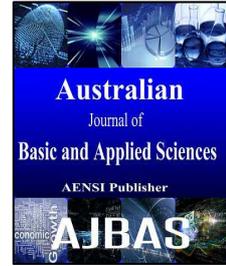




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The State of Human Capital for Malay SME Firms in Malaysia: Implication for Policy Maker

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ABSTRACT

Background: The importance of role of Malay entrepreneurs in the development of entrepreneurship nation is widely acknowledged by the scholars. So far, however, there has been little discussion in the extant literature about Malay entrepreneurs. Particularly, little attention has been paid on the aspect of their human capital. Objective: This paper investigates the human capital attainments for 63 start-up Malay entrepreneurs around Malaysia. Results: The results suggest diverse attainments for generic human capital (age of entrepreneurs, gender, education levels and work experience), meanwhile human capital capability (management skills and strategic planning) are at the satisfactorily levels. Conclusion: The study advances research on human capital for Malay SME entrepreneurs particularly. The empirical findings in this study provide a new understanding to policy maker to assist Malay entrepreneurs to achieve 30 percent equity ownership.

INTRODUCTION

One of the most significant discussions in Malaysia economy is the participation of Malay SME firms. The Malay ethnic is also called the Bumiputeras (indigenous people or sons of the soil), in the rhetoric against those who were perceived as having arrived in the wake of colonial rule (Ali, 2008). In addition, Malay ethnic is portrayed as tawny-coloured, speak Malay language, professing Islamic religion and considered as hardworking person (Omar, 2006). The racial tension derived in 1969 where the riots involving Malay against the Chinese ethnic group (Howell and Palmer, 1993) had led to the affirmative action of formation the New Economic Plan (NEP) in 1970. Income gaps between the ethnic groups were among the leading cause of the riots. During the earlier years of post dependence, as Malay only concentrated in rural development, whilst the Chinese became more prominent in rapidly expanding modern sectors. Thus, several policies aimed to reduce the tension of income differences as well as to strengthen the spirits of patriotic among Malaysians. Furthermore, the efforts aim to serve better living conditions and eradicate the identification of race with economic function. To date there has been little agreement on the effectiveness of the NEP. Since the early institutionalisation of the NEP, the equity issue particularly poverty and income inequality for the Malay remain unsolved. Although the NEP

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has play their roles by providing grants, trade opportunities, education and certain jobs opportunities, the level of income for the certain households, especially the Malay is still below the poverty line.

Above all, under NEP, the emphasis is to increase effective Malay ownership and participation in the corporate sector, improving Malay participation in high-income occupations, as well as narrowing income inequality and eradicating poverty. Thus, the aim was to attain at least 30 percent effective Malay equity ownership by year 2000. Many programs had been developed by the government to increase the equity ownership, however the achievement is still not superior. The Malay equity recorded only 16.8 percent (Eleventh Malaysian Plan 2016-2010, 2015), where the figure is far behind the target.

As a result of low Malay attainment in the national economy, numerous questions have been raised about the role Malay entrepreneurship in this field. Although the number of studies on Malay entrepreneurship is increasing, there is still a dearth of research regarding the attainment of human capital especially for start-up Malay SME firms. Therefore, this paper will give an account of the state of human capital for Malay SME firms in the start-up stage. The following sections elucidate the human capital confined to entrepreneurship perspective.

Literature Review:

Human capital and entrepreneurship:

A review of entrepreneurship literature revealed various definitions of human capital; nonetheless most definitions classified into two: capabilities possessed by entrepreneurs and generic human capital which constitutes age, gender, education and working experience (Becker, 1975; Danes, Stafford, Haynes and Amarapurkar, 2009; Awan, Waqas and Aslam, 2013). The human capital measurements are commonly based on the concept of lifetime earnings. Therefore, for the purpose of this study, human capital is defined as an individual's capability and generic characteristics to produce a high-quality service.

A lot of attentions are focused on human capital in entrepreneurship research as it enhances the firms' performance (Auw, 2009). Through resource-based view theory, Barney (1991) expressed the opinion that human capital is a unique resource as it contributes greatly to the firm's competitive advantage. He proposed that a firm's resources should be a valuable, rare, imperfectly imitable and non substitutable (VRIS) to generate sustained competitive advantage. For example, an innovative entrepreneur who has incorporated a phone and fax to the normal photocopy machine is viewed employing a strategic resource because of its capability to improve the performance of the original device. In this situation, the value of this particular resource is immeasurable to other firms and the entrepreneur thus gains competitive advantage.

