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**CULTIVATE THE INTERNAL  
TALENT: SMEs CHAPTER**

HRDF INDUSTRY INTELLIGENCE REPORT



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## **With the right talents, small and medium size enterprises (SMEs) could significantly boost economic growth in Malaysia. How can HRDF help to capture this opportunity?**

**SMEs** play a key role in national economies around the world, providing employment and value added services as well as contributing to overall innovation. In Malaysia, SMEs are the predominant form of enterprise, accounting 98.5% of all firms. Although the number of SMEs is higher than large firms in Malaysia, its contribution to the total industry output value is small compared to the large firms. To date, SMEs contributed up to only 38.9% of Growth Domestic Product (GDP) in 2019. (Source: Small and Medium Enterprises (SMEs) Performance 2019 by Department of Statistics Malaysia (DOSM)).

SMEs create job opportunities across sectors and nationwide, employing all segments of the labour force, including low skilled workers. Despite providing a huge share of global employment (48.4% of total employment), SMEs still face major challenges when it comes to quality of employment in terms of producing the intended output of organisations. (Source: Small and Medium Enterprises (SMEs) Performance 2019 by DOSM). Thus, this report will discuss on the factors that contribute to the low productivity of SMEs and what initiatives can help these SMEs to boost their productivity from a learning and development perspective.

### **Poor Management Practices, Skills Shortages and Workforce Training Limit SMEs' Productivity and Innovation**

SMEs' participation in modern economy is held back by relatively poor internal management practices, skills shortage and low levels of workforce training. SMEs often face challenges in attracting and retaining highly qualified personnel with relevant skills, and having difficulties in identifying workers with sought-after skills in the labour market.

The report "*Management Practices in Malaysia: the Good, the Bad and the Ugly*", published by the World Bank, identified that larger firms are generally better managed in Malaysia. Firms with between 50 and 200 workers tend to have significantly lower management scores than firms with more than 200 workers. This indicated that there are SMEs that do not apply best management practices in their organisations. This is important because the study highlighted well-developed skills are associated with the use of best management practices and consequently with firm performance and growth. In this sense, the evidence shows under-developed leadership and management skills and widespread failure to adopt best management practices are constraining the performance and growth of a large number of SMEs in Malaysia.

In addition, skills shortages have been found to contribute to lower productivity and innovation among firms. The importance of reducing skills imbalances for productivity has been acknowledged by the Government through Ministry of Finance (MOF), stated in the Economic Report year 2017/2018 that skills shortages in the workforce are among the major challenges in boosting productivity. Similarly, the Productivity Report in 2017/2018 produced by Malaysia Productivity Corporation (MPC) also highlights that shortages of skilled professions pose challenges in several sectors, including professional services, private healthcare and tourism. As such, human capital development action is needed to reduce the negative effects of skill imbalances on productivity especially among SMEs in Malaysia. SMEs that want to reduce the skills imbalance among their employees need to have good understanding of where the shortages, surpluses and mismatches are, and use this information to cultivate their talents.

Adult learning or lifelong learning therefore play a key role in upskilling and reskilling to respond to changing skill needs. Yet, this is where the challenge lies among Malaysian SMEs. Workforce training remains to be a low priority for SMEs. Most of the SMEs lack training levy and resources, putting their readiness in doubt to address future skill challenges.

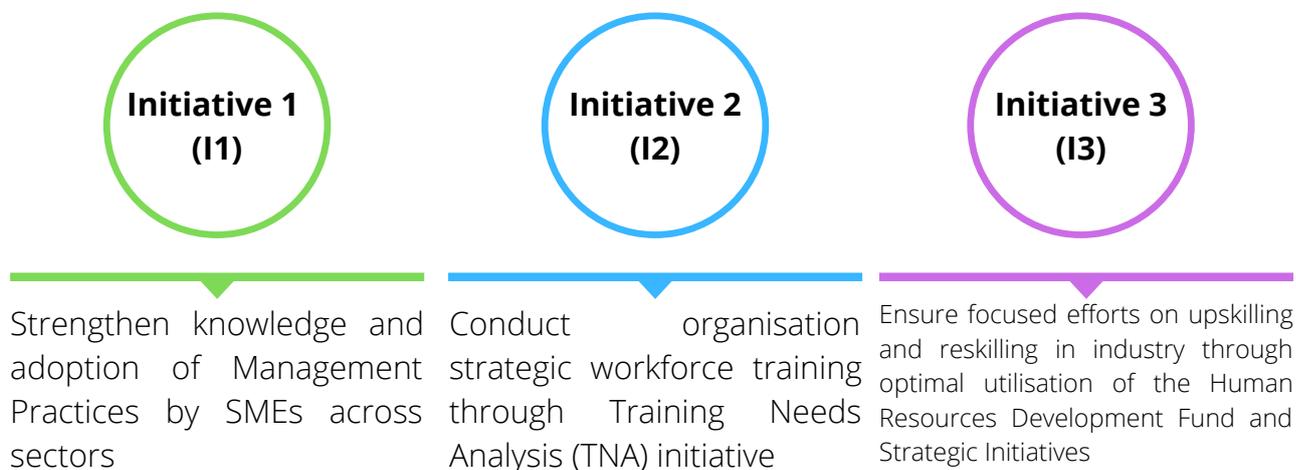
## **HRDF Internal Data Indicates that SMEs Face Challenges to Train their Employees**

