be seen in the census categories used for ethnicity in the census in 1891 of the then Straits Settlements (comprising Penang, Singapore and Malacca) shown in the first column of Table 41

*Table 35 Ethnic classifications, selected censuses and regions*

<b>1871</b>	<b>1957</b>	<b>1960</b>	<b>1960</b>
<b>Straits Settlements</b>	<b>Federation of Malaya</b>	<b>North Borneo</b>	<b>Sarawak</b>
Europeans (18 sub-categories)	Malaysians	European (2 sub-cat)	European (2 sub-cat)
Armenians	Malays	Dusun	Malay
Jews	Indonesian	Murut	Melanau
Eurasians	All Aborigines	Bajau (2 sub-cat)	Sea Dayak
Abyssinians	Negrato	Brunei	Land Dayak
Achinese	Semai	Kedayan	Other Indigenous
Africans	Semelai	Orang Sungei	Bisayah
Andamanese	Temiar	Bisaya	Okedayan
Arabs	Jakun	Sulu	Kayan

<sup>429</sup> Rae and Taylor 1970: pp 22–23

<sup>430</sup> Andaya and Andaya 1982

Bengalees and Other Natives of India not particularized	Other Aborigines	Tidong	Kenyah
Boyaneses	Chinese	Sino-Native	Kelabit
Bugis	Hokkien	Chinese	Murut
Burmese	Tiechiu	Hakka	Punan
Chinese	Khek (Hakka)	Hokkien	Other Indigenous
Cochin-Chinese	Cantonese	Teochew	Chinese
Dyaks	Hainanese	Hailam (Hainanese)	Cantonese
Hindoos	Hokchia	Other Chinese	Foochow
Japanese	Hokchiu	Others	Hakka
Javanese	Kwongsai	Natives of Sarawak	Henghua
Jaweepekans	Henghwa	Malay	Hokkien
Klings	Other Chinese	Cocos Islander	Hylam/ Hainese
Malays	Indians	Indonesian	Teochew
Manilamen	Indian Tamil	Indian, Pakistani, Ceylonese	Other Chinese
Mantras	Telegu	Native of Philippines	Others
Parsees	Malayali	Others	Indian, Pakistani, Ceylonese
Persians	Other Indian		Indonesian
Siamese	Others		Others
Singhalese	Eurasian		
	Ceylon Tamil		
	Other Ceylonese		
	Pakistani		
	Thai (Siamese)		
	Other Asian		
	British		
	Other European		
	Others (not European or Asian)		

Source: First two columns, Hirschman (1987); last two columns, Jones (1961); Jones (1962)

The list indicates that the Straits Settlements were home at least for some length of time to many different groups. These groupings indicate that there were people from different continents (Europeans and Americans), religions ('Parsees' and 'Hindus') and from neighbouring regions ('Javanese' and 'Manila men'). However, these categories were, as Hirschman (1987) observes, made up based on 'experience and common knowledge' and not necessarily on size of group in the society. Indeed, as Table 36 shows, the large number of categories for 'Europeans and Americans' were in direct contrast to their small proportion in the population of the time.

Table 36 Proportion of population by nationality, Straits Settlements

Nationality	1881	1891
Europeans and Americans	0.0082	0.0129
Eurasians	0.0163	0.0138
Chinese	0.4118	0.4450
Malays and other natives of the archipelago	0.4503	0.4159
Tamils and other natives	0.0975	0.1052
Other nationalities	0.0069	0.0072
Total population	423,384	512,905

Source: Merewether (1892)

The inflow of immigrant workers from certain countries in somewhat large numbers also helped to define the ethnic fabric of the country. The turn of the nineteenth century in British Malaya saw the successful policy of bringing in migrant labour to work on rubber estates (workers from India) and tin mines (workers from China), when these primary products grew in economic importance. The increase in the relative size of these two groups could be seen as early as 1891<sup>431</sup>. The British also tried to encourage immigration into North Borneo in the early part of the twentieth century to work in the estates there.

Since the 1970, Malaysia has seen an increasing presence of migrant workers as the need for estate workers, and more recently, factory workers, maids, restaurant workers and security guards has increased. These have been mostly from Indonesia, and but also from Nepal, Bangladesh and the Philippines. Different from earlier British policy, these migrants are required to return home after a fixed period. However, economic opportunities have also made Malaysia a magnet for illegal economic

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<sup>431</sup> Merewether (1892)



migrants from neighbouring countries. Since Peninsular Malaysia shares a border with Thailand and is just across the Straits of Malacca from Indonesian Sumatra, while Sabah and Sarawak share a border with Indonesian Kalimantan, the erection of political boundaries even with Peninsular Malaysia's Independence from the British (1957) or the formation of Malaysia (comprising Peninsular Malaysia, Sabah (previously North Borneo) and Sarawak) has not been effective in reducing the diversity in the population. Thus, there continues to be considerable movement of people across Borneo, Indonesia and the Philippines.

These historical patterns have led to differences in ethnic composition – as well as ethnic categories measured – in Peninsular Malaysia, Sabah and Sarawak. The first region is concerned with three main ethnic groups, Malays, Chinese and Indians, that is, historically non-migrant versus historically migrant classifications, whereas Sabah and Sarawak are concerned with the historically migrant as well as the many indigenous groups in their society. This can be observed in the census categories for ethnicity for 1957 (Federation of Malaya) and North Borneo and Sarawak (1960) shown in Table 43

*Table 37 Ethnic classifications, selected censuses and regions*

<b>1871</b>	<b>1957</b>	<b>1960</b>	<b>1960</b>
<b>Straits Settlements</b>	<b>Federation of Malaya</b>	<b>North Borneo</b>	<b>Sarawak</b>
Europeans and Americans (18 sub-categories)	Malaysians	European (2 sub-categories)	European (2 sub-categories)
Armenians	Malays	Dusun	Malay
Jews	Indonesian	Murut	Melanau
Eurasians	All Aborigines	Bajau (2 sub-categories)	Sea Dayak
Abyssinians	Negrito	Brunei	Land Dayak
Achinese	Semai	Kedayan	Other Indigenous
Africans	Semelai	Orang Sungei	Bisayah

Andamanese	Temiar	Bisaya	Okedayan
Arabs	Jakun	Sulu	Kayan
Bengalees and Other Natives of India not particularized	Other Aborigines	Tidong	Kenyah
Boyanese	Chinese	Sino-Native	Kelabit
Bugis	Hokkien	Chinese	Murut
Burmese	Tiechiu	Hakka	Punan
Chinese	Khek (Hakka)	Hokkien	Other Indigenous
Cochin-Chinese	Cantonese	Teochew	Chinese
Dyaks	Hainanese	Hailam (Hainanese)	Cantonese
Hindoos	Hokchia	Other Chinese	Foochow
Japanese	Hokchiu	Others	Hakka
Javanese	Kwongsai	Natives of Sarawak	Henghua
Jaweepekans	Henghwa	Malay	Hokkien
Klings	Other Chinese	Cocos Islander	Hylam/ Hainese
Malays	Indians	Indonesian	Teochew
Manilamen	Indian Tamil	Indian, Pakistani, Ceylonese	Other Chinese
Mantras	Telegu	Native of Philippines	Others
Parsees	Malayali	Others	Indian, Pakistani, Ceylonese
Persians	Other Indian		Indonesian
Siamese	Others		Others
Singhalese	Eurasian		
	Ceylon Tamil		
	Other Ceylonese		
	Pakistani		
	Thai (Siamese)		
	Other Asian		
	British		
	Other European		
	Others (not European or Asian)		

Source: First two columns, Hirschman (1987); last two columns, Jones (1961); Jones (1962)

### **10.1.5 RACIAL BALANCE IN MALAYSIA (MANAGEMENT EMPLOYMENT)**

Malaysia's complex multiracial population is predominantly defined by three major ethnic groups: Malay, Chinese and Indian races, with diverse cultural backgrounds. Because of ethnic and cultural differences, there are differences in preferences for developing an identity for Malaysia.

Right across the board, there has been a dramatic increase in the number of Malay managers employed. These increases brought about a striking change in the racial composition of the management cadre, particularly in FS4 where the number of Malays have increased from 13% of the management cadre to 20%. In FS3, the increase has been from 9% to 13%, in FS2 from 2% to 9%, and in FS1, from 1% to 7%.

It is noteworthy that smaller companies have begun to improve their racial balance. Their management cadres are small, and the salaries and work environments they offer are rarely as attractive as those in larger companies, yet there has been an increase both in the number of Malays employed, and the number of companies employing Malays. Although the figures are small it must be remembered that only a 5% sample of FS1 was taken and so across the entire business community these figures would be much larger. Nonetheless, even grossed up for the universe, the small companies employ fewer than 50% of Malays employed by the 28 companies in FS4.

Amongst the other racial groups, the employment of Chinese has increased both in real and relative terms, except in FS2 and FS1 where the proportion of managers who were Chinese dropped slightly, the proportion of Indians employed

remained fairly static and the employment of 'Others', largely Europeans or other expand traits - dropped sharply both in absolute and relative terms.

Table 38, Malaysianized, Racial Balance in Management

Malay Managers	FS4	FS3	FS2	FS1	TOTAL
1971	232	63	2	1	298
1975	472	139	12	11	634
% Increase of Chinese Managers	103%	121%			113%
1971	979		88	99	1608
1975	1285	716	95	140	2236
% Increase of Indian Managers	31%		8%	41%	39%
1971	223	51	11	3	288
1975	275	76	16	2	369
% Increase of Other Managers	23%	49%		-33%	28%
1971	400	171	10	5	586
1975	314	110	9	2	435
% Increase	-22%	-36%	-10%	60%	-26%
% of Managers in 1971 who were					
Malay	13%	9%	20/0	1%	11%
Chinese	53%	61%	79%	92%	
Indian	12%	7%	10%	3%	10%
Other	22%	23%	9%	4%	21%
% of Managers in 1975 who were					
Malay	20%	13%	9%	7%	17%
Chinese	55%	69%	72%	91%	61%
Indian	12%	7%	12%		10%
Other	13%		7%	1%	12%
No. of Companies with no Malay Managers					
(% in brackets) 1971	9 (32%)	6 (32%)	11 (85%)	22 (96%)	48 (57%)
1975	7 (25%)	3 (16%)	8 (62%)	18 (78%)	32 (39%)

n=28 11=19 n=13 n=23 N=83, The base for growth in FS2 and FS1 is so small that percentages are meaningless.

Table 48 gives a racial breakdown of the managerial cadre in the industrial sectors. The service industry has particular difficulty in correcting racial balance because its wholesale and retail trade is dominated by the Chinese and consequently Chinese is the business language. One agency insisted that its Malay staff learn a Chinese dialect in order to be able to

function in the industry. Agency houses tended to feel that they were out of favour with the Government and so not only would Malays find it difficult to cope with the sales and marketing side of their activities, but they would prefer not to be associated with them in general. Despite these protestations it is the service industry that has shown the most dramatic increase in employment of Malay managers.

In the extractive industries 33% of managers in 1971 and 22% in 1975 were categorized as 'Other', the great majority of these being Europeans; there is a relatively small proportion of Chinese in management - 37% in 1971 and 43% in 1975; and a rather high proportion of Indians, 18% in both years. Given the accepted policy of gradually phasing out non-Malaysian staff, in the extractive industries there is considerable scope to recruit and develop Malay managerial staff. Mining companies, like manufacturing companies, face the problem of the shortage of Malays with the requisite qualifications. However, some planting companies enjoyed considerable success with Malay managers who seemed at home on estates and were particularly good at handling labour. It was also suggested that Malays preferred the strong, paternalistic structure such companies often provide. However, the industry is handicapped in correcting its racial balance by its very low rate of growth.

Turning to Table 49 the racial balance in the multinational companies is markedly better than that in any of the other communities, this being for the reasons already mentioned. The European business community is not far behind with 17% of Malays in 1975.

Table 39 Racial breakdown of the managerial cadre

Racial Balance — By Industry No. of Malay Managers	Extractive	Manufacturing	Service
1971	123	79	96
1975	199	151	284
1971			
Malay	12%	12%	9%
Chinese	37%	68%	72%
Indian	18%	5%	6%
1975			
Malay	17%	17%	18%
Chinese	43%		70%
Indian	18%	6%	6%
	22%	9%	6%
No. of Companies with no Malay Managers			
(% in brackets) 1971	4 (33%)	13 (59%)	31 (63%)
(% in brackets) 1975	4 (33%)	9 (41%)	22 (45%)

Chinese companies were in a very different position. In 1971, 95% of their management was Chinese and only 4 per cent Malay. Despite a high proportional growth in the number of Malay managers between 1971—75, growth was from such a small base that it only brought the proportion of Malay managers up to 7%. The vast majority of Chinese companies in the sample, 87% employed no Malay managers at all. The small number of Indian companies in the sample reflected a very similar situation. Most of the Chinese and Indian companies are family firms operating in industries dominated by a specific clan. They conduct business and keep their books in Chinese or Tamil, and in Chinese firms' managers often only speak Chinese and a little bazaar Malay.

It is, therefore, extremely difficult to integrate any outsider, let alone a person from a different race into such a company. In a family firm the financial wellbeing of the family is at stake and it was unthinkable for anyone outside the family to be given managerial responsibility. A large number of the Chinese companies in the service

industry were rubber traders and they felt such large sums of money were involved they could not risk putting them in the hands of a Malay. A further explanation given was that Chinese business depends upon the relationship and friendship of the businessmen involved and this makes it impossible for a Malay to come in. On the other hand, it is this closed cliquish attitude that is so frustrating to Malays and which has led the Government to reserve large slices of small-scale commerce and industry for them. Chinese companies felt Malays would not want to join them and since most Malays with ability went on to university they were too expensive and over-educated for a Chinese company.

Basically, they did not want Malays in their companies, they did not trust them and did not believe they had the business ability or the capacity for hard work required, but most of all they did not want an outsider, someone from another race in their companies. The cultural gap between Chinese and Malay is very large and is reinforced by religious and related dietary differences. However, an aspect of the Chinese companies' unwillingness to employ Malay managers was their resentment of a Malay dominated Government interfering in the running of their small family businesses. There was also the feeling that should they employ a Malay and he did not turn out well it would be very difficult to get rid of him.

There were a few Chinese companies with a more flexible attitude and these were generally companies that were relatively large and had already opened their management to professional, non-family managers. Even so they found it difficult to compete with the European and Multinational firms for the services of Malays.

## **10.2 RECRUITMENT OF MALAYS**

In the past Malays who met the minimum requirements for a job were passed over for better-qualified non-Malays. One company reported that 70% of job applications were from Chinese and 30% from Malays, another that of 200 applicants for a post less than 10% were among Malays, and a third that on advertising for management trainees among 200 applications, only one was from a Malay. It is not surprising given these sorts of figures that Malays found it difficult to compete with non-Malays. However, the NEP has changed that and Malay applicants now tend to be considered very carefully. Indeed, companies find it so difficult to attract able Malays that the more successful companies use personal contacts a great deal and have developed close contacts with ITM and the University of Malaya.

Many of these companies offer scholarships to Malays in disciplines appropriate to their industry with an informal agreement the holder will join the company on graduation. In the planting and mining industries scholarships are offered on an industry wide basis and some companies also offer their own scholarships. The personnel manager of one company visits Malay schools to try and persuade pupils to accept company scholarships; and one of the Chinese companies writes personally to all Malay pupils graduating from vocational schools to try and interest them in employment in the company.

A number of companies have re-examined their job specifications to determine the essential requirements in order to consider all Malay candidates with the basic minimum. Most companies had needed to lower their entrance requirements to bring Malays in, on the understanding that they would then train them up to a point where they could compete successfully with non-Malays. Some of the larger companies took



in Malay trainees' surplus to their immediate requirements knowing that they would lose a number during the training period. However, this is obviously a costly approach and other companies preferred to take Malays with some training and experience and also pursued a company policy of poaching Malays.

This sort of situation suggests a need for a Government subsidy to encourage training, especially since the training of Malay managers is clearly part of Government policy. Not only do companies bend over backwards to recruit Malay managers, but also a number of companies mentioned that they made concessions in interviewing Malay candidates, appreciating that Malays may not interview well and may need time to develop. Generally speaking the large European and multinational companies were most successful in recruiting Malays and had achieved this by taking a very flexible, tolerant approach.

The principal source of Malay recruitment in FS4 was promotion from non-managerial grades, and in FS3, technical college, usually Serdang or ITM. Companies. FS3 recruitment from the public and private sectors accounted for 61% of Malay recruitment. This practice of poaching Malay managers from other companies or the government was the subject of frequent comments by the companies interviewed. Many companies complained that virtually all Malay university graduates were bonded to the Government and that this made it particularly difficult for the private sector to improve its racial balance. This is reflected in the relatively small proportion of Malays recruited from a university. The government bonding ceased and companies were attracting Malays from the public sector. Despite the continued complaint that there is a shortage of Malays in certain specialist fields there does not appear to be

an acute shortage of qualified Malays overall and the increased future output from the universities should ease the situation still further.

The industry recruitment figures indicate that the extractive industries have been recruiting relatively high proportions of Malays, 34% of all recruits were Malay. These principally came from technical college or university which accounted for 41% of recruits. In both the tin and rubber industries, professional qualifications are considered important and in the agricultural sphere the industry is well catered for. The same cannot be said of the tin industry which still has to rely heavily on overseas training institutions. The other two main sources of recruitment are the public and private sectors. A number of companies mentioned they were recruiting Malays with military or police backgrounds and these recruits had proved very successful.

In the service and manufacturing industries the proportion of Malay recruits is in roughly the same proportions. In the service industries there is a very marked trend towards recruiting Malays from other companies in the private sector. Recruitment from university also increased substantially and the largest single source of Malay recruitment in the manufacturing industry was university. This probably is less a reflection of companies' insistence on a university training and more an indication of the fact that almost all Malays with any ability now have the opportunity to go to university.

Looking at recruitment by business community the reason for the very favourable racial balance in the multinational companies becomes clear, 49% of their recruits were Malay, a far higher proportion than in either of the other business communities. In numerical terms foreign companies have recruited most Malays; however, their total recruitment is so large that the proportion this form is markedly

smaller than that in the multinationals. Nonetheless the trend in both groups is towards a considerably increased recruitment of Malay managers. The Chinese companies have not increased the flow of Malays into management proportionately and numbers are still very small.

Another marked difference between the multinational and foreign companies is that the former recruited a large proportion of their Malays directly from university while the latter preferred to poach from the private sector. This is indicative of the different attitudes of companies in these two groups, the multinational companies preferring to develop staff in their own particular modes of operation and preferring to take the long view of staff development, while the foreign companies want experienced men who can make an immediate contribution to the running of the firm.

University Technology Mara (UTM) was established to offer commercial and industrial training exclusively to bumiputras, particularly from rural areas. It provides training in English at sub professional and professional level and clearly identifies itself as a polytechnic rather than a university. The overall reaction of the business community to UTM was a fairly negative one. Criticism was related to the concept of UTM itself, to the quality and relevance of the training students received and to their job aspirations. It was felt that to bring rural Malays into a protected all-Malay environment such as UTM offers, was a poor preparation for business life. As one businessman put it UTM takes very immature, inexperienced and ill-educated kampong children and keeps them closeted together, as a result they remain so UTM did not begin to tackle the attitudinal problems of rural Malays vis a vis industry but provided an environment in which village values could be sustained.

The quality of the training students received was generally considered weak and academic standards were considered to be falling owing to official pressure to qualify as many students as possible. There were, however, some notable exceptions: students who sat for overseas examinations rather than the UTM diploma were found to have a higher standard of attainment and a better command of English. The Diploma in Business Studies was mentioned as offering a relevant training. The three-year Diploma Course in Planting Industry Management run in Perlis was said to provide an excellent program of theory and practice closely related to the needs of the planting industry. UTM, led by an exceptionally able director, had developed close links with the industry.

The departure of the previous director had led to a relaxing of these relations and the industry was less enthusiastic about the course. However, it was the aspirations of students in relation to their training that was the main target of criticism. It was said, students at UTM were led to expect employment as management staff on high salaries but since they were not of the calibre of university students, and had no practical experience to compensate for this, companies found such aspirations unrealistic. If UTM graduates were appointed as management trainees they required considerable further training from the company, but were not considered to have top management potential and had established a reputation for not staying long with any company.

They were therefore considered a bad risk. The most able graduates of ITM were often sent overseas to study for a university degree or were snapped up by the Government, which tended to leave the weaker students for the private sector. Yet the shortage of staff at supervisory level was frequently mentioned and UTM, as a

polytechnic, would have appeared to be well suited to cater to this need. The problem seems to have been that the shortage of Malay candidates for management at a time when the Government was putting considerable pressure on companies to improve their racial balance obliged companies to recruit UTM graduates into management and not being of university calibre companies were later dissatisfied with them. This situation is likely to change with the very large numbers of Malay university graduates coming onto the labour market when UTM graduates can be employed at the level for which they have been trained.

A recent addition to the range of courses offered at UTM is its Program for Executive Development (PED), a three-month program designed to orient new Malay university graduates to the needs of industry. The cost of the program was fully underwritten by the private sector and practicing managers were brought in to address the students. However, its main value was probably more the opportunity it gave companies that supported the program to recruit Malay graduates rather than any major improvement in student's preparation for business. One of UTM major problems was a very young inexperienced teaching staff, and a high staff turnover. During a period of strong demand for Malay graduates it was difficult to keep Malay staff at establishments, such as NPC and UTM, geared towards the needs of industry. Yet UTM had a substantial staff training fund and could draw on funds from the Public Services Department and MARA which enabled it to send roughly 20 members of staff a year abroad to receive further training who were then bonded to UTM for 5 years after completing their studies.

The Universiti Kebangsaan, although not restricted to Malays, through its exclusive use of the Malay language as the medium of instructions attracted an almost

exclusively Malay student body<sup>432</sup>, in 1975, 93% of its students were Malay. Its faculties included a Faculty of Economics and Management established in 1974, consequently there had been no graduates of the program at the time of the study. The Faculty was divided into six departments. Analytical Economics, Economic Development and Planning, Agriculture and Resource Economics, Business Management, Accounting, and Statistical and Quantitative Analysis.

In 1975 the Faculty already had 385 students and a staff of 30 academics and 24 tutors, and this number was expected to have almost trebled by 1980. It was thus geared to make an important contribution towards improving the supply of qualified Malays into management. As in any new university the Faculty of Economics and Management faced a number of problems, and one of the main problems mentioned was that of language. The vast majority of books on management and economics are in English, indeed of the 273 texts that were suggested reading for faculty courses in 1975/76, only 14 or 5%, were in Malay. Yet the language of instruction is Malay, and a pass in English is not an entrance requirement for the university, although a number of departments were giving extra instruction in English to try and improve the standards of their students. The low standard of English made the arrangement of industrial placements for students in their third and fourth years difficult. A graduate of the Universiti Kebangsaan with virtually no exposure to a non-Malay environment and with limited English was not likely to meet the needs of the private sector.

### **10.2.1 TRAINING OF MALAYS**

Most large companies took the training of Malays very seriously, indeed if they were to attain the racial balance target it was essential to the well-being of the

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<sup>432</sup> 5      TMP. p. 401, Table 22-7.

company that its Malay managers were as effective as possible. A common hypothesis amongst such companies was that for cultural reasons Malays were late developers and required a longer period of training before they could compete on equal terms with non-Malays.

Most Malays came from underprivileged backgrounds and encountered considerable culture shock when they entered business, a problem accentuated by the fact that business was predominantly Chinese. Consequently, those companies had developed special extended bumiputra training procedures. These varied in their approach; one aimed to give trainees an overall picture of the functioning of the company by rotating them through different divisions, another assigned bumiputras to subsidiaries for a six-month training and probation period, and yet another extended its usual two-year training for new recruits to three to four years for Malays, giving them a lighter work load.

Having completed this training period Malay recruits were then expected to compete on a par with others. However, this assumption was being questioned and extended training was found to lead to frustration since the trainee was removed from the responsibility of actually doing a job. On the job development was found to be far preferable.

Although in FS4 the total number of managers trained declined, during the sample period the number of Malays trained increased from 126 to 153 and the proportion of managers trained who were Malay increased from 18% to 27%. In FS3 the number trained rose from 18 to 35 and this represented 14% and 22% of managers trained respectively. However, this was during a period in which the number of Malay managers had risen sharply, and where the proportion of Malays trained in relation to

the total number of Malay managers declined from 54% cent to 32% in FS4 and from 29% to 25% in FS3. Nonetheless, it should be borne in mind that there was a higher proportion of Malays trained than there were Malays in the management cadre.

When training Malays, companies in FS4 preferred on the job training and in-company courses, extensive use was also made of external courses. FS3 shows a similar swing to using external courses. Overseas training was mentioned as being particularly beneficial for Malays because it got them away from village attitudes, however the figures suggest that companies may be reluctant to use this in developing Malay managers. There was a clear reluctance on the part of some companies to invest a great deal in training Malays due to the high mobility amongst Malay managers.

Looking at the figures by industry the service sector shows an increase in the numbers of Malay managers trained. This represents an increase from 18% to 28% in the proportion of Malay managers trained. Nonetheless the proportion of Malays on management staff who underwent training declined. In manufacturing industry, the overall decline in training was not matched by a decline in the number of Malays trained. However, because the number of Malay managers had increased considerably, the proportion of Malay managers trained declined substantially from 68% in 2002 to 39% in 2004 A roughly similar picture is to be found in the extractive industries.

As far as training methods go, the recent tendency already noted, of making extensive use of external courses is evident in the service and manufacturing industries, although not in the extractive industries. Nevertheless, the service and manufacturing industries do still make use of in-company courses and, to a lesser



extent, on the job training. The extractive industries continue to rely very heavily on the job training.

The superior performance of the multinational companies in the racial balance sphere is also maintained in training. Although the proportion of managers trained who were Malay is not exceptionally high amongst these multinational companies it is higher than in either of the other two groups and accounts for a very high proportion of the Malay managers employed. Among the foreign companies the proportion of Malays undergoing training there was a drop of 23%. The emphasis these companies place on recruiting experienced managers to avoid some of the cost.

When considering the position in regard to Chinese companies one is again dealing with very small numbers. Few managers were trained and since Malays make up such a small proportion of the management cadre they formed a very small proportion indeed of those trained.

Turning to the methods of training used, the multinational companies show a preference for in-house training either on the job or through in-company courses, although the use of external courses increased between 2002 and 2004. The foreign companies prefer a combination of on-the-job training and external courses. Relatively few of these companies run in-company courses and the number trained in this way is small. The training institutions have begun to provide certain types of training specifically geared to the needs of Malays.

The Program for Executive Development (PED) run by UTM for new Malay university graduates has already been mentioned. NPC has established a Bumiputra Services Division which in 1975 ran 50 courses attended by a total of 1209 participants, mainly Malay entrepreneurs and supervisory staff; however, none of the

companies in the sample specifically mentioned using this type of NPC course, for they preferred their Malay managers to attend courses designed for all managers.

### **10.2.2 PROFILE OF MALAY MANAGERS**

This discussion has concentrated exclusively on the private sector's analysis and perception of the problems of racial balance in management. To complement the picture a small sample of Malay managers and entrepreneurs was interviewed. This consisted of 11 managers at various levels in large-scale enterprises in Kuala Lumpur and 13 Malay companies, 3 in Kuala Lumpur, 2 in Kuantan, 4 in Terengganu and 4 in Kota Bharu.

Many of the managers came from educationally or socially privileged backgrounds. The fathers, or in one case uncle, of 4 of them were hereditary chiefs and 3 of these 4 were amongst the oldest managers interviewed; Others were teachers, government officials, a doctor, and in 2 cases successful Malay businessmen. Only one of the 11 came from a poor rural background. The one manager interviewed completed university before the very rapid period of expansion in the early 1970. All the managers had received a good secondary education, 3 of them at the Malay College, Kuala Kangsar, and all spoke of the profound impact this had on them and their future educational and career development; 10 of the 11 had received a higher education, 8 of those 10 having studied abroad, 4 of them in Britain, 3 studying law.

