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RACIAL BALANCE IN MANAGEMENT IN MALAYSIA

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N° 2 - RACIAL BALANCE IN MANAGEMENT IN MALAYSIA

Racial balance is a recurring theme in any consideration of management development in Malaysia. Since the introduction of the New Economic Policy (NEP) in 1971, and particularly since the introduction of the Industrial Coordination Act (ICA) in 1975, which made it possible for the Government to insist on the implementation of racial balance targets, it has been an important business consideration affecting virtually all companies operating in Malaysia. It is therefore necessary to understand both the problem and the implications it has for business. The racial balance targets are aimed at a number of spheres, in this paper racial balance in management alone will be considered. It will look first at the origins of the problem, then government measures taken to correct racial imbalance, and finally, the implications for business.

The Origins of the Problem

The historical pattern of economic development in the Malay peninsula created a situation where employment followed racial lines: the Malays predominating in agriculture, fishing, and the civil service; the Chinese in commerce, small scale manufacturing and tin mining, and the Indians in plantation agriculture, the railroad, and the professions. This situation persisted after independence and in 1970, on the eve of the introduction of the New Economic Policy, there were still clear racial concentrations in particular occupations (See Appendix 1). The high proportion of Chinese in administrative, managerial and sales positions, particularly in the primary and secondary sectors, was very marked, and conversely the small proportion of Malays in these areas.

The origins of this problem lie in the colonial period and are a product of both the natural inclinations of the Malays, Chinese and Indians on the one hand, and deliberate colonial policy on the other. (1) When the British arrived in the Malay peninsular, the indigenous Malays were rural peasants with

(1) See Paper N° 1, "The Context of Management Development in Malaysia" for a fuller discussion.

neither the skills, nor the orientation to engage in commerce and industry other than at the village level. They were not willing to work in the mines or on the plantations preferring their traditional occupations, or later on, a career in the civil service. British policy reinforced these inclinations by fostering and preserving their traditional occupations through rurally oriented schools, and Malay reservations - tracts of rice-land set aside for Malays on which rubber growing was forbidden. As a result, the Malay community retained a rural approach to life and work. The aristocracy alone were given greater encouragement to play a role in the modern part of Malayan society through English education and a position in the civil service, - thus lending status to this occupation among the educated. As a result, very few Malays attained a secondary, let alone a tertiary education (2); the rural schools were of poor quality and gave little encouragement to pupils to enter commerce and industry, while those that did go on to higher education preferred the Arts to the Sciences for they were more in keeping with a civil service career.

The non-Malays - the Chinese and Indians - were drawn to Malaya, largely by the prospect of commercial gain. (The exception was Indian labourers brought in by the plantation industry to work the estates.) They were thus a self-selected entrepreneurial group: the hazards of the voyage, particularly from China; and the hardships to be faced once in Malaya meant only the most enterprising came, and only the hardiest survived. Many were from the commercial or industrial communities of their original societies and brought both a range of skills and a culture supportive of such activities. They were, therefore, quick to establish themselves in the rapidly growing modern sector of the economy and did so with considerable success. The laissez-faire policy followed by the colonial government in handling these communities enabled them to make maximum use of their commercial abilities. At the same time they availed themselves of the English mission schools and the Chinese established their own schools to educate the next generation for their commercial and industrial roles.

As a result, at independence in 1957, Malaysian society was deeply segmented with the bulk of Malays still poor rural farmers, the small educated Malay elite preferring employment in the civil service, and the

(2) In 1967/68 only 12 % of the rural population, which is largely Malay, had acquired a secondary education. Department of Statistics, Socio-Economic Sample Survey of Households - Malaysia 1967-68, Employment and Unemployment West Malaysia. p. 72.

Chinese and Indians predominating in small scale manufacturing, and most of the service industries and plantation agriculture. The inevitable stereotypes had grown up, and these, combined with the monopoly of non-Malay interests in certain fields, made it very difficult for a Malay to break out of these roles.

With independence, foreign companies were required to localize their management staff, except for a handful of key posts, and they turned to those Malaysians with education and business orientation, the Chinese and Indians, so making the commercial and industrial sectors even more solidly non-Malay. (3) The 1969 riots were a manifestation of the dissatisfaction of young Malays with these inherited roles and they succeeded in bringing about major policy changes.

Government Measures Taken to Correct Racial Imbalance in Management

Following the 1969 riots, the government committed itself to rectifying the problem of racial imbalance, a commitment expressed in the NEP. In the management sphere, they have done this both by creating a demand for Malay managers, and taking measures to fill that demand.

