HUMAN CAPITAL DEVELOPMENT IN MALAYSIA: A CASE STUDY ON COMPANIES, EMPLOYEES AND UNDERGRADUATE STUDENTS IN KUCHING, SARAWAK

BY

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A project paper presented to the Faculty of Economics and Business in partial fulfillment of the requirements for the Degree of Bachelor of Economics and Business with Honours (International Economics and Business)

UNIVERSITY MALAYSIA SARAWAK
2002/2003
STATEMENT OF ORIGINALITY

The work described in this Final Year Project, entitled "Human Capital Development, Malaysia: A Case Study on Companies, Employees and Undergraduate Students in Kuching, Sarawak." is to the best of the author's knowledge that of the author except where due reference is made.

3 March 2003

Date

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This project paper attached hereto, entitled "Human Capital Development in Malaysia: A Case Study on Companies, Employees and Undergraduate Students in Kuching, Sarawak." prepared and submitted by Chai Siaw Ying (5029) in partial fulfillment of the requirements for the degree in Bachelor of Economics and Business with Honours (International Economics and Business) is hereby accepted.

Date

13/11/2008

Madam Lo May Chiun
Faculty of Economics and Business
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ABSTRACT

In this particular final year project, I have in fact learned the practical knowledge and wisdom that I would not be able to learn in class. The society that I approached during the process of the research actually taught me how to prepare myself in facing the real challenges in the outside world, which is outside the campus.

Large scale companies in Kuching still have the potential to compete with huge companies from all over the nation. Some even managed to become public listed companies by listing in the Main and Second Board of Kuala Lumpur Stock Exchange. It is surprising also to discover the companies are participating actively in improving their Human Resource Management as to create diversified workforce and to improve productivity. The downside of the large-scale companies in Kuching is their inability to transform their workers into knowledge workers. The companies have been focusing intensively towards their energy-based workers through training. They have failed to improve the knowledge empowerment of the workers as their employees are still bound to merely receiving orders. Employees in the companies have been putting personal treatment as their priorities and not only to high pay. Kuching’s undergraduates or soon to be knowledge workers, are yet to give their fullest commitment to the development of the nation.

As a conclusion, the value of integration and cooperation are greatly needed among all groups of society in Malaysia as the stepping-stone in achieving the nation’s dream of becoming an industrialized nation.
ABSTRAK

Secara keseluruhan, saya telah mempelajari pengetahuan yang praktikal dan berguna melalui kajian ini. Pengetahuan ini tidak dapat ditimba dengan hanya menghadiri kelas sahaja. Ahli-ahli korporat dan masyarakat yang saya temui melalui kajian ini turut memberi teladan kepada saya bahawa cabaran hidup di luar adalah berpelbagai.


Para siswa dan siswi yang bakal menjadi penerajui ekonomi Negara pada masa depan pula masih teragak-agak untuk membantu dalam meningkatkan ekonomi Negara. Sebagai kesimpulannya, nilai integrasi dan kerjasama yang kuat di kalangan masyarakat adalah penting untuk menjayakan azam negara dalam menuju ke arah Wawasan 2020.
ACKNOWLEDGEMENT

First of all, I would like to express my heartfelt gratitude to my supervisor, Madam Lo May Chiun for guiding me all the way into completing this final project. Without her guidance and patient, I would not have been able to present it well on my own. Besides that, I would also like to thank all the lecturers, staffs and peers from UNIMAS for sharing their knowledge, precious time, and energy in assisting me throughout the process of completing the final year project. Thanks also to my beloved family members for constantly being there for me when I needed them.

Finally, I really appreciate all the cooperation and assistance given by all the respondents and authorities including both government and private sectors in making this research a success.
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Chapter 1
INTRODUCTION

1.0 Globalization and Human Capital

Human Capital is the knowledge, skills, and abilities of employees that have economic value as stated by Bateman Snell (1999), in ‘Management, Building Competitive Advantage’. Human Capital will play an increasingly important role in successful organizations and prosperous nations, as quoted by David Blunkett\(^1\) (1999), the Secretary of State for Education and Employment in Britain. For Malaysia case, the transformation of the Malaysian Economy into industrialization and export orientation has increased the demand for manpower particularly with science and technology based qualification. As Human Capital is closely connected to Human Resource Development, HRD policy in Malaysia has became crucial in the Malaysia Economic Planning in the 1980s. Beginning with the Eight Malaysia Plan (2001-2005)\(^2\), the policy has been directed to enhance the quality and production of the workforce to meet skill requirement of the economy which is based on the development of Human Capital. Therefore, this study is essential in understanding the progress of Human Capital Development in Malaysia.