As a group they were thus highly educated, with considerable exposure to Western attitudes and values. When asked about their career aspirations they were self-confident and ambitious, as one of them put it "the sky is the limit". The background of this group reflects the type of Malay who succeeded in management

before the Government put pressure on the private sector, for the group were interviewed most of them had already established themselves in their careers. They were an elite group, sufficiently intelligent and able to be employed without Government pressure but aware of the career advantages the new emphasis on racial balance gave to them.

All were asked why they went into business. Their reasons were varied but a common theme in their replies was a sense of dissatisfaction with the lack of challenge in Government employment and a preference for the higher rewards and more rapid advancement of the private sector. Most of them had associated with non-Malays when they were young, usually being one of the minority of Malays attending English secondary school. The exceptions were the two eldest managers both of whom had previous careers in the Government, one as a magistrate and one in the police force.

Both only entered business on retirement, the former, a prominent and titled gentleman, by being invited by some 25 companies to sit on their board of directors and by going into a partnership with a Chinese, and the latter by being invited by a golfing partner to become personnel manager of his company. Both were examples of the Malay participation in business that was simply window dressing providing the company with the benefit of association with a prominent and respected Malay who had no executive authority. Malay directorships might be a means of transferring wealth from a wealthy non-Malay company to a wealthy Malay but they made no real impact on the key area of racial balance in management. However, these arrangements were clearly in the minority.

Although not typical of the village Malay, as Malays who had been successful in entering business, this group provided a special insight into the problems Malays

faced and made a number of suggestions as to how they might be overcome. They felt there were many factors militating against Malays entering business. There was Malay disinclination towards business, it was looked down upon, and therefore the only Malays who went into business were those who could not earn a living any other way. They also added the impact of the Muslim religion which stresses contentment, the attitude of "be thankful with what you have", and there was the preferred option of Government employment which provided security, status and a good salary and the tendency for this to be forced on Malays by the bonding system. If they did not attain an adequate educational standard Malays tended to be satisfied with relatively low-level jobs.

If a Malay did try to enter business there were many difficulties to overcome: on the one hand there were the stereotypes of the lazy Malay to live down, on the other, the Malay's own deep-seated anxiety that he might not be able to succeed, that the stereotype, in fact, might be accurate. A number of those interviewed had found junior managers and supervisors quick to prejudge Malays and the problem of overcoming such prejudice was at times so great that Malays could become demoralized, and retreat into the security of a Government position, so tending to confirm the stereotype. One of the most able and successful Malay managers said that as a result of the pressure the Government was placing on companies to employ Malays, they did not need to bother trying to understand business. However, the main barriers Malays seem to face are attitudinal ones, both within themselves and from the private sector.

They were asked how they thought the policy of racial balance could best be implemented. Like the companies, they emphasized the fact that because major attitudinal and educational changes were involved it would take time, and they

stressed the need for improving the primary and secondary education of Malays particularly in the sciences and in mathematics, exposing young Malays to business, possible through educational television, and bringing them into closer association with non-Malays with whom they would have to work. Another suggestion was a pupillage scheme in which every Malay undergraduate would be attached to a firm for a period under the tutorage of an executive. They also stressed the need to reform the bonding system.

At least two of the managers interviewed had bought their release from Government bonds. They felt that while the Government was urging companies to employ Malays it was cutting off the supply by bonding all scholarship holders to serve the Government. Despite criticism of the pace at which the Government was trying to correct racial balance in management they were in favour of the policy, and felt Malays needed to be given a chance. Greater sensitivity on the part of the business community towards their problems would clearly help, and it was suggested for instance that companies endeavour wherever possible to have a Malay supervised by another Malay because of the problem of prejudice at that level.

The managers were asked what they saw as the priorities for improving the training of Malays, and again the reform of the educational system was mentioned. This group seemed very conscious of the importance of the privileged education it had received. They urged that more residential schools be provided in the rural areas because of the unconstructive influence of Malay upbringing which taught children not to be interested in business.

Vocational training was recommended for kampong children who had no opportunity of gaining any practical experience of business, unlike Chinese children

who worked in their relatives' shops after school. There was a strong feeling that Malays should be treated identically with other managers and should not be given special training, however, they should be given access to a broad range of management training particularly at the junior and middle levels. Training mentioned as particularly beneficial was that for the Master's Degree in Business Administration and for Chartered Accountancy. It was suggested that the Government should provide financial incentives to encourage the training of Malays.

Finally, they were asked their opinion of UTM and while they all felt it was undesirable for Malays to study in an all Malay institution, most of them were willing to concede that it was necessary at the moment on account of the special needs of Malays and the danger of their being demoralized by the better educational standards of non-Malays. However, generally they thought it was a disadvantage to be isolated from the stimulation of competition with non-Malays, as well as gaining an understanding of their thinking, their hopes and anxieties. The sort of closed environment UTM provided gave Malays an unrealistic estimate of their abilities and they expected to be immediately successful forgetting the importance of experience.

The Malay entrepreneurs interviewed were for the most part very different from this group of managers. The managers were knowledgeable and articulate; the entrepreneurs were generally poorly educated and inarticulate and this was not helped by the fact that an interpreter had to be used for almost all of the interviews on the East Coast. The local SEDC and MIDF officials who arranged these interviews also did the interpretation. Most of the entrepreneurs provide evidence of what the managers had stated, Malays do not go into business unless they are forced to do so by lack of education, poverty, and the foreclosure of other alternatives. As one of the

entrepreneurs explained, he was very poor and had no property, so he started with RM 10 selling tobacco, in 1972 he was the managing director of a firm with a turnover of million. A number had a parent or relative in business who had started a small enterprise and they continued this, expanding with the help of a Government loan.

The level of education and business knowledge amongst these small Malay businessmen was so low that while they needed training it had to be especially geared to their situation. One of the businessmen expressed the position of this group when he said that he was apprehensive about training because he knew so little he felt it would be strange and he would not understand it and that his English would not be good enough. Training would therefore have to be very rudimentary and practical, it had to be in Malay and organized on the East Coast. The two main areas of need were in finance and accounting, including basic book-keeping, and in marketing where the need was particularly strong.

The Malay companies interviewed in Kuala Lumpur were very different. Since it was a tiny sample few conclusions can be drawn, but two of the three operated in a highly competitive commercial manner employing Chinese staff "because it is the cheapest and most efficient labour on the market", and eschewing Malay graduates because "the pay is too low, they don't last". The third was a MARA owned company and its most striking feature was the youth and almost total lack of business experience of any of the managers on the staff. MARA was paying the company's training bill which meant the amount of training for a small company was lavish yet it did not appear to include practical business training, and concentrated on courses for a management team in which there was certainly no shortage of theoretical knowledge. Not surprisingly the company was running in the red.

This small set of interviews highlighted some of the problems of Malay companies, most of which are so small that they fall outside the scope of this study and require special training programs which MARA and NPC are trying to provide. More important were the interviews with managers that reflected many of the same preoccupations as the companies, though from a different angle, and drew attention to the very real attitudinal problems of Malays, indeed any group in a similar position, trying to break out of a stereotyped position. There is a strong tendency for the individual to live up to the expectations made of him and the Malay has to overcome this tendency and his fears that he may not be up to it.

The Malay community has suffered from an inferiority complex as a result of its long impoverishment and it is this which often makes young managerial recruits appear overconfident. The Malay managers interviewed had excellent educational credentials and were well into successful careers, but they were not insensitive to this situation. The problem of developing managers drawn from a community with peasant characteristics that has no previous orientation towards business is one many countries face. In Malaysia, a solution to this problem is made all the more urgent by the short timescale imposed by the Government in the NEP. Inevitably some companies try to evade the problem through 'window dressing', but larger companies are obliged to take the problem seriously on account of the large numbers of managers involved and the crucial impact they can have on the overall wellbeing of the company.

European and multinational companies are in an excellent position to find possible solutions and have both the motivation and the training expertise. However, the atmosphere of Malay privilege and political expediency that form the context in which this takes place while perhaps necessary to enforce such major changes,



makes the task more difficult. In the opinion of the companies involved the main problem is not one of intellectual or educational deficiency, although as university standards appear to be falling this may well be the case in the future, nor is it a problem of management skills, in that there are some indications that Malays may be better suited to certain management skills than non-Malays, and in any case these companies have a good deal of experience in providing training in such skills. The main problem appears to be one of cultural attitude.

In restructuring Malaysian society, the Government is trying to bring about a major social revolution, to transform a largely poor, ill-educated, rural, traditional society into a predominantly affluent, urban, industrial modern one - all in the course of 20 years. In 1972, shortly after the announcement of the NEP, the most common reaction of companies was near disbelief: such a major change could not be effected in so short a period, and required greater time; by 1976 it had become quite clear that the Government was in earnest and the time allowed to achieve its end was up to 1990.

So, what are the elements conducive to changing attitudes from peasant to modern? Reference to the characteristics of modern man proposed by sociologists suggest that he is characterized as taking a scientific rational approach to his life and environment and to the acquisition of knowledge. The Government, aware of the need for this particular attitude change has included in the Rukunegara a commitment 'I to building a progressive society which shall be oriented to modern science and technology', and is giving special attention to the teaching of science in schools. Modern man' has a broader view of the world and his position in relation to it, with an openness and adaptability to change a condition not fostered in Malaysia by the highly

controlled press the Government finds necessary given the tensions produced by the NEP.

Urbanization and the subsequent tendency towards nuclear families are further features at one point taken so seriously that the mass urbanization of Malays was suggested, but this would have aggravated the already serious problem of urban unemployment and was later abandoned in favour of a campaign to modernize the countryside. In contrast to a peasant society in which status is ascribed, in a modern society status must be achieved. In the case of Malays, the Government has accorded them a wide range of privileges including access to higher education and prestigious jobs in management or Government. This appears to be the exact opposite of modern society. Yet it is probably the only way that Malaysian society can be restructured within the prescribed timescale. This does indicate that while the Government is aware of the need for a mental revolution in order to accomplish its social revolution, the very means it uses, possibly has to use, it is hard to see genuine alternatives, are working against its ends.

Companies in the private sector confront immediately the problem and are obliged to find a solution, despite many complicating factors. While there may be no proven relationship between academic and managerial success, Toyne's finding that higher education makes the manager more receptive to some Western management concepts is a powerful argument in favour of the practice of recruiting Malays with higher education. Participating in rational problem-solving both on the job and through external courses would also appear to be a beneficial form of training, as is the use of overseas training with the broader view it brings, the exposure to different perspectives, and the fostering of that capacity for empathy with the positions of others

to which both Lerner and McClelland refer. Larger companies in Malaysia are already engaged in these forms of training, although the high turnover of Malay managers is proving to be a strong discouraging factor.

Given the importance of training, if the country's restructuring objectives are to be achieved without a slowdown in economic growth, Government subsidy for the training of Malays would make a good deal of sense. It would relieve the larger companies of the burden of providing a training ground for Malays for both medium to small companies and the public sector. While they are well—equipped to train Malay managers inevitably the cost involved of training over and above the needs as they do will be a deterrent. An alternative approach would be a levy-grant system, modelled on the British levy-grant scheme, such as was recommended to the Malaysian Government in 1972 in the report by Hunt and Conway<sup>433</sup>. This would provide a means whereby all companies contributed to the training of Malays with those companies that actually did the training able to claim the cost of this from the central pool.

Whatever means are found of accelerating the development of Malay managers will be of great use and importance in solving similar problems in other parts of the world. This is an area that is so important both in the Malaysian and international context that considerable research effort should be directed towards it.

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<sup>433</sup> NC Hunt and B.M. Conway, *op. cit.*, para. 15.

## **CHAPTER 11**

### **11.0 MANAGEMENT PRACTICES IN MALAYSIA**

This part of the study is to benchmark the quality of management practices in Malaysia against comparator countries, investigate the drivers of management practices, and draw actionable policy implications to improve the country's management practices as a key driver of firm-level productivity growth.

The data collection was done through interviews with senior managers. The World Management Survey (WMS) in Malaysia found that with an overall score of 2.84 (on a scale of 1-5), management practices in Malaysia's manufacturing sector are now in line with the country's level of development but lag far beyond those in advanced countries like the United States, Japan, or Germany.

While Malaysia's overall management score is in line with the country's level of development and close to the median across countries, there is significant room for further improvements. A back-of-the-envelope calculation suggests that if management practices among larger manufacturing firms in Malaysia were to catch up with those of the United States, labour productivity among these firms would increase by 13%. Malaysia performs particularly poorly in terms of operations management, but relatively well regarding performance monitoring. Important drivers of the quality of management practices include the intensity of competition, the ownership structure of firms, access to Foreign Direct Investment (FDI), and the supply of skilled and well-educated managers and workers.

Raising Malaysia's productivity growth through better management practices will require a systematic, comprehensive policy approach that fosters the different drivers of management practices in a systematic and mutually reinforcing way.

Realizing productivity gains through improved management practices will necessitate increases in the intensity of competition, reforms of the ownership structure of firms, and investments in the access to talent and quality of education and training. Promoting FDI is another vital tool to disseminate good management practices.

The more effective promotion of FDI would necessitate improved access to national and international skills and talents, more liberal investment policies, and better access for smaller firms to new technology. Finally, policies aimed at diffusing information and providing hand-on support regarding good management practices are also likely to contribute to determining whether more and better competition, ownership, and education will lead to better manage quality.

### **11.1 MANAGEMENT PRACTICES AND PRODUCTIVITY**

While significant, Malaysia's productivity growth over the past 25 years has been below that in several global and regional comparators; it has also declined since the 2008 global financial crisis. Robust employment creation in the wake of the 2008 crisis has not been sufficient to return labour productivity growth to its pre-crisis levels. Studies show that large firms have led to a slowdown in labour productivity growth. Given the large proportion of exporting and manufacturing firms among large firms, this trend seems to reflect a substantial post-crisis decline in global demand for manufactured goods, a risk to which the Malaysian economy is particularly exposed.

Structural shifts in Malaysia's economy might result in premature deindustrialization and a predominance of low-productivity, low-wage manufacturing. Despite the apparent decline in global demand for manufactured goods, labour productivity growth in Malaysia's construction, agriculture, and services sectors has been even more disappointing than in manufacturing. Manufacturing also remains

relatively more productive than other sectors. In 2017, the value added per manufacturing worker was RM 122,000 per annum and in the construction sector it was RM 56,000 per annum.

Nevertheless, as the employment share of the manufacturing sector has fallen from 23% in 1995 to 17% in 2017, there have been concerns that structural shifts in Malaysia's economy are leading the country toward premature deindustrialization and a predominance of low-productivity, low-wage manufacturing. Menon and Ng (2015) lament that Malaysia is moving from high-value-added manufacturing towards the processing of natural resources, while Asyraf et al. (2019) argue that Malaysia has deindustrialized prematurely due to the falling competitiveness of its manufacturing sector. Asyraf et al. (2019) also find that the comparatively positive overall productivity growth in the manufacturing sector hides substantial heterogeneities, and that in all subsectors other than electrical and electronic products the rate of productivity growth has slowed since 2010.

As factor accumulation is expected to slow, re-energizing productivity growth in manufacturing and other sectors is the main path for Malaysia to achieve convergence with high-income economies. With headwinds inhibiting capital accumulation and an aging population slowing the growth of the labour force, accelerating productivity growth will become increasingly important. It is argued that overcoming skills gaps, maintaining high quality of infrastructure, building innovation capacity, and addressing distortions in output markets are all important policies that could serve to accelerate productivity growth. In addition, Hussein (2018) contends that beyond implementing strategies that are largely about the quality of factors of production such as capital, land, and labour, raising productivity growth will necessitate a look at the way these

factors “are put together and organized; rather than looking at each input separately. In a word, Malaysia should look at improving management practices.”

Over the last 20 years, a substantial body of research has documented a significant relationship between firms’ management practices and their productivity and performance. Differences in management practices as one of the main causes of productivity differences across firms and countries has been the subject of research for at least two decades. Ichniowski et al. (1997) document that higher levels of productivity are associated with firms using sets of modern or innovative management practices instead of traditional practices. The research also finds that clusters of complementary human resource management practices have large and positive effects on productivity, while individual work practices show little to no effect on productivity. Black and Lynch (2001) find similar results when estimating a standard production function with cross-sectional data for the United States.

More importantly, they find that the manner in which a management practice is implemented is more important for the productivity effect than whether the practice is used or not. In addition, Bertrand and Schoar (2003) use a panel of manager-firm matched data to isolate manager-specific effects on firm performance. They find that there are significant patterns that indicate that management style is related to the performance of individual managers. In turn, higher- performing managers are consistently more likely to be in better managed firms.

More recent studies have gone beyond describing patterns and started to identify causal impacts of management practices on productivity. There is evidence that poor management practices lead firms not to utilize strategies that could increase productivity, such as investing in workers’ education and training. Better managed

firms are better able to assess their training needs, which likely results in investment in more relevant training and greater returns to investment. Research also suggests that better managed firms provide more training overall. Several mechanisms associated with the quality of management have been suggested to explain this finding. Well-managed firms tend to have standardized management processes while those at less well-managed peers are more *ad hoc*. Accordingly, core functions like medium- to long-term planning, and review and revision of processes across business functions like human resources, tend to be more structured and routine in well-managed firms. Such conditions make the accurate assessments of the cost and benefits of training and the planning and budgeting needed to provide it more likely.

For instance, Hansson (2007) finds that firms that have undertaken a training needs assessment or have put in place a training plan provide training to 10%-15% more employees and spend slightly more on training overall. These practices may also improve information flow across managerial hierarchies, and reduce the chance that workers face disincentives to train relating to factors such as poor prospects for advancement, or wage or performance incentive structures that penalize time away from primary job duties.

As mentioned above, the causes and consequences of productivity differences across firms and countries has long been the subject of intense research efforts. One factor that has always been acknowledged as important is the quality of firms' management practices. However, lack of good data, especially in low- and middle-income economies, until recently prevented researchers from empirically studying these patterns.

Data collection is done using an interview-based approach. To systematically



measure management practices, Bloom and Van Reenen (2007) developed a new survey methodology that uses the interview-based evaluation tool developed from McKinsey & Company's scorecard. The tool defines and evaluates a set of 18 individual management practices on a scoring grid. Scores range from one ("worst practice") to five ("best practice"). A high score for an individual management practice represents a best practice in the sense that a firm that adopts the practice will, on average, improve its performance. The combination of many good individual management practices reflects "good management" as is commonly understood. Individual scores are assigned as follows:

1. Practically no structured management practices implemented;
2. Some informal practices implemented;
3. Formal process implemented, but with some weakness;
4. Good, formal process in place though not yet often/consistent enough; and
5. Best practice in the industry.

## **11.2 OVERVIEW OF MANAGEMENT PRACTICES**

Malaysia's overall management score is close to the median across countries. With an overall management score of 2.84 provides an overall impression of how well firms perform in operations management, target setting, performance monitoring, and talent management. Malaysia's overall score is higher than the score of several high-income countries including Chile and Spain, which both have an overall score of 2.75.

Malaysia's overall score is also higher than that of many developing and emerging economies including Turkey (2.71), Vietnam (2.61), and India (2.55). However, Malaysia's overall management score is considerably lower than that of top-scoring countries such as the United States, Japan, and Germany – which achieve

overall scores of 3.32, 3.23, and 3.22, respectively – and also below that of Singapore with a score of 2.95. This suggests that while Malaysia's overall management score is close to the median across countries, there is significant room for further improvements in the country's management quality.

As mentioned above, Bloom et al. (2012) show that across a wide cross-section of countries, a single-point increase in the manufacturing sector's management score according to the WMS is associated with an increase of 26% in labour productivity. Transferring this finding to Malaysia, if the overall management score among the country's larger manufacturing firms were to increase from its current level of 2.84 to 3.32 as in the United States (a 0.48-point increase), one might expect this to go hand in hand with an increase in labour productivity among these firms of about 13%.

Overall management scores across countries are strongly and significantly positively correlated with gross domestic product (GDP) per capita. Malaysia fits neatly into this pattern with an overall management score that is approximately in line – though perhaps slightly higher – than would be predicted by its GDP per capita. This suggests that Malaysia's management quality is about average for its income level. Most other Asian countries for which WMS data are available also have management scores that are in line or higher than would be predicted by GDP per capita. The only exception is Singapore. While its overall management score is relatively high, it is in fact the only Asian country with a score lower than would be expected given its level of economic development.

Management practices do not only differ between countries but that there is also a wide variation in the quality of management practices within countries<sup>434</sup>. This is true in Malaysia as well, where a graph of the distribution of overall firm-level management scores shows that there is a considerable “left tail” of very poorly managed firms with overall management scores of about 2.00 or less.

What is noteworthy, though, is that this “left tail” of very poorly managed firms is smaller in Malaysia than in China and similar to that of Singapore (which however has a much larger “right tail” of very well-managed firms with overall management scores of about 3.50 or more). Nevertheless, the evidence from the WMS suggests that there is significant room for improving very basic management practices among those Malaysian firms that are in the “left” tail of the distribution. In this regard, even relatively simple policy interventions – such as the provision of information regarding what are considered good management practices – might be useful to help very low-performing firms to achieve at least a minimum level of management quality. In 2004 the government through Khazanah National Berhad, Malaysia’s sovereign wealth fund, initiated the Government-Linked Corporations Transformation Program. This program included a significant emphasis on performance monitoring, including through the publication of a dedicated “Blue Book” on Intensifying Performance Management Practices. The “Blue Book” covered guidelines on setting key performance indicators and targets, reviewing performance, appropriate compensation for senior management, and intensified performance management (Putrajaya Committee 2015). Anecdotal evidence suggests that as part of the program, Khazanah first encouraged its portfolio of investee, companies to adopt better performance management, and this

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<sup>434</sup> Bloom and Van Reenen 2010, and Maloney and Sarrias 2017

then eventually trickled down to other government-linked corporations and the wider corporate sector. Evidence also suggests that in many firms, the hiring of global talent, e.g. with education or prior work experience in the United States, into top management roles has led to improvements in performance management in line with international best practices.

On the one hand, Malaysia outperforms China in all four dimensions, though the difference regarding target setting is only 0.04 points. On the other hand, Singapore and Japan outperform Malaysia in all dimensions other than talent management. Generally speaking, differences between Singapore and Malaysia are relatively small, with the former outperforming the latter by around 0.2 points regarding the operations management, performance monitoring, and target setting dimensions.

Differences with Japan are more pronounced, amounting to around 0.6 points for these three dimensions. This implies that Malaysia has significant room to improve on each of these three dimensions if it is to catch up with regional high-income comparators. While talent management is not Malaysia's strongest dimension as such, it is noteworthy that in this dimension, its score (at 2.92) is comparable to that of Japan (also at 2.92) and higher than that of Singapore (at 2.85).

### **11.3 DRIVERS OF MANAGEMENT PRACTICES**

Cross-country research using the WMS data shows that differences in ownership structures matter for the quality of management. Government- and family-owned firms with a family member as chief executive tend to be relatively poorly managed while multinationals, firms with publicly quoted share prices, and private-equity-owned firms tend to be relatively better managed (Bloom et al 2014). In

addition, research shows that more competition in product markets, better access to FDI, and better quality of education are also correlated with better management practices. In addition to these four drivers of management practices, the availability of information about good management practices is also likely a contributing factor that determines whether more and better competition, ownership, FDI, and education actually lead to better management quality.

Intense competition forces badly managed firms to improve or exit the market. In addition, it also provides firms with lots of rivals to copy and learn from. Therefore, it is not surprising that the literature has established strong linkages between the intensity of competition and the quality of management practices both between and within countries and industries. In fact, this literature suggests that one of the reasons that the United States has significantly fewer very-poorly-managed firms compared to middle-income countries is that the level of competition in the United States is substantially higher than elsewhere (Bloom et al 2014).

While there are also many good reasons why policies aimed at fostering competition should be given more attention in Malaysia, it is worth noting that there are hardly any differences in measured management quality between firms with few or many competitors in the country. According to the WMS, firms in Malaysia with up to four competitors have an average score of 2.92 while those with more than ten competitors have an average score of 2.79. These differences are not statistically significant, suggesting either that the intensity of competition plays less of a role in determining management quality in Malaysia than in other countries or that it is not appropriately captured.

International research shows, generally speaking, that privately-owned firms with a diverse set of shareholders tend to have the best management practices and those owned by the Government or the founding family the worst. In addition, research documents that the key factor in determining management quality is not so much firm ownership, but rather control (Lemos and Scur 2019). Thus, family-owned firms that have either the founder or another family member as CEO tend to be at the bottom of the ranking in terms of average quality of management practices, but family-owned firms with an external (non-family) CEO tend to be just as professionally managed as other privately-owned firms.

Malaysia follows the general pattern of Government-or family-owned firms having relatively lower management scores than private firms with dispersed shareholders. Among Government- owned manufacturing firms, the average overall management score is 2.47. In contrast, it is 2.97 among private firms with dispersed shareholders.

Research based on WMS data from across the world consistently documents that multinationals are on average significantly better managed than their domestic counterparts. This is explained by the fact that multinationals have access to FDI and global talent, which act as important channels for the diffusion of various technologies – such as those related to management practices. Technology diffusion can even spill over from multinationals into domestic firms. In many countries, FDI plays a critical role in spreading modern management practices, and has even contributed to the development of whole new sectors.

For example, in Bangladesh, a joint venture between the local textile firm Desh and the Republic of Korea's Daewoo has been credited with spawning an entire

industry as Desh local managers first learned about frontier management practices and then spun off new firms (Yunus and Yamagata 2012). With regard to access to FDI, patterns in Malaysia generally follow the international trend. This implies that management practices among multinationals in Malaysia are about as good on average as among multinationals across the world, with the exception of North America where average overall scores are significantly higher.

Intuitively, managers with higher education and skills will be better able to learn about and comprehend modern management practices. To understand why internationally the level of education and skills of the more general workforce are also strongly correlated with the quality of management practices, it is helpful to consider the importance of not just the knowledge of best practices among managers, but also of the implementation of these best practices by workers. Behavioural changes within firms are only successful when there is significant buy-in from workers, and this is often easier to achieve when workers have higher education levels and can more easily be included in discussions about any changes. The strong relationship between the education and skills of both managers and workers on one hand, and the quality of firms' management practices on the other, can also be documented for Malaysia. In particular, firms with higher proportions of managers with degrees have better average overall management scores.

Internationally, an unawareness of modern management techniques has been identified as an important factor hampering the absorption of modern management practices. In Malaysia, there is a significant gap between managers' self-assessment of their performance and their actual performance according to the WMS data. In addition to its various other questions, the WMS also asks managers to score the

quality of the management practices in their firm on a scale from one to ten. Dividing the managers' self-reported scores by two to match the WMS' management score scale from one to five makes it possible to calculate a "self-assessment gap" between actual and self-reported scores.

Self-assessment gaps are relatively small in North and Central Malaysia as well as on the East Coast, where they range from 0.61 to 0.76. In contrast, at 1.04 and 1.39, respectively, they are very large in the Southern part of peninsular Malaysia and even more so in East Malaysia.

Raising Malaysia's productivity growth through better management practices will require a systematic, comprehensive policy approach that fosters the different drivers of management practices in a systematic and mutually reinforcing way. While overall management scores in Malaysia are close to the international median, a back-of-the-envelope calculation suggests that if management practices among larger manufacturing firms in the country were to catch up with those of the United States, labour productivity among these firms would increase by 13%.

Realizing productivity gains of this magnitude through improved management practices will necessitate increases in the intensity of competition, reforms of the ownership structure of firms, improvements in the access to FDI, and investments in the access to talent and the quality of education and training. In addition, better information about – and training in – modern management practices is also likely to contribute to determining whether more and better competition, ownership, FDI, and education will actually lead to better management quality.

World Bank (2016) strongly suggests that distortion in Malaysia's output markets are hurting productivity through inefficient allocation of resources. While



several issues have been broadly highlighted in the recent past that could explain these inefficiencies, competition is key. In particular, there have been concerns about government-linked corporations crowding out domestic competition in their sectors. Though potentially politically difficult, World Bank (2016) therefore recommends Malaysia to strengthen its competition policy and to adopt competitive neutrality in its regulatory stance, particularly with respect to the operations of government-linked corporations. From the regulatory perspective, easing existing policies to further open markets for further foreign private sector participation would also help to boost productivity.