This paper highlights human capital from the perspective of entrepreneurs. Based on the review of literatures, the dimensions of human capital can be examined based on generic human capital and individual's capability possessed by the entrepreneurs. The dimension of generic human capital includes age of the entrepreneurs, gender, education levels and work experience whereas management skills and strategic planning represent the dimensions for individual's capabilities human capital.

Age of entrepreneurs:

Scholars have found a positive relationship between the age of an entrepreneur and business performance (Chiliya and Lombard, 2012). In the Malaysian context, older entrepreneurs who are educated and possess work experience prior to entering the business world are found to be ready to take on challenges in business (Yusof, 2003). These entrepreneurs are viewed as leaders, especially due to the roles they play in family and as directors of their businesses (Amran, 2011). Generally, successful entrepreneurs in Malaysia are found to be senior and experienced (Ibrahim and Samad, 2010) and belonged to the 40 and above age group (Yusof, 2003).

Gender:

Prior research suggested that gender is important in determining business performance (Mazzarol *et al.*, 1999). Male and female entrepreneurs have exhibited both differences and similarities in business achievement. Studies have also shown that male entrepreneurs have outperformed female entrepreneurs for example in terms of sales, business experience, income and business size (Loscocso *et al.*, 1991) and prior working experience, tertiary education and start-up capital (Fairlie and Robb, 2009). However, other study discovered no gender-related differences in business performance. Watson (2003) revealed similar failure rates, levels of income, business growth and leverage ratio (total liabilities to total assets) in both genders.

Education levels:

Previous studies also identify the influence of academic achievement in the studies of entrepreneurs. This variable has long been discussed as an important factor contributing to business success (Casson, 2005) as entrepreneurs with tertiary education were found to leverage their knowledge to the business' advantage (Chiliya and Lombard, 2012). This is supported by Raposo and Paco (2011) who claimed that educated entrepreneurs were able to fully exploit business opportunities and were more creative in their approaches.

In Malaysia, scholars have indicated that the average entrepreneur has a basic degree. For example, Ahmad (2007) found that more than 30 per cent of entrepreneurs were degree holders while Sambasivan *et al.* (2009) discovered that more than 40 per cent of manufacturing entrepreneurs possessed degree qualifications.

Work experience:

In this paper, work experience is defined as the number of years an individual has been working post graduation (Inmyxai and Takahashi, 2010). Work experience can comprise industrial experience, managerial experience and prior entrepreneurial experience (Che Rose *et al.*, 2006; Nakhata, 2007; Ucbasaran *et al.*, 2003). Previous literature proposed that experienced entrepreneurs are more successful compared to entrepreneurs without prior experience (Tun, 2011).

In the Malaysian context, previous work experience has been regarded as an important factor that encouraged individuals to start a new business (Manaf *et al.*, 2011). Shahadan and Abdullah (2009) found that successful entrepreneurs with prior work experience were more success orientated, persistent and were also more willing to take risks. Entrepreneurs had more access to external financing when they were equipped with prior work experience (Salleh *et al.*, 2004). Therefore, it is crucial for individuals to obtain work experience before starting a new business.

Management Skills:

In this study, the working definition of 'management skill' is defined as the capability of an entrepreneur to perform a management tasks. The current study believes that using the proposed definition is more practical and suitable to the owner-managers of SMEs in Malaysia.

Various studies have suggested that management skills are the driving force behind the survivability of a firm and this is especially true for SMEs (Sambasivan *et al.*, 2009). Scholars suggested Malaysian entrepreneurs who are lacking in management skills are cited as a cause of business failure (Mohd Jan *et al.*, 2010) and growth disturbance (Ishak *et al.*, 2012).

Strategic Planning:

Besides the management skills, strategic planning also has been identified in the previous studies as a driving force for entrepreneur success. Strategic planning concept is dynamic and has been conceptualised in different ways. For example, it can be conceptualized as scanning processes to firm's capacity (McDonald, 1996), formulation processes of strategies (Aldehayyat and Twaissi, 2011) and the implementation process (Elbanna, 2008). For the purpose of this paper, strategic planning is defined as the capability of the entrepreneur to implement strategic planning.