Now, many businesses have operation in all over the world and actively involved in international market. This has resulted in increasing competition among the traders and businesses. To be able to create a competitive edge for the companies, the now uppermost concern is on the human capital management in the company.


\(^2\)Adapted from Human Resource Development. www.cpu.jpm.my_RM8-e4_cont.pdf (3 November 2002)
Human Resources in one company are considered nowadays as the crucial assets that need constant improvement in order to compete in the international market and not being left behind. According to Stephen J. Perkins (1999), in Globalization, The People Dimension in discussing Human Resources Strategies for Global Expansion, the reason why human capital has to be the forefront in global business development is because it is not a luxury add-on, but a business imperative. It is also about acquisition of capabilities in operating both developed and developing countries of the world which they bring out in meeting the challenge of the people dimension. This particular piece of work has indeed shows the real need in developing human capital to determine the success of companies that are surviving in the era of the Globalization.

As we can see, the rapid growth and development of the world is now concerning on human capital efficiency to determine the survival of companies. Therefore, regardless of whether it is multinational or small companies all that exposed to the business in 21st Century would have to face the challenges and should think about strategic plans in human capital management.

In one study entitled “Business, People and Rewards: Surviving and Thriving in the New Economy”, Economist Intelligence Unit and Towers Perrin (2002), found that high-performing companies, which consisted 90 percentage of the survey group that based on total shareholders’ return over the past five years, are also already implementing and redefining their human resource strategy in the new-economy.

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3Adapted from Economica, Borneo Post. Strategic Planning: What will be the role of HR in the new economy? (1 July, 2002). Pp. 12-13
In this particular study, the future key elements of success are highly dependent on the product or services excellence and also global industry leadership. Brand loyalty and customer relationship management would not be as important as managing services excellence and leadership. Hence, human capital in the businesses will be the main elements in building business strategy and also to determine the success of the companies. These facts are indicated through the unit research on which of the best key elements of business strategy in future by comparing the strategies now and in 2003.

Chart 1.1: Which of the following best describes the key elements of business strategy, now and by 2003

Product / Services Excellence
Customer Relationship Management
Brand Loyalty
Global Industry Leadership
Operating Efficiency


In the past, companies in United States, particularly multinational companies, have been establishing strategic plans to develop the human capital as it is considered as their main asset for business success.
Such as Microsoft Corporation, it has already put the employees as the company's owners by issuing shares option to them. By allowing employees to own part of the shares in the company, the commitment to develop the company among the employees has gradually increases⁴. With the commitment of human force, there would be no doubt that the company could ever lack of productivity.

From here, it is apparent that, the future generation of business strategy and tactics would be based on human capital itself. Most of Asia developing countries are now entering into the international market by building and receiving multinational companies. The companies are already in the past defining their new-economy strategic advantage in terms of the people they employ. A populous nation like China with more than 6 billion people would have to develop its human capital effectively or otherwise get swallowed by globalization as it is embracing the new world economy. Apparently, study on the human capital development in Malaysia is something of a wise move to reckon the weaknesses and strength the country has been facing while entering globalization.

⁴ Adapted from Fortune Magazine, Microsoft Shoots the Moon. (July 10, 2000) pp. 43-45
1.1 Malaysia case in Human Capital Base.

The Malaysia’s Outline Perspective Plan (OPP3:2001-2010), will be to prepare a workforce that has the capability of meeting the challenges of a knowledge-based economy so as to enhance economic productivity and competitiveness. Main structure of the plan including efforts to ensure the education and training system has the capacity to enhance the quality of intellectual capital as well as to expand the human resources base. Three most important factors that have to be emphasized on human capital development are education, population and health. These three factors would determine efficiency of human capital development in Malaysia.