While firms managed by their founder(s), as well as those owned and managed by the Government, tend to be managed significantly worse than other firms, breaking down this type of ownership involuntarily is not straightforward, as family owners and their next of kin tend to be very reluctant to completely cede control. Instead, two policy levers can be helpful to gradually improve management practices in family-controlled firms. First, there is room for further policy improvements in terms of minority shareholder protection to allow peace of mind for family owners to hire professional managers without fear of expropriation. These could build on the current regulatory framework; the Companies Act and the Securities Commission's Code of Corporate Governance already contain specific elements to ensure minority shareholders' rights. For instance, the Code of Corporate Governance contains detailed principles, practices, and guidance regarding topics such as board composition and the conduct of general meetings. Second, there is room for further advances in the rule of law and the quality of institutions more generally, so that family owners can better trust outside managers in their firms.

According to World Bank (2016), facilitating technology absorption through FDI would necessitate improved access to skills and talents, likely including temporary movement of professionals, and more liberal investment policies, such as relaxing domestic content requirement, that would allow firms to deploy cutting-edge production technology with minimal restrictions. Meanwhile, World Bank (2016) also sees it as important to ensure that smaller firms get access to new technology, which could be fostered through supplier development programs to link them to multinationals and broader participation of government research and development programs. More generally, World Bank (2016) emphasizes that accelerating productivity growth in Malaysia will in large part

As detailed in World Bank (2015a), there is broad recognition that the Malaysian labour market has benefited from the presence of international industry leaders and professionals that help firms remain globally competitive. A regular evaluation of relevant Government services can help further improve their effectiveness. Moreover, while there already is an incentive program for highly skilled immigrants working in Malaysia through the Residence Pass-Talent (RP-T), the program only aims to retain talent, not attract new talent. Thus, a revised approach may consider expanding RP-T eligibility beyond talent already in Malaysia to those applying from abroad.

By doing so, a broader pool of applicants can fill labour shortages in highly skilled occupations. A very specific and important source of global talent is Malaysia's large diaspora. World Bank (2011) argues that persuading a large share of the diaspora to return will require a comprehensive policy approach in terms of adequate wages, social inclusion, quality of life, and other factors, coupled with targeted

programs which welcome returnees and their families, provide financial security, and offer a conducive environment for innovation and business creation.

World Bank (2016) argues that efforts to close skills gaps could be reinforced through strengthened workforce training programs. A stronger coordination with the private sector could improve the effectiveness of existing training interventions and alleviate skill mismatches in the labour market. Such collaboration could take different forms, from inputs in the design of curricula to provision of apprenticeship opportunities.

A more intense use of labour market information to inform skill development policies and programs is also likely to improve efficiency and effectiveness of the existing interventions, while a stronger focus on effectiveness and efficiency of spending could lead to improvements in the general skills of the Malaysian workforce and the Malay manager. In particular, linking funding allocations to program performance measured in terms of impact would serve to raise efficiency and equity in the use of funds. In terms of practical realization of these recommendations in a changing world of work, a hands-on roadmap is provided by the Human Resource Development Fund (HRDF)'s National Workforce Human Capital Development Blueprint 2018 – 2025, developed in cooperation with the World Bank.<sup>435</sup>

Holding workshops about best practices and helping managers critically evaluate their own practices in a non-threatening way could be particularly cost-effective. Officials could provide opportunities and promote events to collaborate and share best practices and learning via multiple methods to support the implementation of such practices. Priority firms that these interventions should target would be those

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<sup>435</sup> HRDF and World Bank 2017

where self-assessment gaps between actual and self-reported management practices are most pronounced.

This would particularly be smaller and younger firms in the manufacturing sector, those in the wearing apparel subsector, and those in East Malaysia. Going beyond diffusing of information, the study by Bloom et al. (2013) shows that hands-on support to implement modern management practices can improve productivity. Malaysia already implements some relevant support, for instance through initiatives in the dimension of talent management implemented by HRDF National Human Resource Centre, but could strengthen and scale up these efforts.

## **CHAPTER 12**

### **12.0 ISSUES AND CHALLENGES OF MANAGEMENT EDUCATION IN MALAYSIA**

This chapter will explore some of the pertinent issues and challenges of management education in Malaysia. Management education has seen a remarkable growth in the recent years as reflected in the steep rise in the number of institutes offering programs in management at various levels. These institutions of higher learning (IHL) which offers management education; need to play a major role in producing the right quality and quantity of managers to meet the requirements of marketplace.

Malaysia has made tremendous improvement in higher education especially in term of the number of graduates produced by the institutions of higher learning (IHL) both public and also private. In a recent report in the Sun, dated 20 March, 2007 the per centage of those aged between 25 and 64 in Malaysia with tertiary qualifications increased to 11.1% in 2002 from just 6.2% in 1995; and this number was expected to double in the next seven years. These graduates are from various fields and disciplines which includes science and technology, arts and humanities, medicine and law, information communication technology, and also in the field of business and management. The field of business management includes several sub areas such as accounting and finance, economics, management information systems, marketing and management, which also includes human resource management. The focus here is on management education of the discipline of management, includes areas of

management such as human resource management, organizational behaviour and international management.

In the context of Malaysia, management education has come to much criticism in recent times from the industries due to the inability of graduates to put what they have learned into practice<sup>436</sup>. The blame has been largely placed on the IHL for not producing the required quality graduates who can meet the needs of the industry. Producing employable graduates both in terms of quality and quantity is one of the main objectives of any IHL besides research and development activities. Unlike engineering and science, management is an interdisciplinary field with contributions from various fields such as psychology, social psychology, sociology, anthropology, political science, economics and finance (Muniapan, 2005). Contemporary management also includes issues related to cross-cultural management and international management. Increasingly the understanding of management is coming to depend on understanding, analysing and predicting organizational behaviour, which is the basis for human resource management.

In Malaysia, currently there are twenty public universities, eleven private universities, four foreign university campuses, fifteen university colleges and more than 500 private colleges and management institutions offering management education<sup>437</sup>. These are IHL's approved by the Ministry of Higher Education. The Ministry of Higher Education was established in 2004, with a vision of making Malaysia a centre of education excellence. Since early 1990 the numbers of private educational institutions with foreign links especially from United Kingdom (UK), United States (US), Australia and New Zealand have been increasing at a rapid pace.

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<sup>436</sup> Sunday Star, 6 November 2005

<sup>437</sup> <http://www.mohe.gov.my>

Recently the government through the Ministry of Higher Education has set up the Malaysian Qualification Agency (MQA), which would facilitate international recognition of qualifications given out by public and private universities in Malaysia. MQA, which will oversee the implementation of the Malaysian Qualifications Framework (MQF) and the IHL, will also be required to conform to the standards for quality assurance procedures set out in the Malaysian Qualifications Framework (MQF). Among the several courses offered by the IHL, business and management courses seem to be the most popular degree courses offered both at the undergraduate and postgraduate level, thus management education in Malaysia has been witnessing increasing growth and demand over the last two decades and the demand for management education is also expected to grow with the increase in demand for efficient and effective managers.

### **12.1 MANAGEMENT EDUCATION**

Management is an art of getting things done through people, efficiently and effectively. The study of management itself is interesting and exciting. One of the keys to successful management is the ability to understand and apply modern management principles and techniques effectively. Managers must develop an in-depth knowledge of past and present models, theories and processes to manage effectively and intelligently. Contemporary management practice is pervasive in every aspect of human life within all types of organizations.

Research in the area of management education in Malaysian context is limited as only few studies were conducted over the last five years. In one of the studies, the issue of quality and quality practices in Malaysian higher education was by Sohail, Rajadurai and Abdul Rahman (2003). Their study involves investigation of

management system prior to and after implementation of quality system for a private college in Malaysia. An earlier study was conducted by Tay (2001), which was indirectly related to management education on management perception of MBA graduates. In the international context, Adcroft, Wills and Dhaliwal (2004) conducted a study on management education and entrepreneurship in the UK, Jagdeesh (2000) made a study in the Indian context while Holian (2004) made similar study in the Australia and recently Vittala (2005) made a study on management competency model in the context of Finland, which indirectly relates to management education.

Management education is seen as a means to facilitate learning of job-related behaviours in order to improve performance and the focus has been on teaching facts, modifying attitudes and behaviours, besides developing the required managerial skills (Krishnan, 2006). Management education is the mechanism for transferring the knowledge contained within management subjects from the holder of that knowledge, the academics in the universities and institution of higher learning, to the persons desirous of receiving that knowledge (Elmuti, 2004). However, one of the great disservices of management education has been the formulation of the idea that there is an exact science of management that can be learned like engineering, science or computer programming (Trivedi & Sudarshan, 2003). As a result, management cannot be taught using the same methodologies of teaching engineering, science or computer programming.

The aim or the purpose of management education is to produce efficient, doing things right, and effective, doing right things, managers who will be able to contribute to the organizational and societal growth. Henry Mintzberg (1973), in his book the *Nature of Managerial Work* (cited in Robbins, 2003) provided ten roles of



managers play for increasing organizational effectiveness, which can be divided into interpersonal roles, informational roles and decisional roles. Interpersonal roles include the roles of managers such as figurehead, leader, and liaison roles, which arises from a manager's status and authority in an organization. Among the activities associated with these roles directly involve implementing interpersonal contact and developing relationships among people. Informational roles of the managers include monitor, disseminator, and spokesperson roles, relates to the receiving and transmitting of information, while decisional roles include entrepreneur, disturbance handler, resource allocation and negotiator roles. Decisional roles might be the most crucial part of a manager's work as performing the roles justifies the manager's great authority and his powerful access to information. Mintzberg (1973 as cited in Robbins, 2003) emphasized that these roles involved the managers in the strategy making process in their respective organization.

In order to play these roles effectively, managers need some sets of skills; Robbins (2003) also cited Robert Kaltz's (1955) three types of managerial skills, which includes technical skills, human skills and conceptual skills. Technical skills refer to the ability to apply specialized knowledge or expertise. People can learn the special knowledge and practices in their field of study through formal education in schools, and not all technical skills have to be learned in schools or formal training programs. Many people develop their technical skills on the job. A lot of technical skills related to management requires on the job training and education. A human skill is the ability to work with, understand, and motivate other people, both individually and in groups. Since managers get things done through other people, they must have good human skills to communicate, motivate, and delegate their people to achieve organizational

goals. A conceptual skill is the mental ability to analyse and diagnose complex situations. Different managers at different levels in the hierarchy of management within an organization do not need the same combination of the three sets of skills. In general, managers at lower levels need to have more technical skills while the counterparts at higher levels should have stronger conceptual skills. Management education must spring from the management roles and skills and requires mastery of the management roles and skills and not merely understanding the knowledge of management roles and skills.

Besides the pioneering work by Katz (1955), Smith, W.L., Schallenkamp, K. and Eichholz, D.E. (2007) in a recent study on entrepreneurial skills cited a study by Lyons (2002) who described four sets of essentials skills for effective and enterprising managers. His study is an extension of Katz technical, human and conceptual skills. The skills highlighted by Lyons are technical, managerial, entrepreneurial and personal mastery skills.

*Table 40 Technical skills*

<i>Number</i>	<i>Skill set</i>	<i>Description</i>
1	Operational	The skills necessary to produce the product or service
2	Supplies/Raw materials	The skills to obtain them, as necessary
3	Office or production space	The skills to match needs and availability
4	Equipment/Plant/Technology	The skills to identify and obtain them

*Table 41 Managerial skills*

<i>Number</i>	<i>Skill set</i>	<i>Description</i>
1	Management	Planning, organizing, supervising, directing, networking
2	Marketing/Sales	Identifying customers, distribution channels, supply chain
3	Financial	Managing financial resources, accounting, budgeting
4	Legal	Organization form, risk management, privacy and security

5	Administrative	People relations, advisory board relations
6	Higher-order	Learning, problem-solving

Table 42 Entrepreneurial skills

Number	Skill set	Description
1	Business concept	Business plan, presentation skills
2	Environmental scanning	Recognize market gap, exploit market opportunity
3	Advisory board and networking	Balance independence with seeking assistance

Table 43 Personal maturity skills

Number	Skill set	Description
1	Self-awareness	Ability to reflect and be introspective
2	Accountability	Ability to take responsibility for resolving a problem
3	Emotional coping	Emotional ability to cope with a problem
4	Creativity	Ability to produce a creative solution to a problem

## 12.2 BENEFITS OF MANAGEMENT EDUCATION TO ORGANIZATIONS

With the growing economy in Malaysia and its vision to become a developed country in 2020, now 2030, the need for effective management education is necessary to produce world-class managers in Malaysian organizations. As organizational failures often result from poor management skills of the managers, the need to increase managerial effectiveness is bound to benefit any organization and society. Emulti (2004) cites Longenecker and Ariss (2002) in describing the benefits of management to the organization. Management education is beneficial to organizations because an effective management education program can help organizations create competitive advantage through:

- Exposing students or managers to new/better ideas and business practices which are needed in rapidly changing business environments;
- Motivating student or managers to improve performance, both theirs and that of their operation, and actually helping them develop and improve their skills;
- Providing opportunities for reflection and self-appraisal; helping student or managers identify specific performance problems and deficiencies;
- Increasing a student or manager's confidence, reducing stress level and challenging them to think differently about their business situation and themselves; and
- Encouraging students as future managers to think about their career development and setting a good example for subordinates who see their leaders trying to learn and improve themselves through participating in management education programs.

The benefits of the management education however depend entirely on the ability of students to put what they have learned into practice depending upon the clarity and consistency of the theories, models, principles, and practices presented to them throughout the curriculum. Emiliani (2004), cited a study by Pfeffer and Fong (2002) in the American context which suggests that business school education overall has not been very effective.

The education was not found to correlate with career success, and business school research was found to have little influence on management practice. In the context of Australia, a report called "Karpin Report" released in 1995, provides detailed outcomes from a major government task force set up to identify effective management practices. The findings include recommendations as to how the tertiary education

sector could improve management education programs to better meet the needs of the industry. Among the suggestions include an increasing emphasis on soft skills, internationalization, and cross functional integration, diversity and links to industry (Holian, 2004).

In the context of Malaysia, a management practitioner from a multinational corporation based in north peninsular, commented that management theories and approaches in the textbooks contradict one another and many of these theories and approaches may not be applicable in the real workplace, he further commented that as most of the theories and approaches have the origin in the west, it might not fit into the Malaysian collectivist culture. Management lecturers and educator in the IHL can teach right and wrong of management, but ultimately it is the graduates who have to put into practice what they learned in order for the teaching to have an impact in the real world.

### **12.3 ISSUES AND PROBLEMS IN MANAGEMENT EDUCATION IN MALAYSIA**

It is probably impossible to find a perfect management education program and it is also probably impossible to find the best formula for efficient and effective management. Management effectiveness and quality of management education is a process of continuous improvement as quality is a journey and not a destination.

In Malaysia, among the key issues and problem in the management education has been the ever-increasing number of institutes and schools offering undergraduate and postgraduate courses in management education. This has raised one common question pertaining to quality of education. Although in Malaysia, there is an accreditation board called NAB (National Accreditation Board or LAN by its Malaysian acronym), which is responsible to approve and monitor the courses offered by private

institutions of higher learning, there are still many institutions, which are operating and offering programs without the NAB approval. A standard fee for a certificate program is RM 5,000, for a diploma is RM 6,000, while for a degree program is RM 7,000 and the private institutions also need to pay accreditation for the second stage of the quality process

It is important to note there are several private institutions without NAB approval cashing in on the rising demand for management education degrees and operating the programs illegally. With inadequate infrastructure, untrained academic staff, and management expertise, the institutes are displaying poor business sense ignoring the real customer, the industry or the corporate recruiter. Jagdeesh (2000) also found similar scenario in the context of Indian management education. In the case of collaboration with foreign universities, several institutions of higher learning are offering a program for which a foreign university awards a degree mostly from UK, US, Australia or New Zealand.

The attraction of foreign degrees has made many students enrol in these institutes, as in Malaysia degrees from the above-mentioned countries are always respected and reputable. This has resulted in some private institutions offering programs with a degree awarded by bogus universities or collaborator universities whose credentials are not known. The most popular programs are Bachelor of Business Administration (BBA) and Master of Business Administration (MBA). Thus, the students take a certain amount of risk when joining these programs and of course, there is no guarantee that employers will recognize these programs; moreover, the qualities of these programs are also questionable.

Jagadeesh's (2000) study in the context of India also seems to be applicable in the context of Malaysia, in terms of inability of private institutions of higher learning to attract bright students into management discipline. Bright students with good results mostly enrol in the science disciplines such as medicine or engineering and even if they enrol in a business programs their first choice seems to be accounting and finance rather than management. Although every management school in IHL would love to draw bright students, it is difficult to attract them, because they too would be evaluating the quality of institutions before joining.

Besides, if the fees charged are high, not many students may be able to enrol, thereby eroding the viability of the program. For example, the total fee for an undergraduate management degree is almost four to five times more in private institutions of higher learning compared to the public universities. This has prompted some institutions to compromise during admission itself. It is not a secret to find that many institutions tilt the admissions in favour of those with a heavy purse, ignoring their capabilities. Paradoxically enough, many bright students may not be able to join due to their no affordability of high fees and also availability of places in the public universities. Often it may not be possible to exercise strict quality control in many private institutions because, with poor quality students joining the course, maintaining high standards may lead to more failures among the students in meeting the prescribed standards. Many students may even have to drop out of the programs because of their inability to meet the minimum standard. This would result in negative publicity and may adversely affect the admissions for the coming years.

Thus, dilution of standards sets in voluntarily and almost seems inevitable in some cases. Once students with lesser capabilities are admitted, the academic staff

would be under severe strain to bring the best out of them. Again, if the assessment methods insist on high quality, many students would automatically fail to get even minimum scores or grades. Thus, to project a healthy picture and to attract student numbers, the assessment criteria are lowered leading to dilution of standards. However, when it comes to final assessment in the hands of recruiters and prospective employers, the low quality of output churned out by the private institution gets seriously exposed, putting credibility of the institutions itself at stake. However, revenue is given first priority ahead of quality, bringing down the standards and quality of management education in most cases.

In addition to the difficulty of attracting bright students, attracting good and competent academic staff also seems to be problem as remuneration in the IHL is not as attractive as in the industries. Moreover, even after recruitment, good academic staff is difficult to retain, unless they see career growth and high returns. Quite often they are head hunted by the competitors. Sometimes, people from industries get attracted towards an academic career and take up the role of lecturers and management educators, but often they find the job neither satisfactory nor challenging compared to their earlier profession, compelling them to quit the job. Another common feature is the high rate of academic staff turnover in almost all private institutions of higher learning. Many people join the profession of management education full time, but leave within a short span of one to two years.

During a discussion with an academic staff of a private institution in East Malaysia, he compared his school within the institution to a hotel where the academic staff joins checking in during the beginning of a semester and checking out when the semester ends, meaning they stay only for one semester or not more than four months.



Some common reasons identified includes disillusionment with the profession, lack of support from the top management, poor administrative support with lazy administrators, absence of autonomy in academic and non-academic matters, poor monetary rewards, work load not appealing or uninteresting, and not being able to cope with student demands. By the time an academic staff becomes acquainted with the profession or the place, he or she decides to quit in disappointment, seeking a new career. This discontinuity drastically affects the quality of functioning and efficiency of programs.

Another academic in a private institution of higher learning commented on lack of leadership in his institution. According to the academic from a private institution in northern peninsular Malaysia, poor leadership and lack of commitment and motivation from top management is one of the main reasons which creates a barrier to the growth and effectiveness of many private institutions and management school. The turnover of the principals, management staff and lecturers are high and, in his institution, there was always a farewell lunch or dinner.

He commented that a number of institutions employ retired academicians to occupy prime and decision-making positions and many of these retired academics lack vision, motivation and commitment with no interest in promoting the institutions and management education. They continue to imbue the same culture inherited from their previous organization in most cases public sector, which may not fit into the new organization especially the private institutions.

During another conversation with a renowned human resource management consultant in Malaysia recently by the author, the problem of westernized management education with continuous use of western-based teaching materials such

as the textbook, case studies, assessment instrument, etc. will not improve the management education in Malaysia. He further asserted that most Malaysian students and managers are still mentally colonized and feel that whatever from the west must be good. Management educational programs in IHL tend to place too much emphasis on western management theories and concepts, which were written, in a different cultural context.

#### **12.4 HOW MANAGEMENT EDUCATION IN MALAYSIAN IHL CAN BE IMPROVED?**

Hogan and Warrenfeltz (2003) cited in Elmuti (2004) regard education as the “end product of learning”. Thus, management education would be shaping the student’s mindset in acquiring the required knowledge, skills and abilities (KSA). In general, we find that management education views management as a discipline that can be learned through classroom, off the job. Thus, it tends to focus on the delivery of a broad range of conceptual knowledge in the various fields and functional disciplines of management.

The Ministry of Higher Education and NAB need to monitor and enforce the existing laws to prevent and close the operation of many non-accredited and illegal foreign based management educational programs at both undergraduate and postgraduate level. This is to ensure students who enrol for any management or other academic programs are ensured of good quality of education, good facilities and also value for money. This will definitely strengthen the development of Malaysia as the regional education hub.

The emphasis on western management theories and concepts used in teaching management education in Malaysian IHL is one of the problems and issues identified earlier. Therefore, the author suggests the need to increase Malaysian based

management research and textbook publications, Malaysian based case studies and even developing Malaysian management models or theories as in the case of American, Swedish, Japanese and Indian management theories. This can also help “globalization” of management education. Foreign management models can be taught in comparative management programs. The government through the Ministry of Higher Education need provide incentives to local management authors and researchers to conduct research and publish in Malaysian management contexts and Malaysian based management case studies.

Furthermore, an urgent need is required for management education offered by IHL to provide the required KSA to meet the current and future challenges and the requirements of the marketplace. There is a strong need for IHL to link with industries in terms of management research and development. The current perception in Malaysia is that IHL is not motivated to cooperate with the industries and vice versa. Apart from theoretical and foundation knowledge taught in classrooms, practical management training to undergraduate students should be made compulsory to enhance their learning experience. This can be a win-win situation for IHL and industries (Muniapan, 2003). A former Director of Human Resources for a large conglomerate in management discussions recently, suggested the possibility of bringing management practitioners into classrooms as adjunct lecturers to share real life management experiences. He asserted that when it comes to subjects like management and human resource management, inputs from practitioners would enhance and add value to the students.

Besides, in the IHL, a paradigm shift from traditional teacher or lecturer centred to student centred learning is required. This is because excellence in teaching begins

with the realization that it is not the teaching but learning that is important. The responsibilities of the IHL goes beyond the teaching management; it is to help students to develop and master various work skills such as interpersonal communication, decision-making and problem-solving skills (Muniapan, 2005). A good, strong, motivated and committed leadership is also required at IHL to attract, develop and retain good academic staffs, which eventually can contribute positively to the growth and the effectiveness of the IHL.

## **CHAPTER 13**

### **13.0 APPLICABILITY AND IMPORTANCE OF DECISION-MAKING**

The previous chapters have covered in depth the development of managers in Malaysia, history, influences education and impacts. The following chapters will focus more in depth into the strategic decision-making capabilities of these managers. The same things that have influenced the development of managers have also influenced the strategic decision-making capabilities of the managers and the economy of the companies they serve. This and the following chapters will emphasize that the strategic management of an organization is the responsibility of the top executives of that organization. By dealing with the strategic issues which face the firm on a continual basis, the strategy of the organization is developed. There is little empirical work which exists on how top executives make decisions, there is little knowledge in the area.

Research and literature on strategic management concepts started in the early nineteenth century. Malaysia have gone through stages of development and the strategic management movement in Malaysia only started to actively engage in strategic management concepts in the 21<sup>st</sup> century when Malaysia start moving toward the concept of a development nation. It would however be appropriate to spend a bit of time on the explanation of the different meanings. Each of this strategic concept is directly linked to each other. There are distinct differences between each of them. These “strategic” concepts can be placed under, strategic management, strategic planning and strategic thinking. Both strategic management and strategic planning are keys to business success in any industry, but few know the difference between the two. According to a 2009 Harvard Business Review article “Four Fatal

Flaws of Strategic Planning,” 88% of companies engage in strategic planning, yet few adequately manage their strategies, and even fewer see their goals completely met.

Strategic planning usually consists of a vision and a mission statement, a financial or operational objective, an estimate of the resources required, and a summary of how the initiative fits in with the company’s overall mission. Strategic plans are what inform action.

Strategic management is the annual cycle of strategic planning and plan implementation memorialized into an organization’s culture.

Strategic thinking on the other hand is a mental or thinking process applied by an individual in the context of achieving a goal or set of goals. As a cognitive activity, it produces thought.

When applied in an organizational strategic management process, strategic thinking involves the generation and application of unique business insights and opportunities intended to create competitive advantage for a firm or organization.<sup>438</sup> It can be done individually, as well as collaboratively among key people who can positively alter an organization's future. Group strategic thinking may create more value by enabling a proactive and creative dialogue, where individuals gain other people's perspectives on critical and complex issues. This is regarded as a benefit in highly competitive and fast-changing business landscapes.<sup>439</sup>

*“Strategic thinking should not to be confused with Strategic planning”.*

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<sup>438</sup> "What is Strategic Thinking?". harvardbusiness.org. Archived from the original on 19 August 2012. Retrieved 10 August 2012.

<sup>439</sup> "Strategic Thinking: Is Leadership the missing link An Exploratory Study" (PDF). Retrieved 10 August 2012. by Manu Amitabh, Fellow Scholar, M.D.I Gurgaon and Arun Sahay, Professor and Area Chairman, Strategy Management, M.D.I Gurgaon

The view of F. Graetz, strategic thinking and planning are “distinct, but interrelated and complementary thought processes” that must sustain and support one another for effective strategic management. Graetz model holds that the role of strategic thinking is "to seek innovation and imagine new and very different futures that may lead the company to redefine its core strategies and even its industry". Strategic planning's role is "to realize and to support strategies developed through the strategic thinking process and to integrate these backs into the business".<sup>440</sup>

According to Jeanne Liedtka, strategic thinking differs from strategic planning along the following dimensions of strategic management:<sup>441</sup>

*Table 44 Differences between strategic thinking and strategic planning*

	<b>Strategic Thinking</b>	<b>Strategic Planning</b>
<b>The vision of the Future</b>	Only the shape of the future can be predicted.	A future that is predictable and specifiable in detail.
<b>Strategic Formulation and Implementation</b>	Formulation and implementation are interactive rather than sequential and discrete.	The roles of formulation and implementation can be neatly divided.
<b>Managerial Role in Strategy Making</b>	Lower-level managers have a voice in strategy-making, as well as greater latitude to respond opportunistically to developing conditions.	Senior executives obtain the needed information from lower-level managers, and then use it to create a plan which is, in turn, disseminated to managers for implementation.
<b>Control</b>	Relies on self-reference – a sense of strategic intent and purpose embedded in the minds of managers throughout the Organisation that guides their choices on a daily basis in a process that is often difficult to measure and monitor from above.	Asserts control through measurement systems, assuming that organizations can measure and monitor important variables both accurately and quickly.

<sup>440</sup> Fiona Graetz, (2002), “Strategic Thinking versus Strategic Planning: Towards Understanding the Complementarities”, *Management Decision*, 40(5/6), 456–62.

<sup>441</sup> Jeanne Liedtka, (1998), “Linking Strategic Thinking with Strategic Planning”, *Strategy and Leadership*, 26(4), 30–35.

<b>Managerial Role in Implementation</b>	All managers understand the larger system, the connection between their roles and the functioning of that system, as well as the interdependence between the various roles that comprise the system.	Lower-level managers need only know his or her own role well and can be expected to defend only his or her own turf.
<b>Strategy Making</b>	Sees strategy and change as inescapably linked and assumes that finding new strategic options and implementing them successfully is harder and more important than evaluating them.	The challenge of setting strategic direction is primarily analytic.
<b>Process and Outcome</b>	Sees the planning process itself as a critical value-adding element.	Focus is on the creation of the plan as the ultimate objective.