The importance of strategic planning has been agreed by entrepreneurs due to resource constraints and also to improve business performance (Kraust *et al.*, 2006). Augustine *et al.* (2012) suggested that awareness of the importance of strategic planning has contributed to competitive business strategy. It has been highlighted in previous studies that lack of implementation on strategic planning is the factors contributing to the failure among Malays SMEs in Malaysia (Mohd Jan *et al.*, 2010).

Methodology:

The sample of start-up manufacturing companies was obtained from Companies Commission of Malaysia (SSM) based on the criteria of being a manufacturing SME; which have either of the following; (1) more than 5 and not exceeding 200 full-time employees and (2) an annual sales turnover between RM300,000 and less than RM50 million. Start-up firm is defined as the firms who have operated for less than six years (Westhead *et al.*, 2004). A total of 278 firms were selected by using stratified random sampling (the firms were categorised according to their geographical zones; North, South, East, Central and West).

The data were collected through mailed and self administered questionnaire. The mailed questionnaire has been used due to geographical dispersed in both Peninsular Malaysia and Borneo (Sabah and Sarawak states) whilst self administered technique was used in Western Region (Selangor state) only due to the cost consideration. Overall, 63 completed questionnaires were received, yielding a response rate of 6.3 percent. The questionnaires sent out especially to food and beverage entrepreneurs were attached with official receipts and packaging of the entrepreneurs' brands to demonstrate researcher support. The initiative was conducted in order to increase the response rate.

For the survey instrument, seven items reflecting management skills were adapted from Lerner and Almor (2002) and strategic planning items were gauged by using six items taken from Lerner *et al.* (1997). Responses to all the items were made on a 5-point Likert scale (1= poor to 5= excellent). For the age of the entrepreneurs, it was measured by using ordinal scale (1=25 years or below to 6=above 45 years). On the other hand, educational levels were also measured by using ordinal scale (1=secondary school to 3=post graduate degree). Respondents also were asked to rate their working experience ranging from 1 (5 years and below) to 5 (above 20 years). We tried to link the association of gender with their business performance level compared to prior year.

Therefore, two subjective (recalled) business performance items (sales and market share growth) were adopted from Ahmad (2007). Each item was measured by using 5-point Likert scale (1=decreasing to 5=increasing significantly).

Findings:

The majority of the respondents in this study were female accounting for 36 respondents of the sample, whereas male accounted for 27 of respondents. Then, the descriptive statistic of the age of the respondents disclosed that most of them were 46 years old and above (33.3%), followed by the respondents who age between 36 to 40 (13%), 41 to 45 (12%), 31 to 35 (8%), and 26 to 30 (5%). Only 6.3 percent of the respondents come from 26 to 30 years of age. Next for the educational level, the majority of the respondents obtained their certification from the secondary school (60.3%). This is followed by undergraduate degree (31.8%) and post graduate degree (1.6%). Approximately 6.3 percent of respondents reported to have no formal education. For the work experience, 31.7 percent of respondents reported possession of work experience in between 11 to 15 and 16 to 20 years. This is followed by 20.6 percent of respondents who had 6 to 10 years of work experience and 11.1 percent with less 5 years of work experience. A small number of respondents represented the maximum years of work experience with 4.8 percent having more than 20 years of working experience.

Turning now to the firm's profile, the majority of businesses (55) came from the food and beverage sector followed by wood-based product (3), textiles, apparel and leather (2), electric and electronics (2) and only a small number of respondents are from plastic-based products (1). As regards business types, sole-proprietorship firms accounted for 38 of enterprises, 14 of enterprises reported partnership-based while another 11 of enterprises were private-limited firms. For the firms' size, 62 firms disclosed the number of employees to be between 5 to 75 persons and only one firm indicated the number of employees was above 75. Then, in terms of firm's location, most of the firms operated in southern region (28), followed by western region (12), central region (10), northern region (8) and eastern region (5).

Comparing the management skill as depicted in Table 1, majority of Malay entrepreneurs scored from "good" to "very good" in four aspects of management skills capabilities; dealing with people ($M=3.14$), business operation (3.02), planning (3.03) and capability to do sales ($M=4.14$). The other management aspects; finance ($M=2.73$), generating the idea ($M=2.94$) and innovation capability ($M=2.98$) were recorded as "fair".

In terms of strategic planning capability, Table 2 shows that Malays entrepreneurs scored from "fair to good" in all areas. The entrepreneurs were rated "good" in the aspects of sales ($M=3.03$), planning to add or drop the products ($M=3.10$) and planning capability about the market ($M=3$). They were also scored "fair" to their strategic planning capabilities such as cash flow planning ($M=2.81$), firm's operation expansion ($M=2.98$) and changes in building and equipment ($M=2.81$).