1.1.1 Education

Malaysia has realized that the “electronic herd” created by globalization would resulted in skill redundancies and job displacements. Therefore, it is critical that the labor force possesses the ability to adapt and adjust to the changing demands of technological advances in the knowledge-based economy by constantly acquiring new knowledge to upgrade their skill base. In the 88th Session of International Labor Conference (2000), education and training has been recognized as the main criteria to develop the human capital base. Malaysia has played the roles by putting priority in improving the quality of education in rural and remote areas with educational facilities expanded and upgraded to reduce the performance gap between schools in urban, rural and remote areas. With increasing use of ICT (Information and Communication Technology), there will be also undertaken efforts to minimize the problems arising from structural unemployment caused by the emerging technology.
Malaysia is also facing problem of brain drain as more and more graduates from Malaysia are finding opportunities outside Malaysia especially in developed countries. The worse scenario would be according to the statistical data produced by the Department of Statistics, Malaysia; only 13.9 percentile out of 100 percentage distribution of employed persons by level of education in Malaysia ever obtained tertiary level of education for the year 2000. Most of the employed (53.5%) only hold secondary level of education and 6.2 percentages of them do not have formal education. These are shown in Table 1.1 in the next page which concludes that, Malaysia is still facing great disadvantage in terms of advance human capital development with only small portion of Malaysian employed are actually holding tertiary education. Furthermore, Malaysia is indeed is having a brain drainage crisis as only 10.6 percent of employed persons in Malaysia for the Year 2000 are professionals and technical workers. Production and related workers, transport equipment operators and laborers control the largest shares of Malaysia field of employment with 32.8 in percentage.

Table 1.1: Percentage Distribution of Employed Persons By level of Education in Malaysia from 1996 to 2000.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No Formal Education</td>
<td>7.9</td>
<td>7.3</td>
<td>7.0</td>
<td>6.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Primary (UPSR)</td>
<td>28.5</td>
<td>27.9</td>
<td>27.4</td>
<td>26.4</td>
<td>26.4</td>
</tr>
<tr>
<td>Secondary (PMR, SPM)</td>
<td>51.7</td>
<td>52.0</td>
<td>52.4</td>
<td>53.8</td>
<td>53.5</td>
</tr>
<tr>
<td>Tertiary (STPM, Diploma)</td>
<td>12.0</td>
<td>12.8</td>
<td>13.2</td>
<td>13.2</td>
<td>13.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The demand for labor will increase at an average rate of 3.1 percent per annum which expected rapid Gross Domestic Product growth during the Malaysia’s Outline Perspective Plan (2001-2010). This will result in an increase in employment from 9.3 million in 2000 to 12.6 million in 2010. There will also be increasing demand for scientists and technologists in R&D, particularly, in new technologies such as fuel-cell technology, biotechnology and genetic engineering. Thus, Malaysia has to make drastic recovery on the brain drain situation.

Government of Malaysia has also put in efforts to enhance and sustain human capital attainment. This can be judged from its substantial financial allocation to education and training. Expenditure on these two major components of human capital comprises RM 20,022 million or 23.7% of total government expenditure in year 2000. As a consequence, the quality of employment composition of educational status has change towards a greater percentage of workers with tertiary education.

By referring to Table 1.2, it is obvious that the trend for percentage of total government expenditure on education shows gradual increases since 1980 to 2001 as to show government effort in improving education sector.
### Table 1.2: Total Government Expenditure on Education, 1980-2001 (RM million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Expenditure</th>
<th>Expenditure on Education</th>
<th>% of Total Government Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>21080</td>
<td>2786</td>
<td>13.2</td>
</tr>
<tr>
<td>1985</td>
<td>29905</td>
<td>4747</td>
<td>15.9</td>
</tr>
<tr>
<td>1990</td>
<td>35715</td>
<td>6596</td>
<td>18.5</td>
</tr>
<tr>
<td>1995</td>
<td>50624</td>
<td>10603</td>
<td>20.9</td>
</tr>
<tr>
<td>1996</td>
<td>58493</td>
<td>12489</td>
<td>21.4</td>
</tr>
<tr>
<td>1997</td>
<td>60414</td>
<td>12881</td>
<td>21.3</td>
</tr>
<tr>
<td>1998</td>
<td>62688</td>
<td>13443</td>
<td>21.4</td>
</tr>
<tr>
<td>1999</td>
<td>69312</td>
<td>15323</td>
<td>22.1</td>
</tr>
<tr>
<td>2000</td>
<td>84488</td>
<td>20022</td>
<td>23.7</td>
</tr>
<tr>
<td>2001</td>
<td>84190</td>
<td>23658</td>
<td>28.1</td>
</tr>
</tbody>
</table>


1.1.2 Population

As Malaysia population is projected to increase to 28.9 million in 2010, at an average growth rate of 2.2 percentile per annum, which by means has showed slower growth rate as compared to 2.5 percentile per annum achieved during the Malaysia Second Development Plan period. Another apparent observation is that, as more women pursue higher levels of education or training, the overall fertility rate, which is the number of children that a woman will bear during her child-bearing age, has shown significant decline. The changes of demographic structure and decrease in fertility rate in the next 10 years would have significant effects on the economy. This is true as the growth in the working-age and old-age population would implies the need to create more employment opportunities as well as increase provision of education and training facilities.