Source: [https://en.wikipedia.org/wiki/Strategic\\_thinking#cite\\_note-ST-B-00-1](https://en.wikipedia.org/wiki/Strategic_thinking#cite_note-ST-B-00-1)

### 13.1 STRATEGIC PLANNING VS. STRATEGIC THINKING

Strategic planning has been criticized for attempting to systematize strategic thinking and strategy formation, which Henry Mintzberg argues are inherently creative activities involving synthesis or "connecting the dots" which cannot be systematized. Mintzberg argues that strategic planning can help coordinate planning efforts and measure progress on strategic goals, but that it occurs "around" the strategy formation process rather than within it. It functions remote from the "front lines" or contact with the competitive environment (i.e., in business, facing the customer where the effect of competition is most clearly evident) may not be effective at supporting strategy efforts.<sup>442</sup>

There is one other piece to strategic management that is critical, and that is leadership and accountability. We've all heard the three legs of the stool of leadership,

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<sup>442</sup> Mintzberg, Henry; Quinn, James B. (1996). *The Strategy Process: Concepts, Contexts, Cases*. Prentice Hall. ISBN 978-0-13-234030-4.



authority, responsibility, and accountability. Without all three, your plans will go nowhere. To be successful, we must hold our leaders accountable for the plan's execution. This is however one of the failures in the development of Malay managers as one of three legs is missing, and that is accountability.

### **13.2 STRATEGIC MANAGEMENT**

The process of strategic management of a corporation falls under the purview of top management. An organization's strategy is generally defined as the organizational effort or direction that results from the match an organization makes between its external environment and its internal structure and processes<sup>443</sup>. The top executives of an organization determine the strategic direction of the firm by dealing with strategic issues continually. Over time, how these strategic issues are resolved plays a part in determining the strategy of the organization. In the field of Management after development, strategic management, a great deal of attention has been devoted to prescribing how organizations should address strategic issues in the formulation of strategy<sup>444</sup>.

Some of the most widely recognized of these techniques and processes are portfolio theory, policy Delphi, dialectical policy analysis, and the growth-share matrix<sup>445</sup>. However, these techniques and processes are more applicable to the organizational level than the individual level. In development countries these are just western dreams. In reality, development countries like Malaysia is still follow the "gut feel" technique, the old style is still very evident and the modern way of development in strategic thinking is still in an infant stage.

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<sup>443</sup> (Ansoff, 1979; Galbraith & Nathanson, 1978; Hodgetts & Wortman, 1980; Hofer & Schendel, 1978; Mintzberg, 1978; Pearce & Robinson, 1982; Uytterhoeven, Ackerman & Rosenblum, 1977)

<sup>444</sup> (Rowe, Mason, & Dickel, 1982; Schendel & Hofer, 1979)

<sup>445</sup> (Grant & King, 1982)

Western management concepts are still not trusted. This phenomenon is clear throughout the public and private sector, even considering that the managers have received western training. The literature in strategic management which pertains to the individual top executive decision maker is, for the most part, normative and prescriptive and written for a western society. The descriptive work that exists in this area is generally of the case study nature with no additional studies to provide empirical backing.

The empirical work on individual decision-making has originated in the disciplines which deal directly with cognitive decision processes. These studies typically are concerned with individual decision-making as a generally applicable phenomenon. In other words, the studies do not focus on any single type or classification of individual decision maker such as the top executive. Failure to do this ignores the situational dynamics facing the individual which may play an important role in the decision process. By integrating these two bodies of literature in an empirical study, a basis may be provided for understanding the decision processes used by top executives in Asia to address strategic issues. Since top management is responsible for carrying out the strategic management of the organization, a better understanding of how these decisions are made under varying conditions in the external environment should lead to a more complete understanding of the strategic management process.

The Malay manager developed the concept of bounded rationality, the basic premise of which states that there are limits on the amount of knowledge available concerning alternative courses of action. This "limited knowledge" results in the decision maker selecting a satisfactory solution inside his comfort zone. Thus, decision-making behaviour was viewed as being "satisficing" as opposed to

"optimizing" in many instances. Prior to this work, decision-making had been viewed as a rational process in which an individual searched for an optimal solution to a given problem.

Subsequent research on decision-making in Malaysia and developing countries has attempted to represent decision-making behaviour under various conditions. Several models of decision-making behaviour have grown out of this research. The most notable ones that will be examined in this study are:

- (a) cost/ benefit;
- (b) additive;
- (c) additive differences;
- (d) attribute dominance;
- (e) conjunctive; and
- (f) lexicographic models<sup>446</sup>

These models may be subsumed under one of two categories: alternative-based or attribute-based.

In alternative-based decision behaviour, the total alternatives are used as the basis for making the choice. These models are similar to the optimizing behaviour discussed by March and Simon since an attempt is made to examine and evaluate all aspects of the alternatives in finding the best solution. Conversely, attribute-based decision models focus on specific attributes or some standard criterion measures as the basis for making the decision. These models are reflective of satisficing decision behaviour because only selected attributes of the alternatives are evaluated. The focus is on finding a satisfactory solution rather than the best one. This also keeps the

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<sup>446</sup> (Olshavsky, 1979; Payne, 1976, 1982)

manager in the comfort zone and the manager will not challenge the norm or look at alternatives of optimization that are directly linked to strategy.

Empirical studies on decision-making behaviour have shown that as the problem becomes more complex, individuals tend to utilize a less cognitively demanding decision process (attribute-based) as a means of resolution. Alternatively, with a less complex decision task, individuals have been more likely to use an alternative-based decision process. In summary, the decision process which is used is contingent upon the nature of the decision task at hand.

In the strategic management literature, the topic of decision-making as a contingent phenomenon has been addressed at the organizational level. Anderson and Paine (1975), Fredrickson (1983), Fredrickson and Mitchell (1984), Mintzberg (1973), and Nutt (1976) reached similar conclusions on corporate decision processes in relation to the external environment surrounding the company. Specifically, they have pointed out that decision processes based on a rational model (i.e. complex, comprehensive) are appropriate for organizations in stable environments, but are not appropriate for organizations in unstable environments.

Malays fall under the category of unstable environment. In a stable environment, the information needed to make comprehensive decisions is readily available and it is relatively easy to integrate the individual decisions into a total strategy or plan. Malay manager in the country's unstable environment, do not lend themselves to comprehensive decision-making and integration because of their uncertain and complex nature. Fredrickson (1983) found that a firm's performance will be affected if the comprehensiveness of its strategic decision process is not consistent with the nature of its environment.

Based on the study and background information upon the concept that strategic management of the organization is the responsibility of top management, the dynamics of the environment surrounding the corporation will have an impact on how Malay chief executive officers and presidents of companies address the strategic issues which they face.

## CHAPTER 14

### 14.0 STRATEGIC MANAGEMENT AND DECISION-MAKING

This chapter emphasizes the strategic management of an organization and the responsibility of the top Malay executives of that organization. The next section will also highlight the different styles of decision-making in Malay firms. The strategy of the Malay strategic organization is developed on a “knee-jerk” basis and not by dealing with the strategic issues which face the firm continually.

Recent studies on the organizational level of strategy have concluded that environmental factors do have a significant impact on the strategic decision processes of organizations and that the contingent nature of this relationship has implications for the economic performance of organizations operating under various industry conditions. In addition, studies on individual decision-making originating in the cognitive field of decision-making have shown that external factors (i.e. characteristics of the decision task) affect the type of decision-making behaviour utilized by the individual.

This study is:(a) to conduct an empirical study of the complexity of the decision-making behaviour of executives responsible for making strategic decisions; and (b) to discover what relationships, if any, exist between the interaction of Malay chief executive decision-making and the stability and/or complexity of the industry and organizational performance. This study is significant to the field of strategic management and it provides insight into how strategic issues are addressed by top executives in organizations of developing countries like Malaysia.

## 14.1 STRATEGIC DECISION-MAKING

This section is devoted to a discussion of the strategic decision-making of the Malay Manager. The first part briefly reviews some of the conclusions regarding strategic processes in organizations. Next, executive decision-making is discussed.

This review addresses:

(a) roles of executives;

(b) decision-making styles.

Finally, the environmental impact on strategic decision-making is considered. In the strategic management literature, written for the international manager, much attention has been devoted to prescribing how organizations should address strategic issues in the formulation of strategy<sup>447</sup>. Many different techniques and processes for the formulation of corporate strategy have been enumerated. Some of the most widely recognized methods are portfolio theory, policy Delphi, the business planning matrix, dialectical policy analysis, and the growth-share matrix<sup>448</sup>. These models are characteristic of the dominant school of thought regarding strategic decision-making in the west, but how does that fit into the east?

Fredrickson (1983) referred to the above-mentioned group as comprehensive models, which emphasize a rational process in dealing with strategic issues. An organization's performance will be increased if the process of strategy formulation is carried out in this manner<sup>449</sup>. However, the process was written for the west and did not have the developing country in mind. The concept was generated and the

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<sup>447</sup> (Rowe, Mason, & Dickel, 1982; Schendel & Hofer, 1979)

<sup>448</sup> (Grant & King, 1982)

<sup>449</sup> (Paine & Anderson, 1983; Schendel & Hofer, 1978)

assumption is that “one shoe fits all” Another group of strategic decision-making models is the incremental process group. Lindblom (1959) referred to the process as "muddling through".

The study will however not address these classes in detail. The study will focus on the concise decision process that centres on the development, evaluation, and selection of a strategic alternative for the Malaysian manager. While the consistent and incremental decision processes in Malaysia typify the current beliefs about how organizations and managers make strategic decisions. Some studies offer little in terms of understanding how organizations evaluate the different alternatives and select from among those alternatives. Strategic decision-making in organizations has been dominated by a highly normative stance. This is supported by stating that empirical research has essentially been limited to the comparison of firms classified as "formal" and "informal" planners. Again, this provides little information about what occurs during the strategic process.

Up to this point, this section has reviewed the general conclusions about strategic decision-making in organizations. However, the thrust of this study is to examine the strategic decision-making of executives within Malay organizations. Therefore, the remainder of this section is devoted to research on executive decision-making, problems managers face, style and comparisons in a variation of businesses. The term “executive” in Malaysia refers to the top three levels of management in large organizations, the top two levels in medium-size organizations, and perhaps only the president in small organizations.



## 14.2 EXECUTIVE DECISION-MAKING

It is the responsibility of executives to carry out the purpose or mission of the organization. They are the ones who attempt to provide solutions to problems emanating from the internal and external environments<sup>450</sup>. In short, the executives of an organization are the ultimate decision-makers for that organization and are charged with the responsibility for its eventual success or failure. Therefore, it is unfortunate that there is so little research available on how executives make decisions. What is available is a great deal of information on the roles of executives<sup>451</sup> decision-making styles of executives<sup>452</sup>, and prescriptive/ descriptive work on how decisions are or should be made <sup>453</sup>.

In this section, I will include a brief review of the major contributions to the literature on strategic decision-making. The section addresses the roles of executives and determines how they fit into a developing country like Malaysia. Executive decision-making may involve non-logical processes, but the acts of organizations are governed by organizational, not personal, goals. Three levels of management (upper, middle, and beginning) were identified as five functional areas (research and development, sales, manufacturing, general administration, and industrial relations). Lindblom (1959) discussed decision-making as an explicit function of the executive, but it differed from the conventionally held belief that executive decision-making was purposeful and rational. He concluded that the rational-comprehensive procedures were better used for small-scale problem solving where the number of variables is small and value problems are restricted.

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<sup>450</sup> (Hodgetts & Wortman, 1980, p. 44)

<sup>451</sup> (Barnard, 1938; Carlson, 1951; Hemphill, 1959; Mintzberg, 1973, 1975),

<sup>452</sup> (Guth & Taguiri, 1965; Maccoby, 1976; Miller, 1975)

<sup>453</sup> (Lindblom, 1959; Wrapp, 1967; Harvey, 1982)

The manager's job could be described in terms of "roles" or organized sets of behaviours identified with a position. Ten roles were grouped into three major categories: interpersonal, informational, and decisional. In discussing decisional roles, several observations are relevant to this study. First, the manager typically authorizes the important decisions in his or her unit before they are implemented to insure a consistent and unidirectional strategy. Second, many important authorization decisions were made on an ad hoc basis with little time devoted to quantitative decision methods. Third, the decisional roles have been implicitly acknowledged in many instances, but have not been explicitly studied.

Table 45 Categorization of Managers

Character Type	Craftsman	Jungle Fighter	Company Man	Gamesman
Typical meanings of	Drive to build	Kill or be killed	Climb or fall	Win or lose
Competition	Competition vs. self and the materials	Dominate or be dominated	Competition as the price for secure position	Triumph or humiliation
Source of Psychic Energy for	Interest in work, the goal of perfection, pleasure in building something better	Lust for power and pleasure in crushing opponent, fear of annihilation	Fear of failure, desire for approval by the authority	The contest, new plays, pleasure in controlling the play
Competitive Drive		Wish to be the only one at the top		

Source: Michael Maccoby. *The Gamesman*, New York: Simon & Schuster, 1976, p. 106

The decision-making behaviour of executives is essentially a function of the culture. Analysing personality traits, Miller (1975) suggested that top management

traits such as arbitrary risk-taking and conservatism were significant in determining the success of the firm. According to Higgins (1983), this study implies " . . . that the human variable may be an important predictor of strategic success and that therefore strategic success may be contingent upon this variable".

Finally, there are prescriptive and descriptive studies on decision-making. In 1967, Wrapp addressed the descriptive area: Many of the articles about successful executives picture them as great thinkers who sit at their desks drafting master blueprints for their companies. The successful top executives I have seen at work do not operate this way. Rather than produce a full-grown decision tree, they start with a twig, help it grow, and ease themselves out on the limbs only after they have tested to see how much weight the limbs can stand.

As a norm in Malaysia the trained general manager tested each proposal against at least three major criteria:

- (a) Will the proposal move the organization closer to the objectives they have in mind?
- (b) How will the proposal be received by various groups and subgroups in the organization?
- (c) How does the proposal relate to programs already in process or currently proposed?

He implied that the decision-making process of an executive is less than rational, but that he or she does have an ulterior set of objectives against which to evaluate various issues. The prescriptive techniques such as portfolio theory, policy Delphi, the business planning matrix, dialectical policy analysis, and the growth share matrix have been offered as bases for executive decision-making, but these methods

have had little testing at the individual executive level, other than some classification studies.

There is a paucity of empirical research which addresses exactly how executives make decisions on strategic issues and alternatives. What does exist are conceptual and descriptive pieces on the nature of work which executives perform and their role in the organization. The remainder of this section is devoted to looking at the environmental impact on strategic decision-making.

### **14.3 ENVIRONMENTAL IMPACT ON STRATEGIC DECISION-MAKING**

In Malaysia the effect of the external environment on strategy formulation is very obvious. The past history of Malay manager development was impacted by not just the environment but also by the government, affirmative action, the organization and its structure. This section will first examine some of the major conclusions from literature (mostly based on the work by organizational theorists) and then move on to those dealing with the relationship between environment and strategic decision-making to get some understanding on how it impacts the Malay manager. The following section will reflect the impacts on and shortcoming of the Malay manager.

The impact of the external environment has been a subject dealt with in the management literature since the middle nineteen sixties. The emphasis has been on viewing organizations as open systems which were impacted by, and had an impact on, the external environment. Emery and Trist (1965) were among the first to examine this relationship. They suggested that the change in the environment, particularly the increasing complexity of the environment, was a necessary area of study if organizational theorists were to continue to advance their understanding of organizational change. They discussed four ideal types of environment :(a) placid; (b)

randomized; (c) disturbed-reactive; and (d) turbulent. One major conclusion was that a better understanding of the external environment will lead to a better understanding of the exchanges that take place between an organization and its environment, since the causal texture of the external environment is often a governing factor in these exchanges.

The relationship between environmental complexity, environmental change rate, and environmental routineness correlated with the organizational variables of perceived environmental uncertainty, structure, time perspective taken in planning, and frequency of changes in plans. The environmental characteristics "were shown to be significant predictors of variations in perceived environmental uncertainty, departmental structure, time perspective taken in planning, and frequency of changes to plans". More specifically, if the degree of perceived environmental uncertainty is low, a more rigid or mechanistic structure is appropriate. In contrast, organizational units operating in a highly unstable and uncertain environment were forced to resort to shorter-range strategies with more frequent modifications. Even though the study did not explicitly examine the impact of the fit between environmental characteristics and organizational variables in light of the effectiveness of the organization.

A more recent empirical study by Lenz (1980) of savings and loan associations did explicitly address the notion of organizational performance. He hypothesized that the performance of an organization varied according to a firm's combination of environment, strategy, and organizational structure. The factors which represented these variables were socio-economic development of the area, financial services mix, and configuration of the administrative hierarchy, respectively. The single performance measure used in the study was return on average assets. Using a

stepwise discriminant function analysis, it was found that the high performing firms differed from the low performing firms in their environment-strategy-organization structure combinations, although none of the variables individually was sufficient to explain differences in performance.

In a study dealing directly with strategic decision processes, Fredrickson and Mitchell (1984) examined an unstable industry, the forest products industry in Malaysia, (Dess, 1980), in looking at the relationship between the comprehensiveness of the strategic decision process and the performance of the firm. Based on the conclusions, several points were made : (a) the environment often appears as a hypothesized contingency in the strategy process literature; (b ) it is easier to identify critical variables in a stable environment thereby making it possible to develop a rational, comprehensive theory regarding the relationship between those variables and the organization at a level of certainty that cannot be obtained in unstable environments; and (c) a firm that uses a non-comprehensive strategic decision process is better equipped to deal with an unstable environment than a firm which uses a comprehensive strategic decision process. Based on the preceding points, it was hypothesized that, there will be a negative relationship between the comprehensiveness of strategic decision processes and performance in an unstable environment. A positive relationship would be expected in a stable environment.

Comprehensiveness, as defined here, is the degree of integration of individual decisions into an overall strategy. .

#### **14.4 THE MODEL**

The Hodgetts and Wortman model of strategic management is used as a point of departure here for two reasons: (a) it deals with the functions of the top-level

executive, which is the focus of this study; and (b) it is a process rather than a content model--which is also appropriate because this is a study of the executive process (i.e. decision-making).

Since strategic decisions are those which enable the organization to meet the opportunities and threats in the external environment, it is logical to study decision-making by the chief executive officer in light of the nature of the external environment. This section focuses specifically on two areas in the external environment: the degree of stability, measured perceptually and objectively, and the degree of complexity, also measured perceptually and objectively. It is clear that these two factors may have implications for the generation of alternatives, the complexity of the decision-making behaviour of the chief executive, and the resulting performance of the firm.

Based on the review of the literature, it is conceivable that the impact of the environmental factors of stability and complexity could occur at several places in the process (i.e. generation of alternatives, decision-making, or moderating the relationship between decision-making and economic performance). For this reason, these three possible relationships with the external environment are examined, the formulation dimension focuses on the chief executive's response to a given strategic issue in terms of the number of alternatives that are generated to address the issue and then the decision-making process used to select from among those alternatives.

#### **14.5 A CONCEPTUAL PERSPECTIVE OF MALAYSIAN ORGANIZATIONS**

Strategic decision-making has been viewed as an important aspect among managers in an organization. The Managers are required to make strategic decisions that have an impact on their organization's performance. This conceptual paper will

give an overview of strategic decision-making in the context on Malaysian environment.

The organization's performance has been measured substantially based on their profit achievement. None of any organizations wanted to have losses being marked for their business operations during the given accounting period. Thus, managers in the organizations were urged to make profit in the course of business operations, and at the end of their business accounting period. This profit achievement will be the benchmark for the board and top management to recognize their managers' efforts in making profitable business arrangements and deals.

Behind those profits, managers have to make strategic decisions in charting their organization's path in achieving its objectives as directed by the board and top management. Managers needed substantial information in order for them to make a sound business decision. Although, the managers had substantial information prior to make decisions, they may not come up with the right or perfect strategic decision-making for the organizations. Thus, these poor business operations will be reflected in the company's profit and loss account. Nevertheless, managers made decisions affecting the organization daily and communicate those decisions to other organization members.<sup>454</sup>

As stated by Astley and Van de Ven (1983) in Burke and Steensma, (1998) that decision makers have significant influence on a firm's performance. Thus, the focus of this paper is to evaluate the strategic decision-making practices among managers toward organization's performance. Profile of managers and strategic decision-making practices will be generated and evaluated. Moreover, this paper will

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<sup>454</sup> Zaleznik, 1989 and Main & Lambert, 1998 in Certo, 2003



give the insight of strategic decision-making practices among managers in the Malaysian organizations. How do managers exercise their strategic decision-making practices in relation to the organization's performance?

Strategic decision-makings and managers cannot be separated. They go inline together. Moreover, with the organization's concern on the firm performance, strategic decision-makings are considered crucial to managers that manage the organization. They have to make sound decisions in order to ensure the organization that they work with will manage the turbulences of business. Moreover, due to the demands of globalization, managers have to make several strategic decision-makings in their managerial functions.

Nevertheless, managers are affected with several factors in their strategic decision-makings for organization. These factors will directly and indirectly affect their wellbeing of the organization. As such various studies were conducted in looking into various aspects and factors in relation to managers, strategic decision-makings, and firm performance.

Some researchers will relate managers with the factors in relation to their strategic decision-makings. They studied factors in relation to strategic decision-makings and organization performance<sup>455</sup>.

Moderating factors between strategic decision-makings and organization performance will be incorporated as such decision support systems<sup>456</sup>, organizational

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<sup>455</sup>(Hambrick and Mason, 1984; Byars, 1987; Provan, 1989; Lloyd, 1990; Priem, 1990; Mahmood and Mann, 1993; Barton and Martin, 1994; Bartol and Martin, 1994; Crook, Pearce and Robinson, 1997; Burke and Steensma, 1998; Kang and Sorenson, 1999; Winter-Ebmer and Zweimuller, 1999; Tsekouras et al., 2002; McNamara, Luce, and Tompson, 2002; Lee and Bose, 2002; Kannan and Tan, 2003; Certo, 2003; Roberto, 2003; Ketchen, and Snow, 2003; Rausch, 1996; Vroom, 2003; Foster, Beaujanot, and Zuniga , 2002; Skaggs and Youndt, 2004; Jurkiewicz and Giacalone, 2004; and Kotey, 2005; and Robbins and Coulter, 2005).

<sup>456</sup> So, and Smith, 2003; Bounds, Dobbins, & Fowler, 1995; and Majchrzak and Gasser, 2000

structure, and strategic reference point<sup>457</sup>. These moderating factors will be the catalyst between strategic decision-makings and organization performance.

Unfortunately, there is lack of in-depth on managers' strategic decision-makings toward organization performance in the Malaysian context. This gives an opportunity for this research to be conducted with the intention of building the body of knowledge in the Malaysian business environment. Moreover, the integration of the above factors that influence managers' strategic decision-makings are also lacking. This research will fill the gap of integrating several factors that influence individual managers in their strategic decision-makings.

#### **14.6 DECISION-MAKING MODEL AT THE LOCAL GOVERNMENT LEVEL.**

The section will highlight a decision-making model that was proposed to a local City Council in the state of Kuantan. The new proposed for "Majlis Perbandaran" (City Council) was made to improve the decision-making process. The subject matter of the decision-making process is far wider than the traditional coverage of the study of local government. Internal and external factors and the complexity of the processes at various levels are recognized as significant contributors to the process of policy-making. An attempt to understand this process, based on the conceptual and theoretical framework, and the formulation of a set of decision guidelines under a new proposed model by interviewing a group of Councillors from Kuantan Municipality Council. Specifically, it attempts to understand the role of Councillors. the level of decision-makers in the local governments, the local government system and the factors that influence them in making the right decision.

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<sup>457</sup> Bounds, Dobbins, & Fowler, 1995; and Kang and Sorensen, (1999), Bamberger and Fiegenbaum, (1996), Fiegenbaum, Hart, and Schendel, (1996).

The new factors that developed from this would contribute to the formulation of a framework for decision-making in the government sector. The findings presented are derived from those meetings and support input from other parties such as politicians, planners and academicians. The interpretation of the Councillor's response to certain questions was descriptively analysed. One striking conclusion that can be derived from the findings is that Councillors have no clear guidelines to assist them in making the right decision on the council's matter. By using a new process that is based on the 13 factors as decision guidelines, they believed and agreed that will make their decisions fundamentally more accurate and focused.

In future research, improvements could be applied by councillors in ensuring the current process of decision-making at the local government level is more inclusive and effective by enhancing the role of Councillors and strengthening strategic partnerships by collaborating with other focus groups.

The power of relationships in urban planning has tended to focus on a narrow definition of power rather than using power as the central concept in the explanation of the decision-making process and formulation of planning policies. More recently, attempts have been made to imply a deeper understanding of theories of planning within a broader social context, and not only deal with question of 'who governs?' In the field of local government studies<sup>458</sup>, claimed that there was a lack of 'models and, or theories which could guide research into local government'.

Much of this work is preoccupied with the 'recruitment and background of councillors' with little or no mention on how officials influence decisions and adopts a very narrow definition of local government. Instead of building theory the case-studies

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<sup>458</sup> Rhodes, 1975: 48

often did little more than restate the orthodoxies, clichés and half-truths surrounding local government. The changing in the social class of councillors have been discussed, hinting at declining councillor calibre, commented on how party politics first entered local government then radically, probably adversely, altered the style of decision-making and re-affirmed the belief that elected members are to make decisions, while officials are to implement them.

Even though very few studies of local government councillors are available there is little doubt that more is known about the roles, values and attitudes of elected members than about any other component of local government. The traditional studies of councillors examining the relationship between councillors, parties, officials and interest groups<sup>459</sup> have led to the evolution of interesting but ultimately disappointing models of political behaviour in local government. In general, the application of role orientation models is particularly inappropriate when used to explain planning decisions beyond detail issues (Dunleavy, 1980).

The focus on councillor role orientation and formal political groups assumes that power or influence is concentrated in one, easily recognizable, arena-the council chamber and the political party<sup>460</sup>. It is assumed that local representative is collectively and continuously involved in the process of policy-making. Currently we are witnessing significant changes in the nature of policy making and management in local government. Essentially, these changes represent a move away from the relatively passive approach towards a more purposeful approach in which local authorities

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<sup>459</sup> Lee, 1963; Rees & Smith, 1964; Newton, 1976; Collins, 1978

<sup>460</sup> 1 [www.iiste.org](http://www.iiste.org) Journal of Economics and Sustainable Development ISSN 2222-1700 (Paper), ISSN 2222-2855 (Online) Vol. 6, No. 1,

attempt to learn about the nature and causes of local problems and to respond accordingly (Hambleton, 1978).

Therefore, what is required is a theoretical framework that could explain and relates the concept of planning to the concept of power, and seeks an explanation of decision-making process. The organizational changes and complex interaction in local government that involve politicians, planners, officers and decision-making bring about the important of current practices and evaluating future changes.

The public administration approach was first supplemented by political scientists who examined local authorities as political systems in their own right: the political scientists are now joined by social theorists who seek to penetrate the complex relationships underlying the provision of public services at a local level. Attempts are being made to locate general explanations within wider theories of state (Hampton, 1970).

Local government has also been defined in terms of wider political values, by referring to the dispersal of power from the centre to the localities. Sharpe (1979) has criticized this view on the ground that local authorities are not immune from arbitrary tendencies. One of the claims is precisely that services may be varied to suit conditions in different localities. But the local government may enhance equally by providing access to political activity for wider groups of people that are accommodated through national politics. Therefore, the subject of the new urban politics is far wider than the traditional coverage of the study of local government. Economic forces, regional agencies for the administration of public services, and the complex interaction of government bodies at various levels are recognized as significant contributors to the process of urban policy-making (Hampton, 1970). The objectives of the research

are to search for a theoretical framework which might lead to a better understanding and analysis of decision-making processes at the local.

For a long time, most attention was paid to the relationship between the council and the administration, and to the political control of administration. Since the late 1990, there has been growing pressure to reform the institutional basis for local politics, as well as internal processes and structures. As a result, the growing of participatory approach and economization of local politics are apparent in the mineralization of local public administration as well as in the establishment of competitive structures. The overall impression is that administrative action has become more efficient.

Administrative, Theories and Politics were the general principles of the administrative organization, which were first subjected to systematic theorizing by the Frenchman Henri Fayol, who considered that his principles applied equally to industrial and public organizations. Theories of public administration were further developed by James Mooney, Luther Gulick, L.F. Urwick, and a number of other writers (Peter, 1972). Favour and the other theorists did far more than point out obvious defects. One of the main contributions was to promote the use of certain management techniques, such as reporting, accounting and budgeting, in which public administration was deficient. They also believe that they could furnish a more comprehensive set of principles for arranging the formal structure of administration (Peter, 1972).