The myriad of sales growth achievements and gender are shown in Table 3. It is evident that the findings are mixed. What is interesting is this data is that men performed better than women entrepreneurs in terms of the numbers for moderate sales growth level. However, women exceed the number of men entrepreneurs for significant sales growth. Both genders recorded the same numbers of entrepreneurs for slight growth level. Meanwhile, three women entrepreneurs experienced decreasing in sales growth compared to prior year.

Lastly, for the market growth achievements as depicted in Table 4, majority of women entrepreneurs (33 entrepreneurs) achieved superior market growth ranging from slightly increasing to significantly increasing compared to men (24 entrepreneurs). Only two men entrepreneurs sustained their market sales level compared to only one woman entrepreneur. However, the result found two women opposed to only one male entrepreneur experienced decreasing in market growth.

Table 1: Management skills of Malay entrepreneurs (N=63).

No.	Items	Means	Standard Deviation	Support Scale
1.	Finance	2.73	.865	Fair
2.	Dealing with people	3.14	.840	Good
3.	Sales	4.14	.820	Very good
4.	Idea generation	2.94	.948	Fair
5.	Product innovation	2.98	.992	Fair
6.	Business operation	3.02	.889	Good
7.	Planning	3.03	.967	Good

Table 2: Strategic planning of Malay entrepreneurs (N=63)

No.	Items	Means	Standard Deviation	Support Scale
1.	Planning regarding the sales	3.03	.803	Good
2.	Planning regarding the cash flow	2.81	.840	Fair
3.	Planning regarding add or drop products	3.10	.875	Good
4.	Planning regarding enter new/exit markets	3.00	.967	Good
5.	Planning regarding expansions of firm's operation	2.98	1.039	Fair

6.	Planning regarding changes in building and equipment	2.81	1.134	Fair
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Table 3: Sales growth achievements of Malays' men and women entrepreneurs (N=63)

	Men	Women
Sales growth		
Decreasing	0	3
Holding its own	1	1
Increasing slightly	7	7
Increasing moderately	18	17
Increasing significantly	1	8
Total	27	36

Table 4: Market growth achievements of Malays' men and women entrepreneurs (N=63)

	Men	Women
Market growth		
Decreasing	1	2
Holding its own	2	1
Increasing slightly	10	11
Increasing moderately	10	15
Increasing significantly	4	7
Total	27	36

Discussions:

This paper set out with the aim of assessing the importance of human capital among Malay SME firms in Malaysia. The results of this paper show that the firms in this analysis were operated by those experienced entrepreneurs. The majority of entrepreneurs' age for owner-manager was 46 years old and above. It indicated that the start-up firms were owned by the older entrepreneurs. This high level of experience suited with manufacturing-based industry due to the risks involved (Kristiansen *et al.*, 2003). Meanwhile, finding also revealed that entrepreneurs possessed the work experience between 11 to 20 years. Clearly, the firms in this analysis were operated by those experienced entrepreneurs. Possible explanation of starting a new business is due to working experience especially in the Malaysian context (Hashim *et al.*, 2009; Kim, 2010; Manaf *et al.*, 2011). Shahadan and Abdullah (2009) found that successful entrepreneurs with prior work experience were more success orientated, persistent and were also more willing to take risks.

Next, more than half of the entrepreneurs indicated having certification from the secondary school. There are several explanations for this. For example, in a developing country like Malaysia, exposure to business ideas and culture would begin at the tertiary level, as in universities and technical institutions (Abd. Ghadas *et al.*, 2012; Jaafar and Abdul Aziz, 2008). Thus most graduates would attempt to become entrepreneur. This result confirm the ideas of Raposo and Paco (2011) where they suggested the entrepreneurs with tertiary education were found to leverage their knowledge to the business' advantage and were more creative in their approaches.

The result of this study also indicated that majority of the entrepreneurs had scored acceptably level for management skills. As mentioned in the literature review, SMEs manufacturing should aware the elements in the management skills due to its importance and become one of the predictors in determining business sustainability (Yahya *et al.*, 2011). It was shown by the result which the scored were ranging from "fair" to "very good". In addition, financial skills are used to acquire the necessary financial resources and to ensure the business runs efficiently especially in maintaining working capital (Akande, 2011). Malay entrepreneurs were also suggested to manage external communication such as communicating with alters in the social network (Surin and Wahab, 2013). It is acknowledged that having a relationship with the alters will provide knowledge and information about the business, besides maintaining personal reputations as well as enhancing the firm's competitive advantage (Jack, 2005).

