

Chapter 2

Human Capital in Malaysian SMEs: HR Practices, Uniqueness, and Value

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ABSTRACT

This chapter explores Human Capital in Malaysian SMEs. Malaysia has placed significant policy emphasis on indigenous SMEs as a basis for achieving economic growth and competitiveness. This renders the human capital infrastructure of SMEs of critical importance. However, the reality is that there is little information as to the nature of HR practices and their impact in Malaysian SMEs. This chapter aims to fill this void by exploring descriptive findings from a unique sample of over 200 Malaysian SMEs. Drawing on the work of Lepak and Snell in particular, the chapter offers insights into human capital uniqueness and human capital value in the firms investigated. The performance and policy implications of the research are discussed and future research avenues outlined.

INTRODUCTION

The significance of SMEs to economic development cannot be understated. Irrespective of the definition that is applied, smaller firms dominate the industrial landscape contributing to over 55% of GDP and 65% of total employment in high-income countries (OECD, 2005). This significance

is not adequately reflected in mainstream HRM literature which has tended to either ignore SMEs, or automatically assume them to be deficient if they do not adhere to normative ideals (Marlow, 2006). As an example, a browse through the *Oxford University Press Handbook of Human Resource Management* (Boxall et al., 2007) reveals a diverse range of chapters on HRM in various

DOI: 10.4018/978-1-4666-4731-2.ch002

contexts (e.g. manufacturing, public sector, multinational firms), while small firms, SMEs or firm size barely make the index. This makes it easy to understand why Gilman and Edwards (2008: 533) bemoan the ‘*acute shortage*’ of research exploring Human Resource (HR) practices in SMEs. This neglect is all the more surprising considering the human capital intensive nature of SMEs where the additional value added by each individual employee is more transparent and telling. Indeed, sound management of employees can be a critical factor determining the survival and growth of smaller firms (Barrett and Mayson, 2008). Equally, the ‘resource poverty’ inherent to smaller firms means that they are likely to be especially dependent upon their human resources (Marlow and Patton, 1993).

In those economies seeking indigenous growth policy attention has increasingly turned to SMEs and by consequence their infrastructure for managing and developing human capital. The objective of this chapter is to explore this tendency in the context of Malaysia. The chapter begins by providing a background overview of SMEs in Malaysia and current government policy to encourage SME growth. We then review some of the key theoretical lenses for examining human capital in SMEs, and provide an overview of the limited Malaysian research in this area. The latter half of the chapter opens an empirical window by documenting descriptive survey results examining human capital value and uniqueness in over 200 Malaysians SMEs. The chapter closes by exploring key implications of the analysis and pathways for future research.

BACKGROUND: THE MALAYSIAN CONTEXT

Government Policy

The Malaysian government has a long history of planned economic development, namely through three critical policy plans; the New Economic

Policy (NEP), National Development Policy (NDP), and National Vision Policy (NVP) (Ong et al., 2010). The present conceptualisation for economic development is contained in the recent ‘SME Master Plan’ (2012-2020). As a consequence of the Asian financial crisis of 1997, the Malaysian government has changed focus and recognised the value of the SME sector as a key means to insulate the economy from its previous vulnerability to external global shocks, in particular by reducing an overreliance on foreign direct investment (Ong et al., 2010; Ahmed et al., 2011). Allied to this, in aspiring to achieve a ‘developed nation’ standing by, or before, 2020 the Malaysian government has also refocused attention on the human capital requirements of the nation (Hashim et al., 2005). The SME Master Plan sets out six specific growth areas for SME development and performance improvement, one of which centres upon human capital development. The plan notes that the Malaysian workforce typically lacks job readiness, has low utilization of existing training, and typically receive non-competitive rewards and benefits. The government’s intention is to increase human capital levels and intensity across the SME sector to enable innovation as a key driver of enhanced economic growth across the economy. At a macro-level the government objective is to broaden the employment base and increase average per capital income in an attempt to achieve the status of a high income economy. At a more micro-level, however, very little is known about the actual in-firm processes which can potentially drive economic growth in Malaysia (Hashim et al. 2005). Similarly there is limited knowledge of the existing human capital levels or requirements of SMEs and how they may potentially help or hinder this objective (Garengo and Bernardi, 2007).

SMEs in Malaysia

In most economies, including those in the Asia-Pacific region, SMEs dominate the industrial landscape (Abe et al., 2012). This is certainly true of Malaysia where, according to the SME Master

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