However, each governmental organization occupies a unique place in the social, economic, and political life of the nation that conditions its internal organization and manner of operation. Each must maintain a long-run equilibrium with its

environment by taking in some resources such as money, personal skills, legal power, and information and producing the goods and services expected of it to the satisfaction of the public and policymakers. Internally, public organizations are populated by officials with diverse identities and motives that may promote or hinder achievement of the collective mission.

Conflict often arises because of incompatibility of these motives (William, 1996). On the other hand, management theorists and experts are usually concerned to promote some concept of administrative efficiency, and organizational analysis is seen mainly as a prelude to suitable prescriptions. The tension between 'administrative accountability' and 'administrative effectiveness' is implicit in these different viewpoints (Peter, 1972:).

Fuller's understanding of social behaviour suggests that organizations can generally function at least as effectively, and can provide better personal satisfaction to their members when structured more flexibly<sup>461</sup>. Other factors besides formal structure holds an organization together and enable it to work harmoniously, and some of these factors (such as the shared beliefs of managers or administrators) may be more important (Peter, 1972).

The theorists of municipal reform went on to play a notable part in overhauling the structure of Federal and State governments. The reform movement worked under the impetus of Woodrow Wilson's dictum that it was possible to achieve a self-sufficient 'science' of administrative means, so constructed as to leave administrators perfectly amenable to political leadership (of any type) while remaining free of political considerations in the conduct of their work. Wilson's theories may have been naïve,

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<sup>461</sup> [www.iiste.org](http://www.iiste.org) Journal of Economics and Sustainable Development ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol. 6, No. 1, 2015

but they provided an ideological basis for measures which most people approved; namely the curbing of political patronage, the advancement of professional skills, and a tighter framework on internal administrative co-ordination (Peter, 1972:).

The Urban Politics and Urban Theories Studies of urban politics are divided between those who focus on urban social movements and see urban politics as defined by grassroots 'activism', and those who are preoccupied with patronage and who see urban politics as characterized by inertia and 'clientelism' The interesting issue is whether 'certain conditions are conducive to more or less participation, different forms of conflict and cooperation, changing arrangements of power and so forth.<sup>462</sup> Public choice, sometimes referred to as 'rational choice' (Almond, 1990) or 'social choice' is a theory of political behaviour inspired by neo-classical economic models. Its principal assumptions are that human agents are utility maximizers who will seek to make choices that are optimal in terms of the net payback to the individual or the group where the group is acting in concert.

This assumption, following Schumpeter (1987) holds that voters' political preferences are set in relation to the political offers (or policies) put forward by political parties in a plural democracy (Parker, 2004: 123). The elitist theory of urban power identified by Beall (2009) in Atlanta found that most important city decisions were made by informal consensus between economic elites drawn mainly from business and industrial circles. Formal governmental decision-makers, including the mayor, were only peripheral actors until the stage of implementation was reached. In contrast, the plural model of community power advanced by Dahl (1961) holds that power is dispersed, with different elite's dominant at different times over different issues.

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<sup>462</sup> Walton, 1998: 460-462; Beall, 2009



Robert Dahl, the American political scientist, in his 1961 study of New Haven, Connecticut, is still cited as the definitive text for what has become known as the 'classic pluralist' account of urban government (Dahl, 1961). He did discover an oligarchic and elitist policy in the New Haven of the eighteenth and nineteenth centuries, but into the twentieth century he argued that the leadership of the city had become increasingly pluralistic and diverse. Dahl further claimed that while inequality at the level of the individual certainly existed and carried over to the political level, he also believed that group mobilization and the competition and coalition-forming behaviour this engendered ensured no one group could monopolize power for long.

Literature of recent years showing that politics and administration are inseparable has no doubt helped to convince city planners that they are ethically justified in playing the political game (Altshuler, 1973). They are less confident of their own infallibility and more respectful of the value of the political process. Moreover, they believe that they cannot be judged as planners without an assessment of their influence on community decisions.

#### **14.7 DECISION- MAKING PROCESS**

One of the most important dimensions of organizations is decision-making. How decisions are made, by what standards, at what cost, and for whose benefit are questions of continuing interest. Decision-making is the process of choosing among alternatives in order to satisfy the objectives or meet the criteria of the decision goal. Nobel Laureate Herbert Simon, an economist who dedicated his career to the study of decision processes, wrote that "the whole process of managerial decision-making is synonymous with the practice of management". Decisions are affected by many

other factors, including rulings by the courts, societal values, economic conditions, and the values of the people involved in decision-making processes.

Decision-Making Models and the traditional managerial approach of public administration focuses on the need for rationality in decision-making. It seeks to enable public administrators to make decisions in the most efficient, economical, and effective manner. One of the earliest models in public choice theory, as applied to urban decision-making, was provided by Tiebout in the 1950 (Parker, 2004). In his analysis, residents of the city can be parcelled into groups of consumers with different sets of tax (price) and public goods (product) preferences. He argued that market responsiveness worked best in societies where municipal administrations are smaller because where there is a plurality of local suppliers of public services, it is easier to match tax and service levels with the demands of a discrete population<sup>463</sup>.

In a behavioural context, the generalist administrator is mainly involved in making decisions by determining the operating policies of the organization and the best ways of achieving its major programs. While, this is a complex process involving facts, values, and unanticipated consequences, the administrator always oversimplifies the process by abstracting only a few of the many factors that impinge upon the decision (John & Robert, 1967). Although decisions are often regarded as the product of an individual mind, organizational decision-making is usually a collective process, the result of the combined efforts of many individuals at many different levels in the hierarchy.

The administrator, in effect, chooses among recommendations submitted to him by specialists who have traced through several alternatives, marshalled

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<sup>463</sup> [www.iiste.org](http://www.iiste.org) Journal of Economics and Sustainable Development ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol. 6, No. 1, 2015

supporting evidence, and indicated as best they can the probable consequences of each alternative (John & Robert, 1967). There are two major types of decisions involving organizations; organizational decisions, which are reflected in the output or policies that are generated, and internal decisions that affect day-to-day operations within the organization.

Organizational decisions may be thought of in terms of the political model. Decisions are affected by many other factors, including rulings by the courts, societal values, economic conditions, and the values of the people involved in decision-making processes. On the other hand, internal decisions refer to those decisions that managers and administrators make regularly in the daily course of their work. These decisions may not affect major policy matters that go beyond the organization. Regardless of the type of a decision, models of decision-making provide frameworks to illustrate how individuals and groups make decisions in organizations (Jeffrey, 2005). The decisions and the processes involved in making them are not limited to the individual but are also performed at the group level.

Group decision-making is defined as the process of judgment based on the input of multiple individuals. Since the resources involved in the group decision-making process as well as the impact of these decisions affect organisational performance, it is crucial to make the group decision-making process as efficient and effective as possible. Utilizing a decision-making model is a systematic way of establishing group decision-making proficiency (Ryan, 1996). The basic principles of scientific decision-making produce a model with the following characteristics: 'identification of needs/problems; setting the objectives; identification of choices;

evaluation of alternatives; choice of preferred alternatives; implementation; and monitoring feedback and review.<sup>464</sup>

The Rational Decision-Making Model is an important figure in the history of administrative theory Herbert Simon, whose influential *Administrative Behaviour* first appeared in 1945, after effectively exposing the contradictions of the scientific administration school. Simon sought an alternative approach to administrative efficiency through the design of a rational model of decision-making. In doing so, he moved away from his predecessors' direct concern with matters which, however disputable, are of obvious practical concern to administrators, to go into the bylaws of logical and psychological theorizing.

However, Simon hoped to find an adequate framework for the extensive use of behavioural research and quantitative measurement, and his search and its contributions have some affinity with the application of modern social science to questions of the organization (Peter, 1972) This states that in any situation an administrator ought ideally to examine all possible courses of action open to him, trace through the consequences of each alternative. He should then choose the course of action that is expected to provide the greatest net satisfaction. The basis of the rational problem-solving process is the economic assumption that people attempt to maximize their outcomes when they make choices. Theoretically, people select a criterion, such as income or profit, then evaluate all decision alternatives in terms of that criterion, and finally select the alternative that will produce the best results (Peter, 1972).

Simon argued that maximizing outcomes is simply not possible in most situations and identified several reasons that it is usually impossible, "There are time

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<sup>464</sup> Leach & Stewart, 1982:

limits for making most decisions, and there are only so many resources available to gather information”. Even if we had access to unlimited information about any problem, there are cognitive limits to how much information we can process at any given time. Putting all these constraints together, Simon argued that human beings attempt to be rational, but they can be rational only within certain limits or bounds. What Simon called ‘bounded rationality suggests that choices will be evaluated, but only within the bounds of these constraints. This result is in a ‘satisfying’ criterion for evaluating alternatives, rather than in a maximizing one. Thus, the rational decision-making process can be considered a prescriptive model that tells us what we should do to make better decisions, but it does not give us an accurate picture of how human beings make decisions<sup>465</sup>.

The inadequacies of the rational-comprehensive model led Herbert Simon to develop his idea of ‘bounded rationality. Simon compared ‘economic man’ to an ‘administrative man’ and determined that the idea of a maximizing decision maker was simply unrealistic. Economists later added various other strategies, such as the idea that decision-makers may try to minimize an outcome or the effects associated with an outcome, rather than always trying to maximize the outcome. Simon argued that because of time constraints and incomplete data, decision-makers only seek to ‘satisfy’ when selecting alternatives for their decisions.

That is, rather than evaluating all the possibilities, they simply search until they find a solution that satisfies their needs. They will stop searching for potential solutions once they reach this point, then a decision is made, and administrators will not expend any more time on this particular problem. This does not mean that decision-makers

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<sup>465</sup> Robert & Janet, 2006: 353-354. [www.iiste.org](http://www.iiste.org) Journal of Economics and Sustainable Development, ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol. 6, No. 1,

do not make rational decisions; it means that their rationality is limited because of environmental restrictions and their ability to process and handle information. Thus, decisions are rational (they are made with the idea that they will achieve desired goals), but are a limited rather than a comprehensive form of rationality. (Jeffrey, 2005)

The Incremental Model of Decision-Making is one alternative model of decision-making in the public sector claims to be both prescriptive and descriptive, and less formal procedure. The model has been called as 'incremental model of decision-making' (Lindblom, 1973). Charles Lindblom's incremental model of decision-making assumes that most governmental decisions usually away from that position. For example, in making a case for new program managers often talk is about how a new idea can be built on existing strengths.

This descriptive aspect of model has a similar ring, but in a curious twist. Lindblom also suggests that the incremental model may even make sense normatively. Because incremental proposals focus on well-known experiences, they reduce the number of alternatives to be considered and thus reduce the complexity of the problem at hand (Robert & Janer, 2006: 354). It is a means of proceeding when the goals are not precise, the evidence and alternatives are incomplete, and political controversy will inevitably shape the final decisions.

The model has a short time horizon. No effort is made to commit the government for many years, where the future is seen as too uncertain for that. Rather, the intent is to act in the light of today's understanding and after observing results for a year or a similarly short period, to return, and to adjust the program accordingly. If the participants agree on developing it further, they take the next incremental step. Otherwise they pause or move in another direction. Here too, they satisfy making a

choice that is 'good enough' for the situation (Jeffrey, 2005). The incremental method is also a democratic way of attaining consensus among persons who do not fully agree on the goals or on the means of putting them into effect.

The method is openly pluralistic and assumes it is both necessary and desirable to preserve multiple centres of power while making the decisions the public requires (William, 1996). The incremental model of decision-making comports with the political approach to public administration. It stresses the need for public administrators to be responsive to the political community, to be politically representative of the groups that constitute it, and to be accountable to elected officials. These values dictate that administrative decision-making should involve public participation, that public administration should be based on the development of political coalitions and political consensus, and that it should allow inept, political officials not only to give direction to public administrators but also to exert pressure on them to decide in favour of one policy application or another<sup>466</sup>.

The model recognizes that policy objectives may be too unclear to serve as ends in any operational sense. Consequently, the ends of government policy are often defined by the means available to an agency for moving in some general policy direction. It recognizes that it is politically impracticable to reform the personnel system in one fell swoop, but eventually greater equality of opportunity or social representation can be achieved by developing limited programs toward those ends. Means and ends are treated as packages more or less acceptable to relevant communities of interest. The package that is most acceptable is typically considered the best approach. In this

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<sup>466</sup> Rosenbloom & Kravchuk, 2005: 322-323

sense, representativeness and responsiveness dominate efficiency, economy, and effectiveness as the values to be sought in choosing means.

Administrative decision makers are taking that the incremental approach will consider a few means-ends packages and select one which is satisfactory. Little or no effort is made to reach an optimum decision to maximize the pertinent values. According to Herbert A. Simon's concept of 'satisfying,' it is not rational even to attempt to maximize any given set of values. Rather, decisions are guided by past practice and tend not to rely heavily on theory. However, a substantial degree of comprehensiveness may be built into the incremental decision-making model by encouraging the participation of relevant interest groups, other agencies, members of the legislature, and concerned individuals in the process of deciding on a policy<sup>467</sup>.

The Governmental-Politics Model is a model that views decisions as the product of bargaining that takes place among many influential participants is called the 'governmental-politics model of decision-making. It focuses on the 'perceptions, motivations, positions, power, and manoeuvres of the players', who differ in ability to shape the outcome (Allison, 1971). It is as much a way of deciding who governs in a highly competitive environment as it is of setting substantive issues (William, 1996: 283). The decision makers are motivated by and act on their own needs and choices. This process involves a cycle of bargaining among the decision makers in order for each one to try to get his or her perspective.

More specifically, this process involves each decision-maker trying to sway powerful people within the situation that adopt his or her viewpoint and influence the remaining decision-makers (Allison, 1971). The political model does not involve

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<sup>467</sup> Rosenbloom 5 [www.iiste.org](http://www.iiste.org) Journal of Economics and Sustainable Development ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol. 6, No. 1, 2015 & Kravchuk, 2005: 327-329).



making full information available or a focus on the optimal viewpoint like those rational models (Lyles & Thomas 1988). Full information is highly unlikely since the political model operates based upon negotiation that is often influenced by power and favours. Information is often withheld to better manoeuvre a given perspective. The information is often withheld and subsequently incomplete, the optimal view point is not a key aspect of this model. The advantages of the political model remain that it provides a representation of the subjective manner in which the real world operates, and it can minimize conflict. Conflict is also minimized by the swaying of powerful people to support a particular viewpoint. Once the powerful people support this perspective, other group members usually fall in line behind them.

Decision-Making in Local Government and much attention has been focused in recent years on the basic challenge of planning in a democratic society. How can those who are elected to exercise choice on our behalf preserve and extend their capacity to choose discriminatingly, when the sheer complexity of the issues facing them tends all the time to make them increasingly dependent on the skills and judgments of their professional advisers? (Friend & Jessop, 1971).

Decision-making in local government addresses itself in particular to those more strategic levels of choice which tend to be linked with the terms 'planning' and 'policy-making' and to impinge on the future physical and social development of local communities in a variety of ways which may be only imperfectly understood. Any organization tends to develop certain methods to assist it in taking decisions which, even if they are ill formulated, can be thought of collectively as forming a 'technology of choice'. The planning process in local government requires a technology of choice

that explicitly recognizes the particular types of challenge posed at this level. These include the difficulty of isolating one decision from another.

The difficulty of appreciating what range of solutions may be possible, the difficulty of making value judgments when confronted with a wide range of social effects, and the difficulty of striking a balance between the pressures for early commitment and the flexibility to adapt to unforeseen circumstances. If such a technology is to be consistent with the principle of democratic control, new approaches will be necessary of internal organization and communication within local authorities (Friend & Jessop, 1971). Therefore, any form of planning activity by a local authority must take place within a procedural setting which is laid down in the standing orders of council and in more specific instructions to individual committees.

The formal sequence of steps in the decision-making process in any local authority in the United Kingdom can be summarized in three different stages; departmental processes, committee processes, and council processes. In some cases, the formal processes of decision may become more complicated because of the involvement of more than one department or a requirement for formal approval of a proposal by more than one committee. If the committee fails to reach decision, two possibilities could occur. That the matter may be referred to a senior committee because it raises issues which the committee does not feel competent to settle on its own, or that it may be referred back to the chief officer to be raised again at a later meeting after further assessments within his department.

Assuming that a decision is eventually reached, either by the committee in question or by a senior committee, the decision will then be submitted to the full council at its next meeting for endorsement by a majority vote of council members or – in the

case of a decision taken under delegated powers where council endorsement is necessary – to allow other members of the council to ask any questions about the matter concerned.<sup>468</sup>

More attempts to categorize the roles councillors undertake, whilst separating what they do and where they say they place most priority, or gain the most satisfaction, have failed to adequately account for what councillors mean by representation or for the role of the party group within it. Councillor roles have traditionally been defined around issues of representation and policy-making. These have categorized Councillors as the representative, the specialized policy-maker and the broad policy-maker.

Four of the Councillors reported being in the business profession. The other two were reported to be a teacher and full-time politicians, accordingly. Most of the Councillors hold either diploma on the 1st of September 1979, Majlis Bandaran Kuantan was upgraded to Majlis Perbandaran Kuantan (Kuantan Municipal Council) based on the Local Government's Act (Act 171) which remains as to this day. The administration area of the Kuantan Municipal Council has been expanded to 324 Km square which covered four districts comprising of Kuala Kuantan, Ulu Kuantan, Beserah and Sungai Karang. This is 10% of the whole area of Kuantan town. Out of that, 20% is a taxable area which provides city council service while the rest are developing areas. Degree as their highest educational achievement, and served more than three years as a Counsellor.

It is interesting to notes that all of them hold the highest-ranking post in the political parties, either at the division level or the state level, for at least more than

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<sup>468</sup> [www.iiste.org](http://www.iiste.org) Journal of Economics and Sustainable Development ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol. 6, No. 1, 2015 4.0

three years. In general, the profiles reflected the acceptable level of qualification of Councillors that been imposed as one of the conditions for the appointment. Local Government Act 1976 (Act 171) states that "Councillors of the local authority shall be appointed from among persons the majority of whom shall be persons ordinarily residents in the local authority area who in the opinion of the state authority have wide experience in local government affairs or who have achieved distinction in any profession, commerce or industry, or are otherwise capable of representing the interests of their communities in the local authority level".

The above finding reflects the definite answers to some of the confusion on the question of whom or what the councillor represents amounts to 'representative failure', and a weakening of the link between Councillors and their wards or divisions. They are expected to represent the interests of at least three distinct concerns they must balance these interests, arbitrate between them and act accordingly. The people are best served by the Councillor's own party securing electoral victory or been appointed by the authority (State Government) and act as a coherent unit to pursue the policies to which the electorate have given their support. Such an approach to representation, based on party notions of an electoral or appointed platform, simply serves to ensure the answer to the question what does the Councillor represent is: the party, as suggested by Copus (2004).

Many critics feel that the appointment of the Councillors defeats the whole purpose of having people's representatives at the local authority as the Councillors are chosen by the government based on loyalty to the ruling party (Tawie, 2010), and not because of their merits gained from working experiences at the grass root communities. This profile's observation also implies what Hampton (1970) described,

based on his research in Sheffield, that a Councillor needs to have no relationship, other than questionable loyalty, with the ward or divisions they represent. As it is a political label rather than the candidate's local profile that is instrumental in securing electoral success, it follows that loyalty is to the party and, more importantly, to the party group. At least in urban areas, it is only after the election that the Councillor may develop a local profile and area loyalty. Such loyalty may, however, be severely tested if a divergence of opinion occurs between the group and party and the local electorate over any local event, or over the general conduct of council affairs.

It is important to understand how the decisions are made and the various levels of decision-making involved. The Malaysia Local Government Act 1976 (Act 171) provides for the decision to be made at the council meetings, attended by at least one-half of the full number of Councillors chaired by the Mayor or President (Yang Di Pertua), and the full number of Councillors for a special meeting and one-third for ordinary (committee) meeting. The study indicates that most Councillors perceived decision-making as a complex process, by referring to the second and third levels of formal sequences of steps in the decision-making process. This step in the decision-making process in Kuantan Municipality Council is similar to that in any other local authority in the country, as has been practised in the United Kingdom.

Councillors thought the most important factors influencing their decision-making throw some light on the issues central to understanding the dynamics of political preference in the process. Four factors indicate the Councillor's preference, namely: 1. The interest of the public/taxpayers. 2. The interest of state government 3. The interest of the party 4. Economic and infrastructure development from the list, it can be summed up that most Councillors realize that their actions should not be

contradictory and against the policies decided upon by the state or interest of the party and the people.

At the same time, they carry the responsibility to draw the policy to determine the direction of the local council and the direction has to augur well with the state policy and meet the people's expectations. Similar approaches have been conducted by Young & Rao (1995) for the Widdicombe Committee, United Kingdom, in identifying what was the Councillor focus on representation, from the point of view of the public (respondents). Do electors expect their Councillors to act as party loyalists or do they perceive the Councillors as having a more direct relationship with his or her electoral area?

Electors' expectations of their Councillors are inescapably conditioned by the prominence in local government elections and local politics of national party politics. Equally important are electors' attitudes towards the balance needed between a Councillor's personal views, those of his or her party and those of the people he or she represents (Copus, 2004: 42-44).

Young and Rao conclude that in a system dominated by the party group: 'there is an overwhelming expectation that Councillors should place local interests-either at ward level or across the local area-first. And there is also a clear indication that the public thinks there are limits to the role of party politics (Young & Rao, 1995: 114-115). As the link between the party and Councillor is stronger than that between the Councillor and the electorate, the Councillor will act as a trustee when it comes to developing a representative relationship with citizens but will act as a delegate when it comes to his or her relationship with the party or the party group. In addition to the above factors, Councillors still perceived that laws and regulations (including state

structure plan and local plan) act as an important means to guide them in the decision-making process. A local plan is a statutory plan which is a legal document that must be followed religiously by all parties including the government (Goh, 2008).

Development regulations are among the most powerful forces shaping the built environment. Land use laws have an enormous effect on urban design solutions. Environmental regulations also affect location decisions, prohibiting the construction of buildings and roads in vulnerable places and shaping conservation lands.

The Councillors agree on the need for clear guidelines to assist them in making the right decision in a smooth, objective and effective manner. The current practices show that most of them relied on the individual's understandings and perceptions on the issues brought at the council meeting, mostly advice by the directors or senior officers of the internal departments. Even though a general framework occupied with several factors as mentioned in the previous analysis has been used or referred to by the Councillors, in some cases the decision will end up with unexpected consequences results or unpredictable reactions or impacts.

According to Friend and Jessop (1971), improvement in the planning process is much more likely to take place if these problems can be formally recognized and solutions sought at a more conscious level, and for this reason, they can collectively be regarded as forming a brief for the development of a more purposive 'technology of strategic choice' in any government setting.

The proposed model of the decision-making process at the local government level is based on 13 factors that influence any decisions made by Councillors concerning the council's affairs. The rationale of having this option is to assist Councillors in making the right, efficient and effective decisions by considering all

those factors, collectively and comprehensively. The six main factors, as described earlier, will give a different weight to the importance of each factor. In conjunction with the recommendation of becoming advocate Councillors, they need to be alert to the characteristics and needs of the people they serve, and, where inequalities exist, Councillors need to help ensure that they are well addressed.

The application of the model begins at the pre-council meeting. The pre-council meeting should provide a forum for the debate of particular controversial issues at the stage before a formal committee decision was reached, either at the Committee Meeting or Full-Council Meeting. Based on the 13 factors, a consensus result or a firm stand could be finalized, after considering the few alternatives or possibilities as proposed by the member of the party. All members (Councillors) of a political party should voice out their views and there was always a strong possibility that, meeting in a politically charged atmosphere and deprived of the guidance of their professional advisers, the members might find themselves becoming committed to resolutions, as perceived by Friend and Jessop (1971).

The Committee Meeting is an official occasion at which Councillors and officers meet together, and listen to the issues and recommendations from the officers before translating them into official decisions. Where the more strategic decisions were concerned, Councillors seemed unable to address themselves successfully to the task of making a balanced selection between alternatives. This tendency could be avoided by having a clear assessment of any particular contentious matters, based on 13 factors, as what has been debated and agreed upon at the pre-council meeting.

At the third level of the decision-making process, all Councillors of the parties met as a group before the monthly Full-Council Meeting. The task is to screen the



minutes of the various committees, and also to formulate their tactics for any other items to be dealt with on the council agenda (Friend and Jessop, 1971). The process will be much easier if the alternative and consensus have been developed and agreed upon at the first and the second level of the council's meeting, as what has been proposed under this new model. If the Full-Council Meeting is unable to resolve any matters that arise, or failed of having consensus results, then that particular minute is formally referred back to the Committee Meeting for further consideration and evaluation. The process of decision-making will go through the same consequences process until the final and consensus results are endorsed in the next Full Council Meeting.

Strengthening Strategic Partnerships Innes and Booher (2004) stress the importance of multi-way interactions in which citizens and other parties involve work and interact in both formal and informal ways in the public arena before arriving at conclusions. However, this is not easily achievable as different parties will have different perceptions and views on what an ideal city should have. This is more difficult as each party will have preconceived prejudiced perceptions of the party (Nikmatul, 2011). However, Councillors and community leaders share a basic task which is to help people feel able to understand what goes on in their locality. These tasks can only be efficiently carried out if the Councillors and community leaders know how planning works and how they should participate.

Thus, the definition of participation should not only be limited to two-way interaction where citizens react to proposals from the government but should be continuous and involve multiple players. Even though this is not the main objective of the study but we strongly believe that further exploration of this new public participation

approach will give a much better understanding of the overall process of decision-making at the local government level.

#### **14.8 TYPES OF EMPLOYEE PARTICIPATION IN DECISION-MAKING (PDM) AMONGST THE MIDDLE MANAGEMENT IN THE MALAYSIAN PUBLIC SECTOR**

Compare to the colonial times and first years post-independence the decision-making structure in Malaysia was dominantly top-down. As Malaysia continue to develop thinking has changed. However, affirmative action and suspicion towards other races remained. Over the past years, there has been tremendous growth of interest in employee participation in decision-making or PDM from various disciplines of studies such as industrial relations, management, human resource management (HRM), organizational behaviour, and political economy.

Therefore, this paper aimed and devoted to the participation of employees in decision-making to identify the types of employee direct participation particularly in delegative, consultative and non-participation decision-making at the middle management. The study will mostly focus on selected Malaysian government ministries as the Malay majority of employee is Malay and the only areas where the government succeeded with Malay dominance in employment and Management. This part of the study will make use of a quantitative study design with questionnaires. Approximately 59.9% of the questionnaires were returned. The research design was used and 758 questionnaires were distributed and 454 (59.9%) were returned. The data was analysed by using descriptive analysis, mean, standard deviation, percentage, and frequency.

The study showed that majority of the middle management employees were involved in consultative decision-making rather than delegative decision-making, and

only a small percentage of employees experienced non-participation in the workplace. It was concluded that employees were encouraged to participate in the decision-making process, however, most of the important decisions are still made by the top management. The study also shows that there is no serious issue of very low level or high levels of non-participation among middle management employees in the Malaysian public sector.

There are many terms used in the previous literature that refer to employee participation such as 'employee voice', 'job involvement', 'job participation' and 'job engagement'<sup>469</sup> The study also indirect participation is two common forms of employee PDM in an Organisation. Firstly, direct participation refers to an individual's participation or a group of employees' involvements in the decision-making process at the workplace indicated that "Direct participation involves the employee themselves, according to Strauss (2006) there are three types of direct participation, which are employee voice, actual participation of the employee in the decision process and the employer providing an employee with relevant information. Direct participation is one of the management techniques that has been used in Japan, Australia, the UK, Europe, the USA and elsewhere including Malaysia to improve Organisation productivity.<sup>470</sup>

On the other hand, according to Cabrera, (2002) "... indirect participation takes place through an intermediary of employee representative bodies...". In addition, Cotton et al. defined indirect participation as "... the process in which employees do not participate directly, but do so through representatives elected to a governing council or, perhaps, through representatives on the board of directors". Frequently, the

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<sup>469</sup> (Bryson, 2004).