In terms of sales skills, Rentz *et al.* (2002) proposed three ways to become a good salesperson. First, become a problem solver, second, by presenting the product well and knowing how to close the deal and third, by possessing good product or service knowledge. Having idea generation skill alone is not sufficient without innovation. Thus, based on the literature review, it can thus be suggested that idea generation is a bridge towards product innovation and therefore considered the first step of the innovation process (Vandenbosch *et al.*, 2006). This study confirms that practising innovation was widely accepted to retain in the market (Loof and Heshmatt, 2006).

The literature frequently discusses the barriers of business operations which are associated with the day-to-day management problems involving the shortage of raw materials, equipment problems, increasing costs of materials and employees who are resistance to change (Bon and Garai, 2011; Coad and Tamvada, 2011). These conditions lead to the interruption of the firm's operation and become one of the factors that hinder business growth in Malaysian SMEs (Ismail and Sulaiman, 2007). It is therefore likely that such link exists between planning and success. The entrepreneurs have to continuously improve their operational and strategic planning skills to ensure that the production process is seamless (Ishak *et al.*, 2012).

The current study then found that the majority of Malay entrepreneurs in this analysis revealed the scored from “fair to good” for strategic planning capabilities. This capability to do the strategic planning was deemed crucial to improve business performance (Aldehayyat and Twaissi, 2011). For a number of decades, Malay SME firms have been plagued with various business problems (Ishak *et al.*, 2012; Mohd Jan *et al.*, 2010). Therefore, improving the strategic planning level is compulsory especially in combating financial management problems. Entrepreneurs are advised to sharpen their financial planning ability as poor credit management resulted in late payment by the debtor (Howorth and Wilson, 1999). In this day and age, it is difficult for consumers to judge product quality due to product homogeneity in the market. Thus, it is important to the entrepreneurs to plan and improve product quality by utilising feedback from the alters (Surin *et al.*, 2015). This will help also to distinguish the product as well as to sustain the product position in the market (Kleindorfer *et al.*, 2005).

Besides, the importance of location cannot be ruled out. Malay entrepreneurs are encouraged to be decisive when choosing a location of their firm as product costs can be reduced by being close to the location of the supplier (Abdullah *et al.*, 2008). Present findings on location seem to be consistent with other research which found proximity to raw materials is a factor that should concern entrepreneurs as it will ensure the shortest delivery times. This also accord with Isa *et al.* (2015) where they suggested the local culture, rival intensity, potential demand from the community and local regulations also should be taken into consideration when choosing a business location.

Finally, another important findings was that the link between gender with business performance. Even though the numbers of respondents were not homogenous, results have surprisingly shown that women have outperformed male entrepreneurs with higher level achievement in two respective indicators; sales growth and market growth. However, in some other studies, women Malay entrepreneurs always been cited to spend less time managing the business due to the family commitment. A possible explanation for this might be that they continuously maintain their self confidence and have good vision in the business (Yusof, 2012).

Conclusions:

This paper attempted to explore the current state of human capital for 63 Malay entrepreneurs in Malaysia. It also presented new evidence involving the attainment of human capital for entrepreneurs in the start-up phase. By looking to the level of human capital and also business performance, this paper provides an initial step to the policy maker to take an opportunity to improve the weaknesses especially for the firms experienced diminishing in sales and market share.

Even though this paper provides new evidence relating to human capital in SME firms, it is important to notify some limitations. First, the sample chosen is drawn from each region in Peninsular Malaysia and Borneo. These two separate lands were considers a wide area to be covered even though by using the postal questionnaire. However, this method is deemed suitable as opposed to the personal interview which involves higher cost and is time consuming. Second, to embrace more response, we have sent reminder letters four weeks after the original questionnaire was posted. However, the return rate is still yet satisfactorily. Lastly, the business performance in this current research was measured by using the subjective (recalled or self reported) as opposed to the objective measure method. Subjective measures allow the respondents to indicate their response by using the scale given in the questionnaire. Even though the subjective method has been criticised due to lack of objectivity, it is the only source available that can provide the necessary data since the SMEs are not prepared to publish their accounts especially in Malaysia (Ahmad, 2007; Mahmood and Hanafi, 2013). Therefore, all the information given by the respondents are based on faith.

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