According to the HRDF data on SMEs, which comprises of 25,722 registered firms and 822,747 workers in year 2019, only 46.1% of the registered employers provided organised training activities to their workers. The issue is not only in the share of firms providing training, but also the low frequency of training. Out of 11,861 SMEs firms that provide training to their workers, only 10.6% of workers are trained and are given on average 1 to 2 training in a year. In terms of sectors participation, the share of SME workers trained in the Services sector is higher (15.2% of workers), compared to the Manufacturing (8.4% of workers) and Mining and Quarrying sectors (6.4% of workers).

Training patterns show that "Safety and Health" skills (23.3%) remain to be paramount skills needed within SMEs followed by "Quality and Productivity" skill (11.7%) and "Team Building or Motivation" (10.6%). These three (3) areas accounted for 45.6% of training places approved in 2019. While training in these areas can certainly be important, it does not necessarily contribute to significant upskilling or reskilling of workers in light of structural changes in the labour market. As such, training needs analysis is necessary to help SMEs employers to assess their training needs, and then determine the critical and right training to support effective investment in skill development.

## Building SMEs Workforce of the Future

It is imperative to bring structural changes to the SMEs workforce by increasing the proportion of higher-skilled human capital. To this end, this section recommends three firm-level priority initiatives to potentially bring increased productivity to organisation:



These three immediate initiatives are vital to address the issue of productivity and innovation among SMEs from a learning and development perspective. It will each require strong ownership and accountability from SMEs itself for successful delivery and implementation. These need to be implemented as soon as possible in order to achieve increased productivity for the organisation and nation.

### I1: Strengthen knowledge and adoption of Management Practices by SMEs across sectors

Enhancing SMEs' productivity growth through better management practices will require a systematic and comprehensive policy approach. It is important to educate the management team with good management practices. There are four types of management that can help identify individual directions for improvement and also illuminate differences in management styles across firms and countries, namely: i) Operation Management, ii) Performance Monitoring, iii) Target Setting and iv) Talent Management. Apart from the management team, workers also need to understand and implement these management practices together.

One of the World Bank Report (2020) "*Management Practices in Malaysia: the Good, the Bad and the Ugly*" findings is firms owned and managed by the Government to be managed significantly worse than other firms. International research shows that privately owned firms with a diverse set of shareholders tend to have the best management practices than those owned by government or the founding family. Thus, it is suggested for family owned businesses to hire professional educated managers to manage their firms. In order to allow that to happen, it is recommended for further advance rule of law and quality of organisations generally been adapted, so that family owners can have a better thrust to the outside managers to run their businesses.

## I2: Conduct organisation strategic workforce training through Training Needs Analysis (TNA) initiative

The second initiative focuses on ensuring that SMEs are aware of the skills gap of their employees as well as the future skills required in their sectors and enable them to plan accordingly. Developing a TNA is essential for shaping clearly defined expectations for an employee. A TNA framework draws upon a skills matrix and is used to support workforce planning, personnel reviews, and career & succession planning. Career guidance through TNA results helps individuals understand their skill set and development needs and navigate available learning opportunities.

Below are the most important steps to be included in the TNA. These steps work well for firms of any size and in any industry.



### I3: Ensure focused efforts on upskilling and reskilling in industry through optimal utilisation of the Human Resources Development Fund and Strategic Initiatives

As SMEs often lack the knowledge and capacity to offer training opportunities to their employees, HRDF has specific schemes targeted at SMEs. For example, currently under the PENJANA initiative is "**SME Development**" that aims to increase the productivity and cost effectiveness among SMEs through functional and operational training courses offered. Before this, the "**SME Skills Upgrading Programme**" and "**SME Training Incentive Programmes**" are among the programmes that aim to increase the knowledge, skills and competencies of employees of SMEs. However, since HRDF is only available for employers with 10 employees and more, many micro firms do not have access to the offered training programmes. Nonetheless, some non-HRDF registered companies have access to other financial incentives, such as the "**SME Training Incentive Programme**" and other strategic initiatives where the government has allocated strategic funds to them.

Apart from programmes that are specifically developed for the enhancement of the SMEs workforce, one of the important tools to nurture the current talent is through **Recognition of Prior Learning (RPL)**, which allows skills and knowledge obtained non-formally or informally to be certified. Employers can obtain financial assistance through HRDF when getting recognition for their employees' skills and experiences according to the competency level of the employee in enhancing the number of skilled workers in the national labour market.

### Conclusion

In conclusion, talent is the core competitiveness of SMEs. Different from larger companies, due to being much smaller in scale, less management hierarchies, low manpower and quicker decision speed, thus, SMEs should pay special attention to the training needs of their employees. The right talent is very important for the overall development of SMEs.