<sup>470</sup> Davis and Lansbury, 1996

term “representatives” refers to indirect participation that takes place through employee representative bodies such as work councils or trade unions or other forms of elected employee representation<sup>471</sup>. Indirect participation is commonly practised in Malaysia and is mostly linked to the so-called “superior respect” or the employee does not want his identity known.

Dachler and Wilpert (1978) had identified three dimensions of PDM includes the influence of formality versus informality, directness versus indirectness and degree of access or control. Rubinstein *et al.* (1993) also differentiated between offline and online participation and whether employees make suggestions to the management through problem-solving groups or make decisions related to job tasks or quality control themselves as part of their daily work responsibilities.

Malay managers will also engage in delegative participation which gives empowerment to the employee and autonomy to perform their job that fits them with the absence of control. The degree of delegation depends on the extent to of employees asking permission or approval from their leader before deciding. However, it is clear that there is little or no delegation if employees must ask the leader what to do if a problem arises, there is moderate delegation when employees are allowed to figure out the solution but need to get approval before implementing decisions. Finally, there is actual or real delegation when the employees are allowed to make important decisions and implement them without prior approval, but this is only practised in trusted circles or from a very small group of employees.

In Malaysia, it is normal to find Autocratic decision-making. This started in the colonial era and was a good tool for Malay managers to show power and control. Malay

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<sup>471</sup> Salamon, 2000; Cabrera et al., 2002

and other especially expatriate managers make the decision alone without asking or discussing with their employees and not involving them in the decision-making process. No involvement and no voice from employees. Autocratic management is more significant to non-participation in the decision-making process which is related to the autocratic decision, the situation where employees do not have the right to participate, share ideas or give suggestions for problems at the workplace. This non-participation also means that there is only a few leaders or manager at the top management that is responsible for making any decision in the organization.

It was found that inexperienced managers will participate more in information-sharing decision-making styles. Managers get all the important and necessary information from the employees and make the decision alone. One will rarely experience 'Consultative decision-making' styles in the Malaysian government sector and or businesses. It is rare that Managers share problems with the employees and get their ideas, opinions, and suggestions. This phenomenon is directly linked to a variety of reasons, lack of trust, confidentiality, gossip, or the manager is concerned the employees see him as not capable. In foreign and expatriate communities and managed businesses one can find a more "Democratic/delegative decision-making" style: Managers share problems with the employees, analyse the problem together and make the final decision by majority or consensus.

#### **14.9 DECISION-MAKING IN THE PUBLIC SECTOR ENTITIES**

The main functions of decision-making in the public sector are to deliver excellent services towards people and fulfil their needs of people. Most important decisions are related to the mission and vision of the public sector to improve the delivery system and to increase the performance of the public sector. Based

on Dillon *et al.* (2010) the process of decision-making in the public sector starts with vague objectives and goals then followed by searching the alternatives and solutions to accomplish it.

Typically, decision-making in the public sector is related to various conflicts, controversies and the high influence of external factors. The Public sector always face very complicated and risky decisions, political forces, stakeholder's involvement in decision-making which leads to a slow process of decision-making due to the delays, interruption from outsiders, changes in the decisions and a greater number of formal meeting with various parties to make the decision. The statistics from the Public Complaints Bureau Malaysia (2015) supported that the major complaints from the people towards ministries in Malaysia are the delay or no action from the public employees and poor quality of service.

Due to the large size and a large number of employees in the public sector, the decision-making process functions through the hierarchy system, authority control, and sometimes a top-bottom decision approach. The decision process in the Malaysian public sector usually consists of three levels of management based on the pyramid of control.

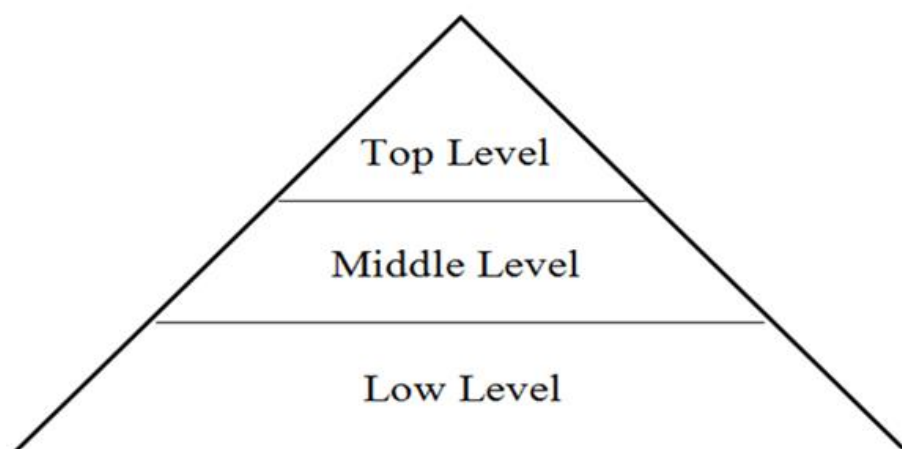


Figure 79 Level of hierarchy in management

The top level of management is responsible for strategic decisions which related to overall decisions that connected to Organisation goals, structure, main activities or core business of the Organisation, investment, mergers and acquisitions<sup>472</sup>. In Malaysia, top management usually deals with non-program decisions which are significant, non-recurring, difficult, new, unfamiliar and complicated to handle. There is no particular procedure to handle new or unusual issues and no accurate method to fix the problem and it requires logic and creative thinking to solve it. Simon (1987) indicated that non-programmed decisions are unique and unstructured.

Middle managers in Malaysia can be defined as managers that implement senior management policies and are responsible for lower-level managers. Furthermore, middle management also refers to “the coordinator between daily activities of the units and the strategic activities of the hierarchy” <sup>473</sup> who are responsible for the implementation and coordination at the department level. In Malaysia, middle management plays a significant role in organizational effectiveness. The Malays, Middle management or intermediate level are responsible for business units and major departments in setting, planning and implementing objectives align with top management goals.

They are involved in tactical decisions and not strategic decisions related to how to run and achieve the aims of the Organisation concerning technology and work, job design, personnel management, operation hours and more. The Middle management also handles both non-programmed and program decisions. Chuck

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<sup>472</sup> Torres, 1991; Knudsen, 1995; Vrba and Brevis, 2002

<sup>473</sup> Floyd and Wooldridge, 1997

(2012) in his famous book 'Principles of Management (7th)', indicated that there are four primary responsibilities of middle management:

1. Plan and gather resources to meet organizational objectives.
2. Coordinate and integrate groups, units, departments, and divisions in the Organisation.
3. Monitor and manage the performance of employees and departments under them.
4. Implementing change or strategies generated by top management.

Finally, we have the "low level or shop floor level" management which is more concerned on the decisions related to task/job and usually deals with program decisions such as office supply reorder, hiring procedures, consumer loan decisions and more. The program decision is non-significant, repetitive, routine and mostly related to daily activities. Simon (1987) stated that when the issues arise, employees already know how to handle and settle the problem because they already have a particular procedure and specific policies to take appropriate actions. Low-level employees are also responsible for implementing the plans from middle management. In Malaysian public sector, low-level employees usually called as support staff such as Assistant Officer, Administrative Clerk, General Office Assistant, Administrative Assistant and Driver.

In the public sector context, the collaboration and involvement of other agencies, stakeholders and politicians are very necessary to assist and help them to serve the best for people. However, in Malaysia, too many interruptions in the decision-making process have increased the complexity and difficulty of decision-



making in the public sector and limited the opportunity for employees to involve in the decision-making process.

Furthermore, the decision process in the Malaysian public sector normally has limited information, solutions and alternatives compared to the private sector due to many interferences and limited funds or investments. The decision process is always shaped by political influence which gives direct effects on the decision in the public sector. Besides, the decision-making process in the public sector is commonly bound by so many rules, procedures, and regulations, and the process is very formal, structured, and centralized with a high bureaucracy system. Employees in the public sector must follow the strict rules and procedures that have been provided to them from the colonial era. Moreover, a majority of the decision in the public sector are made by the group rather than the individual decision due to the culture of Malaysian people that merely on group and collectivism. Hence, the public sector is emphasized in a group discussion in a formal or informal meeting or think-tank group to make the decision and find the solution to the problems, and everyone in the group is responsible for the consequences of the decisions.

Moreover, most of the traditional public sector including in Malaysia had practised autocratic and masculine approaches in the decision-making process where the involvement or participation of the employee is not allowed at all levels of the decision process.<sup>474</sup> However, after the implementation of NPM in most of the public sectors around the world, the decision process in the public sector has started to change towards more openness, consultation and encouragement of employee PDM. The massive transformation of the public sector approach into the private sector

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<sup>474</sup> Hofstede, 1980;2005; Hadi, 2004; Wan Yusof, 201.

approach under the NPM is believed to enhance the decision-making process in the public sector, increase the level of employee PDM and improve the public sector performance.<sup>475</sup> Types of Employee PDM among the Middle Management in the Malaysian Public Sector.

Table 56 shows the mean and standard deviation for each item of participation in decision-making (PDM). The results found that the item of consultative PDM “My boss has frequent consultation processes with his/her employees” had the highest mean value (mean = 3.77, std. = .880), while the item of delegative PDM “My boss gives me the authority to make my own decisions, without any input from him/her” had the lowest mean value (mean = 2.53, std. = 1.031). Out of 14 items, the highest mean value (m = 3.77/5.00) falls under the high category, while the lowest mean value (m = 2.53/5.00) falls under the moderate category.

The results indicated that a majority of respondents always consult and discuss with their leaders at the workplace. Whereas, the lowest mean score stated that most of the employees only have an average power and authority to make decisions without prior consultation with their leaders. It revealed that most of the employees are more frequently involved in consultative participation with their leaders than delegative participation. Employees are allowed to discuss and give ideas and opinions to the leader; however, they are unable to make decisions on their own.

*Table 46 Descriptive statistics of participation in decision-making (PDM)*

No.	Items	N	Mean	SD
1.	My boss has frequent consultation processes with his/her employee (consultative)	429	3.77	.880
2.	My boss actively seeks input from employees on most decisions (consultative)	429	3.70	.937

<sup>475</sup> Nor-Aziah and Scapens, 2007

3.	My boss asks for my opinion about how the work gets done (consultative)	429	3.65	.882
4.	My boss usually asks for my opinions and thoughts on decisions affecting my work (consultative)	429	3.62	.934
5.	Before making decisions, my boss considers what his/her employees have to say (consultative)	429	3.59	.880
6.	Before acting my boss consults with employees (consultative)	429	3.53	.895
7.	My boss encourages the employee to discuss regulations and new ways of working (consultative)	429	3.49	.975
8.	My boss encourages the employee to speak up when they disagree with a decision (consultative)	429	3.49	.990
9.	I think that I have sufficient authority also to discharge my job-related responsibilities (delegative)	429	3.45	.854
10.	My boss allows me to decide about my work-related problem (delegative)	429	3.44	.888
11.	My boss permits me to get needed information from him/her and then make my own decisions (delegative)	429	3.28	.969
12.	My boss asks for my opinion about organizational policies and rules (consultative)	429	3.18	.962
13.	My boss lets me make decisions by myself, without consulting with him/her (delegative)	429	2.69	1.021
14.	My boss gives me the authority to make my own decisions, without any input from him/her (delegative)	429	2.53	1.031

Low (mean = 1.00-2.32); Moderate (mean = 2.33-3.65); High (mean = 3.66-5.00)

A descriptive analysis using mean, standard deviation, and frequency distribution was performed to determine the level of employee PDM (consultative and delegative participation) experienced by the respondents. From the table, it can be seen that the overall mean of consultative participation is 3.558 with a standard deviation of 0.690. Over half of the respondents (50.3%) experienced a high level of consultative participation, while 45.7 per cent experienced a moderate level and only a small per centage (4.0%) had a low level of consultative participation. Meanwhile, for delegative participation, the overall mean of delegative participation is slightly lower (mean = 3.075) than consultative participation with a standard deviation of 0.717. More

than half of the respondents (68.8%) experienced a moderate level of delegative participation, while 17.0 per cent experienced a high level and quite a number of the respondent (14.2%) had a low level of delegative participation. Therefore, the results also supported that majority of the middle employees more involved in consultative participation rather than delegative participation in the Organisation. The per centage of employees with a low level of delegative participation also higher than consultative participation.

*Table 47 Employee PDM, consultative and delegative participation*

<b>Variable</b>	<b>f</b>	<b>%</b>	<b>Mean</b>	<b>SD</b>
Consultative participation			3.558	0.690
Low (1.00 – 2.32)	17	4.0		
Moderate (2.33 – 3.65)	196	45.7		
High (3.66 – 5.00)	216	50.3		
Delegative participation			3.075	0.717
Low (1.00 – 2.32)	61	14.2		
Moderate (2.33 – 3.65)	295	68.8		
High (3.66 – 5.00)	73	17.0		

Meanwhile, Table 58 shows the mean and standard deviation for each item of non-participation in decision-making. The results found that the item “My boss makes decisions that are based only on his/her own ideas” had the highest mean value (mean = 2.27, std. = 1.042), while item “My boss does not give all employees a chance to voice their opinions” had the lowest mean value (mean = 1.84, std. = .907). Out of six items, both of the highest mean value (m = 2.27/5.00) and the lowest mean value (m = 1.84/5.00) falls under the low category. This indicates that majority of the employees have participated in the decision-making process and only several employees are not allowed to PDM due to an autocratic decision-making style practiced by their leaders in the ministry. It also revealed that there is no serious issue of non-participation or

large number of employees with a very low PDM at the middle management in the six ministries in Malaysia. Furthermore, most of the employees have an equal chance to share their opinions, ideas and suggestions at the workplace and employees consistently have the opportunity to discuss and consult with their leaders regarding job matters.

Table 48 Descriptive statistics of non-participation in decision-making

No.	Items	N	Mean	SD
1.	My boss makes decisions that are based only on his/her own ideas	429	2.27	1.042
1.	My boss does not use employee 's suggestions to make decisions that affect them	429	2.07	.945
1.	My boss does not consider employee's ideas when he/she disagrees with them	429	2.01	1.057
1.	My boss does not encourage the employee to express ideas/suggestions	429	1.91	.928
1.	My boss does not listen to employee's ideas and suggestions	429	1.89	.895
1.	My boss does not give all employees a chance to voice their opinions	429	1.84	.907

Low (mean = 1.00-2.32); Moderate (mean = 2.33-3.65); High (mean = 3.66-5.00)

Meanwhile, the overall mean of non-participation in decision-making is 1.998 with a standard deviation of 0.809. The majority of respondents (71.8%) scored a low level of non-participation in decision-making, whereas 97 respondents (22.6%) scored a moderate level of non-participation and only 5.6 per cent experienced a high level of non-participation in decision-making.

Table 49 Descriptive statistics of non-participation in decision-making (n =429)

Variable	f	%	Mean	SD
Non-participation in decision-making			1.998	0.809
Low (1.00 – 2.32)	308	71.8		
Moderate (2.33 – 3.65)	97	22.6		
High (3.66 – 5.00)	24	5.6		

Non-participation in decision-making is very synonym with traditional management system where employees PDM is not allowed. Therefore, a low level of non-participation in decision-making amongst the middle management employees in the six ministries indicated that most of the employees have participated in the decision-making process at their ministries. However, a few per centages of employees with a high level of non-participation revealed that several employees had only a little PDM/no participation at all in their ministry. High level of non-participation commonly related to high autocratic leadership styles and autocratic decision-making practices by a leader which can be a significant barrier towards employee PDM in the Organisation.

The type of participation that is significantly related to middle management employees in the Malaysian public sector is consultative participation than delegative participation. Although employees have frequently involved in the current operations, management discussions, meetings and group discussions, however, of the important decisions are still made by the top management, and the majority of the employees in the middle management only act as a 'feeder of information' by contributing ideas, opinion and suggestions to help and assist the leaders in making decisions. This further revealed that few numbers of employees had experienced less empowerment in PDM at the workplace. This situation is probably related to the high hierarchical and bureaucratic systems in the ministry. The job scope and limited roles of middle management also related to the low level of delegative participation due to the primary functions of the middle management which is more significant to receiving orders from the top management and implementing organizational plan based on ministry's policies and goals; identifying problems and making short-term decisions relating day

to day organizational operation and function within their job scope; and makes research, give input, information and ideas to the top management rather than having a full power to make decision relating the tasks and job.

#### **14.10 DECISION-MAKING PROCESSES BY MALAYSIAN MANAGERS OF SMES**

As the previous section focused on managers decision-making in predominantly public sector, the study will continue with the study into the private sector. This study will identify the decision processes used by managers from small and medium-sized enterprises (SMEs) to participate in programs funded by governments in Malaysia. Small and medium-sized businesses are vital to the economic growth of a country, and government-provided training programs may help foster organizational efficiency. It was however seen that that SME participation is relatively low in government sponsored training. This low participation is a concerns as it is direly related to the development of the county. The study used the methods outlined by Willig (2013) for interpretative phenomenological analysis.

The establishment of the National Human Resource Development (NHRD) is understood as efforts made by governments through agencies and departments to develop managers in Malaysia. The aim is to coordinate national-level policies and activities for the purpose of achieving greater quality, productivity, and competitiveness of citizens. Although there is no single agreed-upon definition of NHRD, the definition proffered by McLean (2006) is widely used. It is presented thusly: "National Human Resource Development is an undertaking at the top level of government and throughout the country's society that coordinates all activities related to human development (HD) to create greater efficiency, effectiveness, competitiveness, satisfaction, productivity, knowledge spirituality, and well-being of

its residents. It includes education, health, safety, training, economic development, culture, science and technology.”

It is accepted that SME managers are important decision-makers in the organizations’ daily operation and function as gatekeepers to employees’ access to training and development opportunities, few studies investigated how managers make decisions related to participating in government-sponsored training programs. Managers’ decisional roles remain critical when considering employee access to training and development<sup>476</sup>.

#### **14.11 TYPES OF DECISION-MAKING**

Rational Decision-making, Scholars believe that if decision makers have access to relevant information, are provided sufficient time and not constrained by the limitations of ‘being human,’ then they would always use a rational decision process (Williams, 2002). The rational decision-making process involves four basic steps. These include problem identification, criteria definition, alternative generation and evaluation and implementation.

Bounded Rationality has become an important concept in organizational theory. ‘The fundamental idea of limited rationality is that not everything can be known, that decision-making is based on incomplete information about alternatives and their consequences’<sup>477</sup>. In 1957, Herbert A. Simon proposed Bounded Rationality as a more holistic way of understanding decision-making. This principle was introduced when more evidence showed the deficiency of rational decision-making<sup>478</sup>. In particular, it regarded evidence of what people do not do when making

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<sup>476</sup> Coetzer, Redmond & Sharafizad, 2012

<sup>477</sup> March 1978, p. 154

<sup>478</sup> Simon, 1979, p. 507



decisions.

To illustrate the differences between Rational Decision-Making and Bounded Rationality, a summary of decision-making steps between them are described below.<sup>479</sup>

*Table 50 Comparisons, rational decision-making and bounded rationality.*

Decision-making step	Rational decision-making	Bounded Rationality
Problem definition	Real problem is identifiable.	Problem primarily reflects the decision maker's interest, understanding, and needs.
Criteria definition	All relevant criteria are identifiable and weighted appropriately.	Limited criteria are identifiable, and evaluation is influenced by self-interest.
Alternative generation and evaluation	All options are considered, and all consequences are understandable and considered.	Limited options are identified, favoured option is prioritized, and consideration stops when a 'good enough' solution is found.
Implementation	All participants understand and support the solution.	Politics, power, and self-interest influence the amount of acceptance and commitment to the solution.

Source. Adapted from "Introduction," by S. Williams, 2002, *Making better business decisions: Understanding and improving critical thinking in problem-solving skills*, p. 17. Copyright 2002 by Sage Publications.

Differences between rational and non-rational decision-making can be found in the decision-making steps. Unlike rational decision-making, problem identification in Bounded Rationality primarily reflects the decision maker's interest, understanding and needs. Rational decision-making, often computer-assisted, greatly emphasize identifying all relevant criteria, which are then weighted based on their relative importance toward decision outcomes. Realizing that it is not possible for decision-makers to gather all knowledge and information about a problem, Bounded Rationality offers the option of considering a sufficient number of alternatives.

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<sup>479</sup> Williams, 2002, p. 15

Consideration continues until an option, which is believed to generate a sufficiently satisfactory outcome is found.

This concept is referred to as 'satisficing.' This process is different from the goal of rational decision-making, which is to produce an optimal decision. Alternative generation and evaluation in rational decision-making differ significantly because all options are seriously considered, all consequences are explored and taken into consideration before a decision is made. 'Unfortunately, we don't live or work in the perfect world, both psychologists and economists recognize that in application the rational decision maker often chooses less than optimal outcomes' (Herling, 2003, p. 397). As regards implementation, it is believed that all rational participants, having considered all possible alternatives, understand and support the decision. Contrarily, politics, power, and self-interest influence the amount of acceptance and commitment as regards Bounded Rationality solutions.

#### **14.12 THE IMPACT OF LEADERSHIP STYLE ON ETHICAL DECISION-MAKING, THE MODERATING ROLE OF STRATEGIC THINKING.**

It is fundamental that organizations have the right leadership style to make an appropriate decision about their business in order to survive in this competitive environment. Decisions are taken at various stages of the organization. Those who reach a higher level of moral reasoning are more likely to exhibit greater consistency with higher levels of moral action, ethical decision-making depends upon personality differences. It is also explained that other factors may also be influential in ethical decision-making that include self-concept, life experiences, together with wider personality differences that include emotions. Each person has one's own views, thoughts and understanding.

Strategic thinking is a method of analysis performed by individuals to innovatively reinterpret the roles and behaviours most frequently held in relation to the strategy of the organization. This style of thought is also called out-of-the-box thought. Gross (2015), identified that 'a way to solve a strategic complication that blends logical and convergent tactic with innovative and different thought' also can be defined as strategic thinking]. According to Pisapia and Glick-Cuenot (2010), strategic thinking is the opposite of linear thinking or preserving the position quo, and therefore this method of thinking involves the individuals to use reflection, system thinking, and reframing expertise.

Previous research results showed there are positive and negative significant occurred among the leaders. However, the research found that there is systematic leniency bias when respondents rated subordinates. According to Graham, Ziegert, and Capitano (2015), inspirational and charismatic transformational leaders have resulted in higher rates of unethical pro- organizational behaviour (UPB) than transactional leaders in their research [9]. Their findings expand the interpretation of UPB, include theoretical frameworks to clarify why this activity happens, and add to the philosophy of leadership and work on ethical decision- making.

Several leaderships and ethics researchers argue that the cycle of transformational leadership is centred on a different collection of ethical principles relative to transactional leadership. Transformational leadership describes a large amount of change in the formal code of ethics, and transactional leadership describes a considerable increase in diversity preparation when the size of company and values are controlled. Additionally, Kumar et al., (2019), said the transformational leaders has a huge influence than laissez-faire and transactional leaders on decisions, in banking

industry [4]. However, there are very little empirical research done about the impact of leadership styles on ethical decision-making. Thus, this paper will investigate the impact of leadership style on ethical decision-making with moderating role of strategic thinking.

#### **14.13 ETHICAL DECISION-MAKING**

The challenge that researchers have is that ethical decision-making is not a term that can be simply defined, as it appears to include multiple influences such as individual difference, that include personality and environmental factors, that can affect ethical/ unethical behaviour. There appears to be a lack of agreement as to a single agreed definition of ethical judgment within business ethics literature. This is supported by Onyebuchi (2011) who advises that there is no universal consensus, and the definition of ethics is broad. As claimed by researchers in certain cases, ethical decisions are simple enough for people to be able to determine what to do and for business executives to behave appropriately. Ethical decision-making is a problem when exceptions are made and there is confusion regarding ethical responsibilities.

A hermeneutical viewpoint has been added by Keller et al, (2007) to strengthen the previous ethical model, which include egoism, utilitarianism, religion and deontology. The consequential theory is one of the perspectives of normative ethics, which embraces egoism and utilitarianism as two main components of ethical decision-making. Utilitarianism is one of the moral sources which is rooted in the desire to produce an optimum outcome. Therefore, the greatest value is the output of the ethical decision-making process. A given behaviour directly serves the desires of a person as it contributes something to the total amount of satisfaction for him or her or decreases the overall level of discomfort for him or her.

Moreover, in this model Keller et al, (2007) found that the matters that brings only positive for the decision- maker must take into consideration [11]. This implies that while a decision is conflicting to the needs of others, it is right if it serves the benefit of the decision-maker. Furthermore, Rodgers et al. (2009) illustrated egoism as it is focused on persons behaving in accord per their own interests. This has been also explained that egoism is the wish of maximizing one's own interest.

Vivier (2013) theorized Deontological ethics as an ethic that refers to moral roles, obligations, responsibilities and values, irrespective of the implications of an action [15]. According to Modarres & Rafiee, (2011) this concept hence concentrates on the action and also the outcome of the respective action [16]. Deontology is the desire to do the absolute right thing regardless about action's outcome and whose interests are affected by doing the right thing [17]. The deontological ethics suggests that the ethical approach is one that includes acts which have an underlying moral meaning. As rules, what can and cannot be achieved occurs.

A different use of the term "moral" is the opposite of the term "amoral." The term "moral" has been defined as there is something within the subject of "right and wrong", whereas "amoral" term means something outside that subject. When subordinates perceive a lack of integrity and ethical intentions in their leadership, they are more likely to engage in unethical behaviours themselves [18,19]. A mitigating factor in the increase in unethical behaviour is an individual's ethical beliefs. One study found that those individuals who had a strong belief in universal moral rules were less likely to behave unethically.

#### **14.14 LEADERSHIP STYLE**

Leadership is discussed widely in the management literature as a soft skill and individual knowledge. Leadership also can be defined as the power which can persuade others to perform to accomplish the objectives set. Leadership is the capacity to inspire others to collaborate for common objectives Leadership is the process of directing and steering a group in one direction. Leadership style is a critically important characteristic of managers. It is described that leadership style is a way used by a leader to influence the behaviours of followers. The framework of transactional and transformational leadership has provided significant support for leadership style research. The methods of transactional and transformational leadership are the most critical and commonly used for leadership studies since 1990. Burns (1978) firstly developed the both leadership style then Avolio and Bass (1991) expanded the styles [24,25].

Transformational leaders satisfy higher needs by engaging the whole person and identify potential in order to motivate followers to accomplish a goal [26], whereas leaders who employ the exchange system, in which they motivate followers through rewards, and punishments for something in return, are considered transactional leaders [26]. It is clear that each of leadership styles has their own strengths and weaknesses. Transformational leaders are constructive, encourage and empower followers to accomplish higher order goals by shaping the values, convictions, behaviours and actions of supporters [6,27].

Transformational leadership style values employees' ideal and values, motivates them to put organization interest on the first place, and drives them to achieve the state of best self. Additionally, transformational leadership discusses the fundamental processes that affect various outcomes. Furthermore, the

leaders who following transformational leadership style inspire their subordinates knowledgeably, creatively and deliver a clear idea within their organizations. Transformational leaders also concentrate on the creation of human resources which can assist to transform the organization into a creative organization.

Transactional leadership style is a leadership model using various compensation to exchange outcomes needed. Transactional leadership style is a task-oriented and interactive leader manner. Transactional leadership style helps organizations achieve their goals by making job reward and remuneration clear [25]. The transactional leadership style has been categorized through leader-follower conversation. Transactional leadership style involves a sort of a carrot and a stick approach or a combination of a reward and punishment. According to Yahaya and Ebrahim (2016) leaders who employ the exchange system, in which they motivate followers through rewards, and punishments for something in return, are also considered as a transactional leadership style [26]. Transactional leadership supports the logical and money-oriented approach by explaining the purpose of distributing the incentives for objective achievement.

#### **14.15 STRATEGIC THINKING**

Baumgartner and Korhonen (2010) added that strategic thinking is contributing to sustainable organizational growth. In addition, Low & Ang (2012) has defined strategic thinking that an informal process of thinking regulation can help itself or the organization to look forward to a long-term goal. This has been more explained by Gross (2015), “a way to solve a strategic complication that blends logical and convergent tactic with innovative and different thought”.