Since the proportion of working-age population is expected to be greater than those below 15 years and those above 65 years, the dependency ratio which is the ratio of dependents to every 100 persons of working age, will decline from 59.1 in 2000 to 52.2
in 2010. This indicates that a high proportion of the population will economically active and therefore will be positive factor in contributing to increased productivity. Meanwhile, the female labor force participation is also expected to increase from 44.5 percent in 2000 to 49.0 percent in 2010. Women increased participation in the workforce has reduce the need for foreign workers and professionals as most of the women have attained higher levels of education as 72 percent out of total entrance into local universities are women.

Life expectancy rate for Malaysian in the Year 2001 that aged 55 and above is 16.8 for male and 19.1 for female. This is considered high as compared to those aged 40 and above with life expectancy rate for male is 33.6 and 37.0 for female. With high life expectancy for the old-age population, there should be measures to create the old age capacity in increasing productivity. Less birth rate would further deteriorate the productivity as indicated in Table 1.3 with only ratio of 23.5 in 2001 as compared to 24.5 in 2000.

Table 1.3: Crude Birth Rates in Malaysia from 1997 to 2001.

<table>
<thead>
<tr>
<th>Year</th>
<th>Crude Birth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>24.8</td>
</tr>
<tr>
<td>1998</td>
<td>23.7</td>
</tr>
<tr>
<td>1999</td>
<td>24.4</td>
</tr>
<tr>
<td>2000</td>
<td>24.5</td>
</tr>
<tr>
<td>2001</td>
<td>23.5</td>
</tr>
</tbody>
</table>

1.2 Sarawak Human Capital Base

In Sarawak, the labor force available in the market is about more than 900 thousand and the unemployment rate in Sarawak is low with 3.8 percent rate for the Year 2001. Most of the human capital of Sarawak in the Year 2001 still works in agriculture, hunting and forestry industry with 30.2 percent out of total employment by industry in Sarawak. Majority of the Sarawak labor force are skilled agriculture and fishery workers. The main industry that employed the most workforces would be manufacturing and construction industry.

The job vacancies in Sarawak have also shown a significant increase in the past five years from 1997 to 2001. The Manpower Department of Sarawak has published the statistics figure on number of Job Registrants and Job Vacancies in Sarawak as shown in Table 1.4.

Table 1.4: Number of Job Registrants and Job Vacancies in Sarawak from (1997-2001)

<table>
<thead>
<tr>
<th>Period</th>
<th>Active Registrants</th>
<th>Placements</th>
<th>Job Vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1,818</td>
<td>1,731</td>
<td>10,502</td>
</tr>
<tr>
<td>1998</td>
<td>3,090</td>
<td>1,181</td>
<td>11,249</td>
</tr>
<tr>
<td>1999</td>
<td>2,865</td>
<td>1,801</td>
<td>59,567</td>
</tr>
<tr>
<td>2000</td>
<td>2,680</td>
<td>1,294</td>
<td>69,109</td>
</tr>
<tr>
<td>2001</td>
<td>2,859</td>
<td>351</td>
<td>82,089</td>
</tr>
</tbody>
</table>

Source: Manpower Department, Sarawak. (2001 Labor Force in Sarawak)
This shows that there are actually a lot of job vacancies available in Sarawak which by means there are insufficient human capital supply in Sarawak. From here, one research done by the Malaysia's Ministry of Human Resources actually showed significant correlation between the insufficient supply and total number of immigrant workers that are being employed in Sarawak. The table 1.5 shows that there is significant increase in employment of foreign workers in Sarawak followed by increasing job vacancies in the past five years.

Table 1.5: Total Immigrant Workers Employed and Job Vacancies in Sarawak from 1997 to 2001.

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Immigrant Workers Employed in Sarawak</th>
<th>Total Job Vacancies in Sarawak</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>54,643</td>
<td>10,502</td>
</tr>
<tr>
<td>1998</td>
<td>46,998</td>
<td>11,249</td>
</tr>
<tr>
<td>1999</td>
<td>77,311</td>
<td>59,567</td>
</tr>
<tr>
<td>2000</td>
<td>93,855</td>
<td>69,109</td>
</tr>
<tr>
<td>2001</td>
<td>100,894</td>
<td>82,089</td>
</tr>
</tbody>
</table>

Source: Manpower Department of Sarawak and Malaysia Ministry of Human Resources.

In addition to that, Sarawak could be considered as facing insufficient supply of Laborers. Therefore, even there is abundance of job vacancies available, but there might be some factors that cause such scenario such as migration, less competitiveness among the local workers as well as types of incentives that are being offered by companies. Inefficient human capital management would be a problem.