Current researchers stress the importance of three primary cognitive mechanisms, including systems thinking, reframing, and reflection as performance drivers for corporate leaders in coping with situational uncertainty. Furthermore, Pisapia and Glick-Cuenot (2010) explained more about strategic thinking as it is an opposite of linear thinking. Leaders struggle to achieve the goal in complicated situation, because they are depending on linear thinking.

Such three mechanisms assist leaders in interpreting the problem over the reframing process; build practical theories to direct behaviour over the reflecting process, and using system thinking in a method of holistic. Modern researchers highlight that the whole in system thinking is main then the parts are minor. Reframing is described as a reasoning method to gather and organize the information collection to describe the situational realities. Reflecting is defined as the capacity to interpret information and adapt it according to the specific requirements through practice.

#### **14.16 LEADERSHIP STYLE AND ETHICAL DECISION- MAKING**

The purpose of this correlational study was to determine if an impact exists between leadership styles and ethical decision-making as perceived by managers in E&E organizations. Leadership has been one of the most researched and still perplexing areas of inquiry in business. By valuing the ethic of justice, leaders can contribute to management policies and rules. There are many researchers identified the impact of leadership style on ethical decision-making. Eberlin and Tatum (2008) described said that transformational leaders were valued higher on social justice, while transactional leaders were valued high on structural justice. This proved that ethical decision-making playing an important role in an organization for better outcomes.



Transactional leadership is associated with the computational belief between transformational leadership, which is associated with a lower grade of non-ethical behaviour.

Burns (1978) proposed that transformational leaders appeal to higher ideals such as justice and equality and that “both leader and follower are raised to higher levels of motivation and morality” Bass and Bass (1985), however, in his initial iteration of transformational leadership argued that depending upon their motivation, transformational leaders could be moral or immoral. Burns (1978) clearly believed that transformational leadership was moral leadership. In accordance with Burns’ declaration, “The effect of transforming leadership is a bond of common stimulation and upliftment”. Priestino (2014) studies examined transformational leadership and ethical action beliefs to assess if there is a relationship.

The study initiates a strong link between perceived ethical behaviour and transactional and transformational leadership. In short, leadership has been linked to a person's capability, ability, and degree of influence to move people in a direction, to make decisions, and to do things that they would not normally have undertaken. leaders following transformational style use an extensive variety of data sources to make corporate decisions meanwhile the transactional leaders are more likely to limit the details they use in making decisions. Based on previous studies, this research introduced leadership styles as a mediator between crisis traits and decision-making styles.

#### **14.17 LEADERSHIP STYLE AND ETHICAL-DECISION-MAKING, MODERATING ROLE OF STRATEGIC THINKING**

Strategic thinking has been studied in both management and psychological

literature, with management literature concentrating on the mechanism of strategic thinking and strategic decision-making, while psychological literature focuses on factors influencing strategic thinking and decision-making. Kaplan et al. (2014) pioneered the idea of a strategy map that "provides a graphic representation of the vital goals of a company" in order to support the strategic thinker's "system thinking". Strong strategic skills are correlated with strong organizational success. Strategic thinking is concluded as an important for current and future business strategies to lead organizations.

The emphasis of the transactional leaders is on established performance objectives, mission commitment, job priorities and task-related skills. This form of leadership is underpinned by a clear interaction between each person concerned on the basis of mutually agreeable promises. O'Regan et al. (2004) quantitatively evaluated the style of leadership, strategy, and performance achievement. They observed that transactional leadership was strongly associated with short-term success and had an internal focus. Love and Roper (2015) indicated that meanwhile the transactional style became associated with management, smaller organizations saw the advantages of transactional style managers because they can track and monitor subordinates' output. Norzailan, et al. (2016) suggested a range of strategic thinking skills that are necessary for successfully participate, reasoning, and to deliver critical judgement.

This study suggests that there is a relationship between the complexity of the decision-making behaviour of chief executives and the number of alternatives generated to address a given strategic issue. This is important for the following three reasons. First, it has been assumed by many management scholars that the decision-

making behaviour that chief executives exhibit when addressing strategic issues is rational. In other words, the final choice of an alternative is based on a thorough, exhaustive evaluation of all alternatives and the solution that provides the best response is selected. March and Simon (1958) would have referred to this as "optimizing" behaviour. Based upon this study's empirical evidence, as the strategic issue increases in complexity (i. e. more alternatives), there is a tendency for the chief executive to use some type of simplifying process which discounts the need for each alternative to be fully evaluated before a choice is made. The implication is that regardless of the importance of the issue (i. e. the fact that it is strategic), the decision-making behaviour of the chief executive differs in relation to the number of alternatives generated in addressing a strategic issue.

Second, although many management scholars have viewed executive decision-making as a rational process, there are other scholars who believe the process is not rational, but rather incremental in nature (Lindblom, 1959; Wrapp, 1967). Neither of these contentions is based upon empirical research. This study provides the empiricism and also implies that neither of the two perspectives is entirely accurate, nor entirely inaccurate. Rather, as the cognitive decision scientists attest it is related to the complexity of the strategic issue in question <sup>480</sup>.

Third, there is the implication that the chief executive may not be acting in the best interests of his or her organization. Since the complexity of decision-making behaviour of the chief executive is related to the number of alternatives generated, then it is possible that in situations involving a large number of alternatives, the chief executive may not be selecting the best solution for the organization.

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<sup>480</sup> Payne, 1976; Olshavsky, 1979

This indicates the need for chief executives to possibly re-evaluate their decision-making behaviour and realize that when dealing with complex issues of major importance to the organization, it may be better to resist the tendency to resort to simplifying decision behaviour, because this may lead to the elimination of alternatives which, on further evaluation, may provide a better solution to the problem than the alternatives which remain.

Regarding the impact of the external environment on chief executive decision-making behaviour, this study did not provide sufficient support for the contention that the complexity of decision-making behaviour is related to the stability or complexity of the environment, either directly or indirectly. Coupled with the fact that a relationship exists between decision-making behaviour and number of alternatives generated, the implication may be that the nature of the strategic issue may not be based on industry factors, but is inherent to the problem itself, and this may be what affects the complexity of decision-making behaviour of the chief executive.

More specifically, given the findings are true, the situation is as Simon (1976) suggested. That is, the generation of alternative solutions and evaluation of those alternatives by the chief executive is a process which is not related to environmental considerations, but rather, which is centred on the specific strategic issue and the characteristics and/or dispositions of the decision maker. While this may be a possible implication, it cannot be determined based on this study.

The contingent relationship between complexity of decision-making behaviour and economic performance was also considered. There was no indication that economic performance of the firm was related to the complexity of decision-making behaviour on the part of the chief executive, nor that this relationship was contingent

upon environmental stability or complexity. However, assuming that all measures are accurate indicators of what they measure and that the sample is representative of the population of manufacturing firms, then the results imply that there is no relationship between decision-making of the chief executive and the economic performance of the firm.

This is conceivable given that there are many factors in the implementation of a given decision (both internal and external) which could have an impact on the outcomes. In other words, an excellent decision can yield poor results if the implementation is thwarted. Finally, it is also implied that organizational size may be affecting the chief executive's perception of industry stability and to a certain extent conservatism may be operating--which would perhaps indicate that the chief executives were not using all available information advantageously. In summary, this study suggests that there is a relationship between the nature of the strategic issue and the complexity of the decision-making behaviour of the chief executive which has implications for our understanding of the strategic decision process as well as how executives make decisions on strategic issues.

## CHAPTER 15

### 15.0 THE COMPARISON

As I have reached the final stages of this study and dissertation I find it appropriate to include a comparison to end the study prior the final conclusion. This part will attempt to make comparison in ethnical differences and or similarities and also to evaluate the level of individualism and collectivism of managers in Malaysia and Australia. Most literature and management development are from western countries and written for western environments it will be fundamental to end this study with a comparison to see if the literature is suitable for the Malaysian environment. The reason for selection Australia, both Malaysia and Australia were subject to British control, with Malaysia gaining independence and Australia not.

This part of the study revealed that there are significant differences between Malaysian and Australian managers on the levels of not just ethnical changes but also on vertical individualism, horizontal collectivism, and vertical collectivism. It is worth noting that theoretically both was colonized, but the Malay inhabitants have maintained the power whereas the Australian aboriginals was displaced with British emigrants, the results of this study will also be of interest and assistance to managers of multinational and international organizations who need to manage in global contexts and, therefore, need to understand cultural-driven differences in personal and interpersonal work-related conditions between and across nations.

Vertical individualism, horizontal individualism, vertical collectivism horizontal collectivism and introduction culture influences an individual's responses to the environment. I will start off with culture which is rooted in the values shared by

members of a human group. Cultures differ in the extent to which goals, cooperation, competition, relationships, and individualism are emphasized<sup>481</sup>.

A widely accepted idea is that Asians are collectivists, self-identified with an in-group, while Westerners or Australians are individualists, the self-distinct from the in-group. Although this assumption is generally accepted at a conceptual level, real data and evidence of these assumptions are lacking.

For example, East Asian and in this case Malay, individuals are described as group-oriented and promoting the goals of others (Triandis, 1995), emphasizing collective identity (Triandis, 1989), and stressing the importance of external and public roles and relatives (Markus and Kitayama, 1994). In contrast, Euro-Americans are depicted as self-oriented and promoting their own goals (Triandis, 1995), emphasizing private identity (Triandis, 1989), and focusing on internal abilities, thoughts and feelings (Markus and Kitayama, 1994). In collectivist cultures, the Organisation often becomes the family or in-group to which members have a strong affiliation and loyalty and leaders are expected to show strong feelings of obligation to the ingroup (Adam, 1989). Collectivists place a high degree of importance on personal relationships and maintaining harmony within the group (Ouchi, 1982).

Individual autonomy and recognition are also important, but only in so far as they benefit the group. Individuals in individualistic societies feel free to flow between ingroups based on the benefits they offer. In this respect, higher labour mobility is expected in individualistic than in collectivistic cultures. Collectivistic cultures

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<sup>481</sup> Since Hofstede's (1980) comprehensive study of work values across cultures, in his *Gading Business and Management Journal* Vol. 8 No. 1, 55-82, 2004 ISSN 0128-5599 © 2004 Universiti Teknologi MARA (UiTM), Malaysia 56 *Gading Business and Management Journal* conceptualization of cultural differences in terms of individualism, collectivism has been widely used to explain differences in work attitudes, especially in comparative studies of Asian and Western nations.

emphasize the needs and goals of the group as a whole over the needs and desires of each individual. In such cultures, relationships with other members of the group and the interconnectedness between people play a central role in each person's identity and are considered paternalistic organizations, that expect worker loyalty to duty. This paternalistic role in an employee's life is not viewed as intrusive, because workers expect their organization to play a significant role in their lives and expect their superiors to participate as a parental or guiding figures. In collectivistic cultures, work is structured around the needs of the collective or workgroup, whereas work in an individualistic culture stresses individual action and autonomy.

The comparison study will try to explain and make the comparison to identify similarities and differences. Individualism-collectivism among managers in the different cultural environments of Malaysia and Australia is the foundation that makes them different. There's an ongoing debate on the relative merits of Asian and Western leadership in organisation styles and cultures. That debate sometimes even becomes an argument—although I think that's entirely unnecessary. There are some differences between Asian and Western leadership styles and cultures, but they're just differences, not 'rights' or 'wrongs'

Work values are very much influenced by employees' cultural values and traits. Trompenaars (1994) found that some western management theories and practices such as management by objective and just-in-time practices have failed to produce results in Malaysia considering the different cultures and ethnic groups. More recently, attention has focused on the important question of whether Western management practices can be used as effectively with employees in Malaysia and whether the



application of Western management principles affects satisfaction in non-Western countries<sup>482</sup>.

Asma (2001) affirmed that attempts to bring in western management principles and techniques in Malaysia may not go down well with the Malaysian workforce as they were brought up with unique cultural values that influence behaviour in the workplace. These values conflict with western management practices that may result in miscommunication and misunderstandings resulting in poor work performance. Most Malaysian researchers contended that although western cross-cultural and management theories explained the behaviour of Malaysians in the workplace, it lacks the richness of the relationships within an ethnic group and between cultural groups<sup>483</sup>. It is evident that Malaysia is a multicultural country and each ethnic group does not share the same cultural values. Several researchers reported that although there are similarities in work-related cultural values of the ethnicities in Malaysia they have significant differences between the ethnic groups due to distinct cultural and religious heritages.

The majority of past Malaysian research was primarily concentrated on comparing the cultural values and behaviour of Malays, Chinese and Indian ethnicities in the workplace<sup>484</sup>. Recent literature revealed a growing interest in ethnics' cultural values, particularly in the context of ethnic groups in Peninsular Malaysia.

### 15.1 CULTURE AND WORK VALUES

Culture is important in business organizations as business interfaces with people, as customers, employees, suppliers or stakeholders. Past research revealed

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<sup>482</sup> Andreassi et al. 2014

<sup>483</sup> Fontaine et al, 2002; Asma, 2001, 1992

<sup>484</sup> Thien et al, 2014; Ting & Ying 2013; Liu, 2012; Razak, Darmawan & Keeves, 2010; Selvarajah et al, 2008; Rashid & Ibrahim, 2008; Fontaine & Richardson, 2005; Asma, 2001

numerous definitions of culture, and each claiming to have a meaningful understanding of the term. Hofstede (2001) refers culture as the collective programming of the mind that need to be unlearned, learned and relearned. Asma (1992) presents an interesting definition of culture “as a shared and commonly held body of general beliefs and value which define the ‘should’ and the ‘ought’ of life and were instilled in early childhood”.

Based on the definitions above, values represent the core element of culture. Cultural values refer to the shared values that are unique amongst communities and these differences between cultures resulted from underlying value systems that cause communities to behave differently in similar situations. Values are the preference of certain states of affairs over another; a society’s ideas about what is good or bad or wrong. Hofstede (2007) found that each individual carry with them values that are learned in early childhood and asserts itself in the culture.

Determining the work values of a culture is important because of the differences in values and beliefs. Cultural differences in work values can be used to explain differences in individual performance and predict job satisfaction. Locke (1976) defined work values as “what a person consciously or subconsciously desires, wants or seeks to attain related to his/her individual and collective work activities”.

The relationship between values and culture has been studied by many researchers and these theories stated that national cultural values relate to workplace behaviours, attitudes and other organizational outcomes. Among the numerous cross-cultural studies conducted, Hofstede’s framework on the cultural dimensions is the most cited and empirically developed and is still considered the most robust measure

of culture, despite criticisms of its construct and application on multicultural countries like Malaysia.

Management in Malaysia is much influenced by Western management techniques such as those related to teamwork, counselling, performance feedback, negotiation, communication and leadership. Past research findings show that attempts to import western management practices without considering the host country's culture lead to the frequent failure of these practices<sup>485</sup>.

In addition to their colonial heritage, foreign investment and industrialization have significantly influenced traditional business management, which is associated with the westernization of management practices. However, despite this, the core cultural values of the ethnic groups that serve to create cultural differences remain. Over the last several years, Malaysian management has been exposed to several Western theories and practices which may not be appropriate for Malaysian employees.

Asma (2001) observed that these unique cultural values are revered by all Malaysian ethnics and form the basis of shared rituals which are frequently strengthened among family members and significant elders. She has identified some underlying values that characterize the Malaysian workforce in general, such as non-assertiveness, preserving face, loyalty, respect for authority, collectivism ("we" orientation), cooperation, harmony and non-aggressive, trust, relationship building and respect for differences.

These values diverge from that of westerners, which emphasized assertiveness, independence, aggressiveness and competitiveness. Employers in

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<sup>485</sup> Asma, 2001, Hofstede, 1980

Malaysia should be culturally sensitive to the differences and any application of western management techniques need to be adapted to suit the Malaysian cultural context.

The lifestyle and behaviour of the respective ethnic groups are guided by a set of value systems, based on moral and religious beliefs, for example, the value system of the Kadazandusuns known as 'adat'. Similarly, the Malays have their 'Budi' principles, the Chinese based on Confucian teachings and the Indians 'Dharma' (justice and ethical conduct) and reincarnation.

Table 61 shows the ten most important values of Malays, Chinese, Indians and Australians from a study conducted by Fontaine, Richardson & Foong (2002). It can be seen from the table that the three ethnic groups may share similar values but differs in priority compared to Australians. For example, 'honesty' is ranked as the most important for the Malays whereas it is ranked third and fifth by the Chinese and Indians respectively. On the other hand, there are some values, for example, 'religiosity' only appears for the Malays and Australians, 'developing oneself' for the Chinese and for the Indians 'taking risks'. This clearly shows that there are significant cultural differences between the ethnic groups due to the preservation of separate identities and cultures.

Malays scored higher in power distance compared with the other ethnicities and this can be attributed to the considerable importance placed on status and hierarchical order. GLOBE study (initiated in 1991) also reported that Malaysian employees are collectivist, emphasising the importance of relationships, respect for elders and authorities, group work and face-saving<sup>486</sup>.

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<sup>486</sup> Hofstede and Hofstede, 2005; Kennedy, 2002

Table 51 Ten important values of Malays, Chinese and Indians and Australians

Rank	Malays	Chinese	Indians	Australians
1	Honesty	Courteousness	Devout to family	Respect for the freedom and dignity of the individual
2	Order	Responsibility	Holding a Degree	Freedom of religion
3	Continuous Improvement	Honesty	Responsibility	Commitment to the rule of law
4	Responsibility	Willingness to help	Willingness to help	Parliamentary democracy
5	Religiosity	Holding a Degree	Honesty	Equality of opportunity for all people
6	Concern for face	Order	Concern for Face	Mutual respect
7	Filial Piety	Developing Oneself	Carefulness	Tolerance
8	Devotion to family	Determination	Taking Risk	Compassion for those in need
9	Courteousness	Tolerance of others	Tolerance of others	Equality of opportunity for all
10	Tolerance of Others	Carefulness	Filial Piety	Recognising the English language

Source Fontaine, Richardson & Foong (2002)

Table 62 provides some examples of commonly observed behaviours demonstrated in organizations, which are influenced by ethnic values. Common value practices such as ‘we’ orientation, face, modesty and harmony as opposed to the western culture of ‘I’ orientation, self-esteem, assertiveness and achievement (Asma., 2009) may give rise to work value conflicts due to the underlying assumptions and impressions of Malaysian ethnic groups. With the examples mentioned above and the comparison of values as depicted in Table 63, these values and beliefs conflict with the western management principles and techniques practised by organizations in the workplace.

Table 52 Malay Value Preferences Vs Western Management Practices

Malaysian Value Preference	Underlining assumptions/impressions/perceptions
Not as articulated and assertive as foreign peers	Projecting an image of self-confidence is sometimes not in harmony with the values of humility, modesty and politeness
Not so open and expressive in communicating feelings and ideas to others	Giving and receiving praise make them feel ill at ease. Being direct can be seen as ill-mannered and may give a bad reflection on one’s upbringing.
Providing and receiving verbal feedback	Not comfortable in providing feedback for the fear of being insincere or too direct. Malaysians, therefore, are not aggressive.
Tend to be cordial and polite in making request	For fear of being seen as too confrontational, forthright, brash and rude.

Indirect when communicating disappointment	For the fear of hurting feelings of another party.
Disagreement	May not argue openly or contradict one another. Avoidance is preferred mode of resolving conflict, so as to preserve face.

Table 53 Values, beliefs, conflict

<b>Malaysian Values</b>	<b>Western Values</b>
Difficult to say 'no' to superiors	Cannot take 'no' for an answer as anything can be done with adequate resources
Face saving and keep the other person's feelings in mind	Assertive, up front and speak one's mind
Informal relationships	Formal structure
Flexible and accommodating	Procedure bound and go by the book
Generalities	Specificity
Patient and able to roll deadlines	Time bound and deadline driven
Indirect use of intermediary to convey the negative news	Direct and to the point when giving feedback
Relationship and group orientated	Task and individual orientated
Respect for hierarchy	Equal treatment for all
Non-confrontative	Confrontive

Source; Asma (1992)

The Malay's willingness to give up one's interest for the sake of group interest is upheld due to the family values instilled in their culture. This is also reflected in the decision-making process where Malaysians tend to make a final decision based on consensus rather than on an individual basis. Previous research, however, reported that these value patterns are slowly changing due to globalization and economic growth that impact management practices and behaviour. Asma (2009) further observed that although Malaysians have become more confident in expressing their thoughts and opinions, but this is done in a subtle way and through a third party in order to preserve the concept of face value, non-assertiveness and non-confrontational values.

There are some notable comparisons we can make which indicate the differences between Malay and Australian Managers and leaders

- Challenging vs. Deferential

Australian leaders tend to have to deal with, and are more accustomed to, more challenges and pass more challenges on up the line as well. In Malaysian corporate culture, there is arguably more respect for authority and more deference to leaders.

- Individual vs. Collective

Malaysian corporate culture tends to focus on collective achievement, while Australian culture promotes individual achievement. Leaders in Malaysian cultures tend to judge success on team achievement, whereas Australian leaders will look for superstars and weak links.

- Freedom vs. Process

Malaysian leaders tend to feel comfortable with great, certain processes, and hesitant to step outside the tried and true. Australian leaders, on the other hand, have a more opportunistic focus. Pitfalls to both, of course.

- Open vs. Close

It's unfair to call the Malaysian leadership style 'closed', but it's something. Australian leaders tend to build close relationships with their teams, whereas Malaysian leaders are more at "arm's" length.

## **15.2 INDIVIDUALISM-COLLECTIVISM**

The dimension of individualism-collectivism refers to the relationship one perceives between one's self and the group of which one is a member. Hofstede (1980) describes members in individualistic societies as self-centred, competitive rather than co-operative, having low loyalty for the organizations they work for, pursuing their own goals, having a low need for dependency upon others, and being calculative. Members of collectivistic societies, on the other hand, have a "we," rather than "I" orientation, have high loyalty to the organization and work toward its goals,

interact with each other in an interdependent mode, and act jointly as a group in a cooperative fashion rather than on an individual competitive basis, thus subscribing to the moralistic values of joint efforts and group rewards. Hofstede (1980) also states that, in an individualistic society, each manager is likely to look out for his/her interest and try to maximize the gains from any opportunity that might present itself. In collectivistic societies, on the other hand, members identify with the organization and act in unison to accomplish the organization's goals.

This sense of interdependence, loyalty and joint obligation to the system would also foster a more cooperative and informal communication and coordination mechanism to operate in the system as the goals of the organization are being achieved. Tata and Prasad (1992) postulate that the cultural norms prevalent in society about the degree of collectivism versus individualism expected from its members can influence the nature of interdependence between employees and organizations. They add that in collectivist societies, a collective sense of responsibility and accountability encourages interdependence of employees in decision-making<sup>487</sup> and that employees feel a greater amount of emotional attachment to the organization, want to participate in decision-making and accept collective responsibility for the decision<sup>488</sup>. In individualistic societies, employees feel less attachment to an organization, and decisions made by individuals are considered to be of higher quality than those made by groups (Hofstede, 1984).

Studies shown a systematic relationship between education and value orientations, with higher levels of education tending to be associated with higher acceptance of self-direction. These findings can relate to Malaysia as there is a definite

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<sup>487</sup> Rohlen, 1974; Takezawa and Whitehill, 1991; Clark, 1979

<sup>488</sup> Hofstede, 1984; Hjelholt, 1976



change in the culture. The section will examine the level of horizontal and vertical dimensions of individualism and collectivism in different cultural environments of Malaysia and the level of horizontal and vertical dimensions of individualism and collectivism in different cultural environments in Australia. Data were collected by questionnaire from middle managers in a total of twenty-eight organizations, divided between Malaysia and Australia, in Selangor, Malaysia (18 organizations) and Queensland, Australia (10 organizations).

Middle managers were the target subjects because studying middle managers reduces the occupational and organizational response effects found to influence work values, norms and beliefs<sup>489</sup>. Hofstede (1984), for example, reports that very low-level employees, especially unskilled manufacturing workers, tend to answer questionnaires with socially desirable responses that are meant to impress management.

Middle managers are defined for this study as people who report to senior managers, and who have either supervisors or professional staff people reporting to them. After exclusion of inappropriate and unusable responses, a final analytical sample of 323 (Malaysia =203 and Australia = 120) was obtained, resulting in effective response rates of 75% in Malaysia, 80% in Australia, and 77% overall. The Malaysian sample includes 27.1% females and 72.9% males whereas the Australian sample is even more male-dominated with 20.8% females and 79.2% males. Malaysian respondents have an average of 11.2 years of employment with their current organizations compared to Australians' average of 8.6 years.

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<sup>489</sup> Hofstede, 1984; Lundberg and Peterson, 1994; MOW International Research Group, 1987

The mean age of Malaysian managers in the sample is 39.4 years and that of the Australian managers is 41.2 years. The modal educational level was having a university degree in both countries (68.5% for the Malaysians and 50.0% for the Australians). Most of the managers were married; 84.7% the Malaysians and 81.7% the Australians. The items were answered on a seven-point scale where 1 indicates strong disagreement and 7 indicates strong agreement. Since the study is a cross-national investigation, it was essential to prepare the measures in both the English and the Malay languages.

In sum, Malaysian respondents are inclined towards collectivism in situations involving in-groups and tend to be individualistic in situations that involve out-groups. In this sense, Malaysian managers are basically collectivistic, but the rapid development of the Malaysian economy has undoubtedly introduced another element into Malaysian culture, that is, competition. Australians on the other hand, perceive self-reliance as an important virtue and believe that they are masters of their fate. In this respect, Australian managers are inclined towards horizontal individualism. This pattern is consistent with Daun (1991) findings, where he reported that Australian and Swedish managers appear to fall in the category of horizontal individualism.

These findings indicate that Australians can be described as individualists. Horizontal individualism is a cultural pattern where an autonomous self is postulated, but the individual is more or less equal in status with others. The self is independent and the same as the self of others. The Australian society is individualistic with a concern for 'Mateship'.<sup>490</sup>

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<sup>490</sup>Encel 1970; Hancock, 1930; Lipset, 1963; Ward, 1958)

These conditions were assumed to reinforce a social, collectivist outlook involving loyalty to one's mates, a willingness to share activities and reciprocate favours, and conformity to group norms within the outwardly masculine culture. Mateship is usually described concerning male, working-class relationships and it involves a complex mixture of collectivist and equalitarian values, realised at the individual level in companionship, joint activities, sharing, and loyalty to one's mates, supporting them in an emergency. Present-day Australia is now a complex, developed society with a mixture of different groups. Feather (1986) observes that Australians live in a competitive social environment where progress and achievement are valued for what they bring. There is praise for those who succeed in sport, business, and other pursuits, admiration for the person who makes his/her way in life often against difficult odds, and for the individuals who stand out against authority.

The relative affluence and stability of Australia also promote less concern with survival, safety, and security at the personal and national levels and more concern with love, affiliation, self-definition, and self-fulfilment (Feather, 1975, 1980). It has been widely reported that Australia is an individualist nation while Malaysia is reported to be a collectivist country.<sup>491</sup>

The data suggest that collectivism in Malaysia has shifted slightly. Malaysians are still basically collectivists in terms of their social relations, self-sacrifice and family integrity but, at the same time, they have inculcated the elements of competition, an individualism factor, at least in their working life. This change can be explained from the rapid economic development that has taken place in Malaysia since Hofstede's studies on individualism collectivism published in 1980 and 1984. The Malaysian

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<sup>491</sup> Hofstede 1980, 1984; Schwartz, 1994; Triandis, 1995

economy has gone through rapid structural changes since its Independence in 1957. At the time of independence, there was a pervasive popular belief that Malaysia, with its perceived limitless resources, would 'take off.' Only 37 years ago, almost 40% of Malaysians lived in absolute poverty. Less than 5% did so in 1996 and even lesser today. The Malaysian economy has undergone significant structural change developing from largely a commodity producer to a predominantly industrialised country - Malaysia is now an important centre in the global electronics production process.

The development of a middle class presupposes social mobility and social mobility in turn leads to individualism. Individualism is born when rapid social change, including much social strife, destroys existing groups, making it necessary for individuals to act alone. Similarly, when there is high social mobility, individuals do not conform to groups. Thus, social change and social mobility lead to individualism. Hofstede (1980) postulates that individualism-collectivism dimensions relate most closely to a country's national wealth (GDP per capita). Individualism is likely associated with the development of middle-class values. The development of a middle class presupposes social mobility. The nuclear rather than the extended family structure is supposed to be a central element in breeding individualism. The smaller population growth means also, that parents tend to have fewer children. The child from a small family, other factors being equal, learns to be more individualistic than the child from a large family (Hofstede, 1980).

Economic development, is a function of a high "need for achievement" (which is often linked to individualism and competition), multiplied by a high "need for extension" (use of large in-groups, not just the traditional narrow family concerns, and

which might be referred to as “large in-groups collectivism”), minus the “need for affiliation.” In other words, the need for both achievement and extension is required. If one of these two is low, the other cannot be effective. In addition, if people spend most of their time enjoying social relationships, they will not develop the economy. According to Triandis (1995), as affluence makes more choices possible, vertical collectivism changes one of its facets, that is, it changes into either horizontal collectivism or vertical individualism. When even more affluence is present and no external threats of any kind are detected, the other facet changes as well, that is, horizontal individualism. At least one facet of individualism, that is competition, has infiltrated into the collectivistic values held by the Malaysians.

Malaysia has significantly higher levels of horizontal and vertical collectivism compared to Australia. This supports the contention that Malaysian society is more collectivistic than Australian society. Interestingly, the level of vertical individualism in Malaysia is higher than in Australia. The result seems to indicate a slight shift from collectivism to individualism in Malaysia. It was observed that “there appears to be a shift from collectivism to individualism in many parts of the world”, and Hofstede argues that increases in national wealth mediate this shift (Hofstede, 1991).

The Malaysian data, assuming the continued expansion of urban-industrialisation development and rising incomes, would also point to a similar “shift” toward individualism occurring in this country more rapidly in the future. Therefore, the indication that collectivism and individualism tendencies may coexist in Malaysia. Collectivism tendencies within Malaysia are changing. Past stereotypic notions of collectivism in the Malaysian culture are quickly eroding, which is probably related to the affluence of the Malaysians, higher incomes and the competitive element of

individualism in their work-life and the educational system. These dynamics of individualism-collectivism in Malaysia were coupled with the fact that the Australian sub-sample consisted of older employees than the Malaysian sub-sample. Because of the relatively small and unequal sample sizes in Malaysian and Australian data, the data may not be entirely reliable.

Alternatively, one may argue that Malaysians may not be as collectivistic as the literature suggests in their orientations toward work (even though they may be within a family or in-group). Often, difficulty in predicting the behaviour of Malaysian employees is attributed to language issues or behavioural idiosyncrasies. More likely, these predictive problems arise from a lack of appreciation of the thought processes experienced by Asians in the Western managerial environment. Australian managers may fail to understand how Malaysian employees are modelling their surroundings and what kinds of causal dimensions they use to see the world.

By understanding the types of culture (horizontal and vertical dimensions of individualism and collectivism) that Malaysian employees covet, managers can tailor and adjust their organisational value type espoused by the organisation to more effectively manage the employees and more effectively communicate work assignments, requirements and priorities. This awareness also demonstrates that managers are sensitive to the needs and concerns of their Malaysian superiors, colleagues, and subordinates. In addition, a manager who understand these facets of Malaysian culture can more effectively grasp how Malaysian employees see the organisational environment, and is better able to create a workplace that avoids intra-organisational culturally-based conflict.

By comprehending how this segment of the corporate workforce thinks, a manager is better able to motivate, assign jobs and control interactions. Further, by knowing the Malaysian affinity for competition, social relationships, family integrity, and self-sacrifice, a manager can access a larger perspective from which to identify and analyse problems and develop and implement solutions. The differences documented here hold considerable value for Australian managers working in Malaysia, or overseeing largely Asian employees in Australia.

However, a reality of global business is that these managers will be called on to manage, supervise and negotiate with Malaysian employees. Hence, knowledge of the nature of Asian culture will better enable managers to effectively and efficiently orchestrate organisational objectives. Managers in foreign postings, with ethnocentric managerial attitudes were those found to have the highest number of failures.

The failures can be linked to the managers' belief that their own cultural values, that of parent organisation's home base country, were superior to those of the host countries. The make-up of the workforce in Malaysia and Australia has undergone, and is continuing to undergo, dramatic changes. The employees of today come from a wide range of nationality, racial and ethnic groups, have diverse sexual preferences and different demographics. The management of successful organisations will need to learn how to manage diversity. The reason is that the business world is entering a period where organisations will face serious skilled labour shortages.

It is hoped that the results of this comparison will broaden the knowledge base and be useful to the organisations in the "real" world. Awareness of similarities and differences should help managers better understand and appreciate their international

counterparts and, ideally, should lead to improved cross-national working relationships.



## CHAPTER 16

### 16.0 CONCLUSION

In conclusion the study has covered a variety of topics with a focus on management development and strategic management decision-making and what influence the Western management ideologies had in the development of Malaysia. It is fundamental to acknowledge and understand the British influence during the colonisation. The historical impact on Malaysia and the Malay manager development is still very obvious. The Malay manager have a problem to snap out of the peasant mentality and is not able to extend past their comfort zones. The importance of the history in the Malay manager development is critical. The British influence did not only have an impact on the development of just Malay managers, but also on the development of other none Malays, the social and economic conditions, the history and political factors, developing a managerial cadre in a developing country. The thesis also makes some comparisons and evaluated how the literature fit into the study.

The period of British rule in Malaya has been shown to have had a profound impact on the present context of management development. With the arrival of the British and interference in Malaya during 1870 they found a feudal Malay society and an economy based on subsistence agriculture and fishing. The British Government recognized the Malay Sultans as the rightful rulers of the peninsula and governed through them in order to minimize disruption to Malay society. However, British intervention was motivated primarily by economic considerations and greed and their coming heralded a period of rapid economic development. The peninsular was rich in tin and was found to be well suited to the cultivation of rubber, and later, oil palm. The

British had no intention to develop anything and recognizing the Malay rulers to manage the population, it was easy to accomplish their goals. The British style of 'divide and rule' policy was well implemented.

Malays showed no desire to do manual labour and or to work in the mines or on plantations, so they were encouraged by the British to continue their traditional pursuits, as a result, it was necessary to import labour and management, and Malaya witnessed the influx of three entrepreneurial groups - the British, Chinese, and Indians. This reluctance of the Malay and their peasant behaviour was also the cause of their slow and stunt development. The three entrepreneurial groups came with varying degrees of commercial and technological sophistication.

The Chinese brought financial and mutual aid associations, trade guilds, mining and smelting expertise, attitudes and values highly supportive of commercial activity and an astonishing capacity for thrift and hard work. While many of the Indians came as low-caste labourers and remained so, others came from the middle classes: merchants, money lenders, civil servants and professionals who brought commercial expertise, familiarity with British rule, proficiency in English and an appreciation of the benefits of English education.

The British contributed advanced technology in the form of tin dredge and smelting techniques, financial institutions, in particular the joint stock company that enabled them to mobilize the financial resources of Britain, and the managerial ability to operate on a large scale, notably through managing agencies. These three groups came to dominate specific segments of the economy: the British, large-scale activities, estate agriculture, tin-dredging and smelting, and import-export; the Chinese, small-scale activities, tin mining, the wholesale and retail trade, and light industry, and the

Indians, money-lending, parts of the wholesale and retail trade, certain branches of the civil service, and the professions and the Malays stayed peasants and farmers. Through the British efforts and the imported skills with the active encouragement of the then British-controlled Government, Malaya grew to become the largest producer of tin and rubber in the world during the colonisation. This has created a foundation for Malaya to dominate the Tin and Palm oil for a while post-colonization.

In the meantime, the traditional sector languished. The introduction of a monetary economy resulted in the growth of indebtedness among Malays and rural Malay schools were designed to encourage traditional pursuits. In Malay society the aristocracy alone was provided with an education, and a role to play in the new economy, and that was specifically oriented towards Government.

During independence when Britain returned the rule of Malaya to "the Malays", the ownership and management of the economy lay firmly in the hands of Europeans, Chinese and Indians. The new Government sought to accelerate the pace of economic development and diversify the economy through industrialization, and the attraction of foreign capital, and it was highly successful. However, it was the non-Malay groups that had the financial resources, education, and technical and managerial expertise to take advantage of this and the gap between Malays and non-Malays grew even wider.

In 1969 this situation erupted in racial violence which brought a complete reassessment and reorientation of Government policy. This was articulated in the New Economic Policy (NEP). The introduction of the NEP with the Second Malaysia Plan in 1971 forms the principal backdrop to this study. The Government was determined to change the social and economic structure so that by 1980 Malays own 30 per cent of the economy and Malay employment in all sectors, at all levels, reflects their

proportion in the population. The Government's intention is that these targets be met through rapid economic growth. At the same time, it has cemented the affirmative action into the systems, ensured preferences for Malay businessmen and obliged companies to correct what the government called "the racial imbalance" in their ownership and management. The period of this study is thus one of rapid change in which political factors are of great importance in establishing the priorities for management development.

The need for management development then and now in Malaysia is both real and urgent given the level of economic growth the Government hopes to achieve. The development of dynamic managers in a rapidly growing economy needs to be deliberately undertaken if supply is to keep up with demand. Management in Malaysia has been dominated by the Europeans, Chinese and Indians. Since independence most European held posts that have been Malaysianized and this put pressure on foreign companies to develop local managers. While the technical skills of Chinese and Indians were said to be excellent, their entrepreneurial skills did not always suit them to the needs of large European and multinational concerns and this has had to be considered in designing management development.

Since 1971 there has been the added necessity of developing a cadre of Malay managers. This has been hampered by the shortage of Malays with the necessary skills and education, the lack of business orientation of Malays, their preference for Government employment, and the early reluctance of companies to employ Malay managers, a reluctance that was slowly demolished by the new government policies of affirmative action.

Agriculture started to lose its impact with Palm oil and Rubber facing fierce competition for Indonesia and Thailand. This sudden shift required diversification of the economy into manufacturing and brought an influx of foreign firms drawn by the political and then social stability of the country, favourable investment incentives, and bright economic prospects. Local industry also responded to the new opportunities in manufacturing. This brought a growing demand for managers with technical and professional skills. In contrast, the older industries of palm oil, tin and rubber were growing very slowly, if at all, with tin reserves being worked out and rubber facing severe competition from synthetics, and often being replanted with the more remunerative Oil palm, which also competed for the market against neighbouring countries.

While management was becoming increasingly professional there was little room in these industries for expansion. In Malaysia large multinational companies stand out as making by far the greatest contribution to management development. Because they take a long-term view of their business involvement in the country they plan well ahead for the managerial requirements of the company. They were also the companies most sensitive to the priorities of the Government in developing Malay managers. There is no reason to think Malaysia is a special case here, developing countries should consider the positive contribution multinational companies make to management development in assessing this group.

One criticism that can be directed against multinational companies, they develop local manager to suit the western values and, they seemed to be more interested in adapting managers values and attitudes to those of the company. The determining factors in this are likely that the country will always need foreign managers

in the background for a standard, companywide approach to management, and a belief that the Western approach provides the best possible model, and for a head office located in the West probably the only possible system. The multinational company have no intention to develop a Malay to be able to take over the businesses, they need to maintain the peasant mentality to control the employees.

How this influences the effectiveness of managers is observed once you start looking at other factors, such as, accountability, strategic planning, management and decision-making. The imprinted cultural mentality and continuous government support have put the Malay manager in general position that he cannot shake this peasant mentality. Theoretically, it should mean that the aims of the individual manager and the company are likely to be at variance and the individual will therefore not find the personal fulfilment in his work that is considered important for a high level of motivation.

After independence the European trading houses and managing agencies were conservative in their management style and this was reflected in their approach to management development. Nonetheless, the managing agencies had developed systematic management training for new recruits and provided limited training at middle management level. The trading houses seemed to direct the preponderance of their training to their technical requirements and to carry out little planned management development, a situation reinforced by their anxiety about their future in the country. However, both groups were going through a period of change and reorientation, and the agency houses in particular were moving into new industries which required new skills and consequently new types of training. The main criticism to be levelled at these companies is that they tend to limit themselves to training, carrying out as yet little

management development in the broadest sense of the term; that is, providing a range of learning experiences, with feedback on performance progressively to develop a manager to his full potential. The slow rate of growth of the managing agencies has hindered this but the trading houses will need to consider implementing such a program to meet the technical and managerial requirements of their new ventures.

The small local Chinese and Indian firms were and still is in a difficult position. Their traditional activities were slowly being undermined by Government preferences to Malays, and by the younger generations reluctance to enter such establishments. They were faced with the need to change in order to take advantage of new opportunities but did not have the technical and managerial skills required and found the training available inaccessible and ill-suited to their needs.

While such traditional entrepreneurial groups have been good at developing entrepreneurial skills, and the pressures on them at present are likely to produce even greater drive and imaginative business flair, they have not previously needed, and consequently have not known how best, to develop management skills. This is a segment of the business community with a great deal of natural potential, a segment which is both labour intensive and regionally distributed and should be given more assistance to acquire managerial and technical skills. Greater cooperation between small and large firms, such as found in the TOP movement in France, could help to show these companies the technical and practical benefits for them of management development, at present they remain largely unconvinced<sup>492</sup>.

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<sup>492</sup> 1 B. P. Bodin, "An Experiment in Co—operation between Large, Small and Medium-sized Enterprises in France: The TOP Movement, Promotion of Small and Medium—Sized Firms in Developing Countries through Collective Actions. OECD. pp. 245-249.

'TOP' Technique, Organisation, Productivity, is a cooperative movement between small to medium-sized firms and large firms involving:

- 1) Joint management training,
- 2) Individual help in applying modern management methods,
- 3) Collective assistance in using methods and machinery, and
- 4) The exchange of experiences and visits to the specialised services of large firms.

Through close association with a large well-managed firm with a well-planned system of management development of these small local companies may be helped to see its applicability in their situation. The Malaysian educational system has expanded rapidly and is still going through a period of rapid expansion and change which is solving the problem of the scarcity of professionals required by the private sector. However, it appears to have led to lower standards and exaggerated aspirations for graduates. Both problems are likely to solve themselves as the rate of growth of the educational system levels and the supply of graduates begin to meet the demand. It is also observed with the influx of foreign universities it was not so much of development. The foreign universities are about rankings and number and research and very little about management development. These universities do not acquire the skill to make Malay managers industry ready. A problem likely to remain is the shortage of technical and other sub-professional trainees. There has been no little growth of technical colleges and polytechnics to parallel the expansion of universities, yet this is an area where there is a clear demand. The fact that ITM has resisted pressure to be upgraded to university status is commendable, for it is one of the few institutions aimed at meeting this need.



In the Malaysian industry, there is a tendency for certain fields to become surfeited with too many companies chasing too small a market and in the training sphere, this also appears to have happened. While the entrepreneurship and enthusiasm of the various training organizations is encouraging, the market is still relatively small. The two main training organisations, MIM and NPC, have developed largely complementary areas of specialisation and it would be preferable to bring smaller organisations under their wings rather than have against each other.

However, some reorientation is required to provide for the needs of the small local firms at affordable prices. Another problem that have hamper development was the subsidies for training, and was largely available for Malays only. The bulk of the training provided is geared to the medium to large companies which can well look after themselves. Having already begun to cater for small-scale industry NPC is ideally placed to develop this service further, and the pattern of co-operation between NPC and local trade organisations to ensure that the courses are relevant to their needs is one that is worth extending. However, more work is required to adapt largely western oriented course material to local needs.

MIM is well placed to cater for large scale business, and in particular to persuade senior managers of the importance and utility of developing their managerial cadres. It has already entered the field of research with the support it gave to this study and this could fruitfully be extended. There is a need for particular attention to be paid by both training institutions to the relevance and practicality of their courses.

Both MIM and NPC are involved in some consultancy work, an area not explored by universities. Through the extension of this facility they can work with companies to devise management training tailored to the individual requirements of

firms. In order to carry out their roles both organizations require the highest calibre of staff for they must be able to retain the confidence of practising managers who may have a great deal more practical experience than the teachers do themselves.

The use of visiting specialists received a good deal of criticism because of their ignorance of the local situation and consequent inability to relate theory to the immediate needs of businessmen in Malaysia. Malaysia has a multitude of colleges, poly techniques and foreign private institutions. The education power house has appeared like mushrooms overnight. Each with its own set of mandates. But the mandate for foreign branch campuses was completion between themselves, it was about money and world rankings. These universities could train academic courses but the lecturers did not have the skill to make the student industry ready.

Finally, there is the problem of "racial balance" or rather "imbalance". The social changes the Government seeks to bring about, are so enormous they amount to a social revolution, and this has inevitably placed stresses and strains on the whole of Malaysian society, but most of the problems the business community faces will solve themselves in time. However, there are several problems that are likely to remain. The Government's emphasis on developing Malay entrepreneurs is unlikely to prove successful since none of the home conditions a Malay faces assists him in acquiring the values of industry, diligence and frugality, and the business acumen characteristic of the entrepreneur. The many preferences offered to Malays undermine these values and reinforce 'peasant' attitudes. It would be more sensible to develop the strengths of Malays rather than insist on correcting their weaknesses.

To develop their already proven administrative abilities rather than to dwell on fostering entrepreneurship and to insist on racial balance in management, but not in

all areas of management, to seek the global target, and not the individual. Malay managers themselves have preferences and inclinations born out of culture and education which are not insignificant. The Government's racial balance policies have been highly successful in forcing companies to provide Malays with an opportunity to prove themselves and in persuading firms to experiment with the best ways of developing managerial skills amongst Malay recruits. However, little is known about the complex process of creating entrepreneurship and this is not within the scope of a management development program.

The development of Malay managers has tended to fall mainly on the large multinational companies who have the knowledge and expertise to undertake this. However, they have unwittingly taken on the task on behalf of the entire private sector which cheerfully poaches the products. The contribution of these companies is so important to the host country it needs to be recognized, and this could be done by arranging financial support through outright Government grants or a levy grant system.

Malaysia did not just had problems with the development of Malay Manager it also faced with a gender equity unbalance. There was no place for women in the new and rapid development of the country, gender equity came in the late twentieth century. With so many factors that had a direct impact on Malaysia development it was necessary for this study to do some deep dive analysis within Malaysia. This deep dive demonstrated that there is a need form manager to be developed in strategic management and that mangers need to be upscaled and developed.

To better understand the development of managers in Malaysia the study covered and reviewed the history and current state of Malaysia's industrial policy and the evolving industrial structure as part of an effort to identify where one might expect

to see where future competitiveness and growth may lie in the manufacturing and service sectors. It was found that the internationally competitive parts of the manufacturing sector are mostly dominated by foreign owned and controlled firms.

Scattered domestically owned and controlled firms have also become successful exporters of manufactures and even a few services, and their numbers increased in the mid-1990 all be it modestly, but most manufactures and services are oriented toward the domestic market and many still require some protection from international competition. The size of the Malaysian domestic market is not particularly large, however, so growth based solely on that market will not be able to take advantage of many economies of scale. Furthermore, industries that depend indefinitely on protection from foreign competition tend to work more at maintaining that protection than at raising their own productivity. Import substituting growth, therefore, is likely to be slow growth over the long haul. If Malaysia is to continue to enjoy continued rapid GDP growth, many of these import substituting firms will have to become exporters of goods and services.

There is nothing unusual about this future challenge that Malaysia faces except for two special features of the Malaysian economy. The first special feature is the richness of Malaysia's natural resource base. This natural resource base has made a major contribution to Malaysia's growth in the past and has played a central role in helping fund some of the country's industrial and social experiments. But Malaysia's natural resources are a steadily declining share of GDP, exports, and government revenue, and will soon be minor actors in the Malaysian growth story much as, first tin, followed by rubber and now palm oil with the new international regulations on palm

oil. These industries were historical powerhouses and have become relatively minor sectors of the overall economy.

The second special feature of Malaysian industrial and service sector development has been the emphasis on ownership restructuring and income redistribution. In the view of Malaysia's leaders and even from the perspective of many who had to help pay for this restructuring and redistribution, the change was necessary to ensure a stable society where benefits were widely shared and occupations were not identified with ethnicity. Ownership restructuring has been by any reasonable standard highly successful. By the mid-1990 it was not possible to identify many large sectors of the economy as belonging to one ethnic group or another whatever the precise ownership percentages might be.

Ownership restructuring, however, has not been without costs. Malaysia's internationally competitive manufacturing sectors are precisely those sectors that have been exempted from the ownership requirements and are dominated by direct foreign investors. Local firms, as is usually the case in most countries, have started by concentrating on the domestic market and hence have been subject to ownership restructuring throughout their history. Some have grown and prospered under the requirements of laws, but the number of these firms that have grown to be truly international is not large.

Probably the least successful part of the ownership restructuring is the part that relied on state ownership to implement its objectives. The government itself realized some years ago that state firms tended to be inefficient, and undertook privatisation of most of them. Privatization, however, generally meant sale to bumiputra, not sale to the highest bidders, in order to create a group of bumiputra billionaires. But the goal

of creating bumiputra billionaires is being achieved in part by giving selected individuals exclusive licenses to build key elements of Malaysia's infrastructure. In some cases, the license has mainly generated rents for the license holder. The more this type of situation occurs, the greater the danger that Malaysian costs of doing business will rise to uncompetitive levels. The 1997 increase in electric power rates to a level that makes Malaysia the second most costly producer of electric power in the region.

The crucial question in the Malaysian context is whether the new bumiputra billionaires being created have acquired the right kind of experience to be able to continue the country's economic growth. Or is this a situation similar to that of India where the rich and privileged become richer and the peasant poorer. Few of these individuals, for example, came to their tasks with much experience with either manufacturing or exporting. If these new holders of great wealth can make the necessary transition to industrial and international entrepreneurship, Malaysia has little in its future to be truly worried about. If they cannot make this transition, then Malaysia has two not mutually exclusive choices. The economy can continue to depend on foreign direct investors to play this role or it can attempt to look elsewhere locally for entrepreneurial talent. For the most part, the incentive structure needed to stimulate foreign direct investors can arguably be said to be in place despite the recent temporary capital controls. The same, however, cannot be said concerning new sources of local entrepreneurial talent.

In conclusion, I would highlight decision making which form a large part of the management development in Malaysia. Decision-making is a lacking skill in Malaysia, it was a lacking skill during the colonization, after independence and is still a lacking

skill today. The study revealed that the type of participation that significantly related to the middle management employees in the Malaysian public sector is consultative participation rather than delegative participation. Although employees have frequently involved in the current operations, management discussion, meetings and group discussion, however, of the important decisions are still made by the top management, and the majority of the employees at the middle management only act as a 'feeder of information' by contributing ideas, opinion and suggestions to help and assist the leaders in making decisions.

This further revealed that few numbers of employees had experienced less empowerment at the workplace. This situation is probably related to the high hierarchical and bureaucracy systems in Malaysia. The job scope and limited roles of middle management also related to the low level of delegative participation due to the primary functions of the middle management which is more significant to receiving orders from the top management and implementing organisational plan based on ministry's policies and goals; identifying problems and making short-term decisions relating day to day organisational operation and function within their job scope; and makes research, give input, information and ideas to the top management rather than having a full power to make decision relating the tasks and job.

The well-structured higher education system in Malaysia is key in enabling the government to achieve its aspirations to have a resilient nation, encourage the creation of a just society, maintain sustainable economic growth, develop global competitiveness, build an economy and innovative culture, strengthen human resource development and maintain sustainable environmental development.

The efforts of the government and education entrepreneurs to constantly enhance and improve the infrastructure of higher education, human resource development, and curriculum to provide better quality education for students have earned the country international recognition. Malaysia has also been recognised for its success in the democratisation of higher education. Education played a major role in the development of management and made them academically ready. The question is if this academic readiness is enough. This knowledge does not provide real-life management practice.

The practice of management in Peninsular Malaysia has been carried out by a careful examination of the complex factors influencing the present situation, and the policies and practices of the companies involved. In closing, I hoped that this study has contributed to a better understanding of how chief executives are developed and make decisions. Although the research on leadership goes back many decades and engages plentiful researchers, there are still unexplored challenges and gaps to fill on what defines the next generation of leaders and how to best prepare them to successfully run corporations in the future. It is certain though that organizations need to look for people with the potential capabilities for running high performing organizations tomorrow rather than today, and that the business environments they need to operate in are getting more complex by the day.

High-potential leaders need to develop a mature mindset in five dimensions: they need to be able to think beyond their roles, lead people, be strategic thinkers, view business problems holistically and be scalable across functions. These dimensions have to be better aligned with the government's aspirations and business strategies. In doing so, high-potential leaders develop the ability to not only adapt to



and cope with change, but to drive change. The traditional communication structure in Malaysia does not necessarily work in mediating between global strategy and local business needs, because it does not always support the flow of the most relevant knowledge.

Furthermore, as the rapid pace of economic growth and technological discontinuity skyrockets, the number of knowledge organizations need to possess to be able to stay competitive, and the next generation of leaders needs to be able to build diverse leadership teams. In doing so, different perspectives are brought to the leadership table on one hand, while the collective scope of the network is increased on the other. The leaders need to be identified at all levels and functions of the organization, to ensure that a diverse team of future innovative executive leaders and leaders of innovation are groomed from within. It can be said that in the Malaysian context the challenge lies in leadership.

The leadership styles employed in Malaysia today evidence an emerging shift towards more open and collaborative workplaces, but breaking the innate hierarchical thinking and encouraging the employees to open up will inevitably take time. As Malaysia progresses towards a knowledge economy, the change towards creative and innovative workplaces is crucial. Consequently, the current executive-level business leaders need to enable potential leaders to create the future of Malaysia, rather than trying to anticipate and cope with it. As the pace of growth and change is unlikely to level off any time soon, Malaysia needs to be quick in rethinking its leadership development practices by starting to embed a higher level of coordination and transparency in the leadership development practices.

As all studies have limitations and the limitations of this study are being acknowledged and hope to have paved the way for future research. One of the concerns of this research is the cross-sectional nature of this study which describes the feelings and thoughts of the participants on the selection process at a given time only. Therefore, the results are based on the emotions of the participant for that period only rather than evidence over some time. Another concern is also that the findings are presented solely on the insights of only the participants of this study and therefore represent a partial perspective on the review of the selection process when taking into consideration all the other employees of the organisation who did not participate in the study

Finally, I want to point out that there exist fast-acting solutions to the present economic malaise and to the long-run problems of maintaining high growth and increasing international competitiveness. But it requires considerable statesmanship and political skill to overcome the obstacles to the adoption of these quick-relief solutions. The first politically sensitive reform is to relax the ownership restrictions to enable the needed recapitalisation of the banks and large firms.

The government must make a credible commitment to the lifting of capital controls. The reforms will also have the salubrious effect of encouraging the small and moderate, import-substituting, firms owned by non-bumiputras to expand their capacities, and eventually, become big exporters. The second politically sensitive reform is to revise the state industrial policies to include expiration dates for state subsidies and import protection. The government must institute a weeding-out process within its infant industry program to prevent high-cost inputs from undermining

international competitiveness. This "tough love" approach will help to focus the thoughts of the protected firms on improving productivity.

The suggestion for reform is actually neither radical nor politically infeasible. The National Economic Recovery Plan unveiled by Daim Zainuddin in July 1998 had made just such a proposal. The government has "succeeded" in creating a professional and entrepreneurial bumiputra community that equals the non-bumiputra community in competence and competitiveness. By most indications, Malaysia now has a large, well-educated bumiputra middle class that is actively engaged in nearly all industrial and modern service activities. Furthermore, there is no reason to think that explicit industrial policies, backed by state subsidies and import protection, are needed to guide the investments of well-informed bumiputra entrepreneurs.

These are extraordinary times in Malaysia, and extraordinary political leadership is important. Part of extraordinary leadership is the political courage to assess objectively whether the continuation of the race-based programs and the industrial policies has more to do with political patronage than with providing "infant industry protection" to backward bumiputra professionals and businesses. If the answer is the former, then the economic costs from a rigid affirmative policy are not serving the cause of social justice, the defensible motivation behind the race-based policies. It is the time to throw away the crutches that are getting in the way of the economy moving forward faster. A fast-growing and fiercely competitive economy will do more to enrich the bumiputra community than state-generated rents can ever hope to do.

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