Demand for Malay Managers

The government has created a demand for Malay managers by insisting that companies have a racially balanced management cadre. The goal is a little ambiguous -when the NEP was first enunciated in the Second Malaysian Plan, it was stated that "the government has set a target that within a period of 20 years [i.e. by 1990], Malays and other indigenous people will manage and own at least 30 % of the total commercial and industrial activities in all categories and scales of operations". (4)

(3) The terms 'Chinese' and 'Indian' in the Malaysian context refer to people of Chinese and Indian origin, not to current nationality. The vast majority of 'Chinese' and 'Indians' resident in Malaysia are Malaysian citizens. The indigenous Malay community has a special status suggested by the term 'bumiputra' or 'sons of the soil'.

(4) Second Malaysia Plan, 1971-1975. pp. 41-42, § 135.

The Third Malaysia Plan did not attach such a specific figure to the target but stated, "employment in the various sectors of the economy and employment at all occupational levels should reflect the racial composition of the country by 1990". (5) This suggests a goal of 53 % Malays in management.

They have ensured that companies work towards this goal by a number of means. New companies wishing to take advantage of the various investment incentives offered are required to meet certain conditions including a commitment to employ a representative number of Malays and to provide suitable training in order to develop their skills. This approach has been reasonably effective ; for instance, as early as 1968, pioneer firms employed 42 % Malays compared to 24 % in modern manufacturing companies as a whole. (6) In the case of foreign firms the government has been able to use work permits and import permits to oblige them to work towards racial balance targets. They are generally larger than local firms and are therefore more visible, more prone to public scrutiny. At the same time, they are in a position to offer better terms of employment than most local firms. This is shown in their racial balance figures : in 1971, 11% of the management staff of foreign firms was Malay compared to 4% of the management staff of Chinese Malaysian firms; in 1975, the figures were 19% for foreign firms and 7% for Chinese Malaysian firms. (7)

In 1975, the introduction of the Industrial Coordination Act (ICA) gave the Government an additional means of ensuring compliance with racial balance targets. It required the licensing of all manufacturing establishments for the purpose of ensuring the orderly development of manufacturing activities in Malaysia. However the Act stated 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 on the Minister's own motion. (8)

(5) Third Malaysia Plan, 1976-1980. p. 76, § 245.

(6) D.R. Snodgrass, "Summary Evaluation of Policies Used to Promote Bumiputra Participation in the Modern Sector in Malaysia", Development Discussion Paper, n° 38, Cambridge Mass. Harvard Institute for International Development.

(7) B.M. Conway, "Management Development in Peninsular Malaysia", p. 280, PhD Thesis, Edinburgh University, 1980, p. 280.

(8) Industrial Coordination Act, Section 4 (4).

The Minister of Trade and Industry elaborated on this :

As the policy of Malaysian and Bumiputra participation is relevant in the area of employment, training of workers, distribution of products, and the utilisation of professional services, appropriate conditions will be imposed relating to these factors. (9)

It thus provided a means by which the government could insist on attainment of its racial balance objectives by the entire manufacturing sector.

Supply of Malay Managers

Besides creating a demand for Malay managers, the government has also been concerned to ensure an adequate supply of suitably trained Malays. Educational facilities at the primary and secondary levels had been expanded very rapidly both in the run up to and following independence in 1957. The expansion had been so rapid that it outstripped the supply of teachers and resulted in large disparities between the quality of education provided in the urban and rural areas, and between English language and vernacular schools, which continued into the early seventies. To cope with these problems, strong emphasis has been given to improving the quality of teaching in the rural areas, particularly in science and mathematics, with the most promising students being sent to newly established science residential schools.

At the level of tertiary education, emphasis has been given to providing a place and financial support to every Malay with the minimum entry qualifications. The result has been a massive increase in both the absolute number and the proportion of Malays entering university : in 1960 there were 77 Malays enrolled in year 1 of the University of Malaya (the only university in Peninsular Malaysia at the time) forming 21 % of the student intake (10) ; in 1978 there was a total of 11,540 Malays enrolled for degree courses in Malaysia, forming 64 % of degree students.(11) The strong Arts bias of Malay students had resulted in a severe shortage of scientifically and

(9) Address by the Minister of Trade & Industry, "Industrial Development Opportunities for Investment", at Investment Seminar, Kuala Lumpur, 28 October 1975.

(10) Malaysia, Towards National Harmony, pp. 11-12, Table 1.

(11) Mid-Term Review of Third Malaysia Plan, 1976-80, p. 204-205, Table 14-3A.

technically qualified Malays ; between 1964-70, there were only 3 Malay graduates from the Engineering Faculty of the University of Malaya, representing 1 % of all graduates from the Faculty ; in Science the picture was little better with 65 Malays, representing 4 % of Faculty graduates. (12) The government has consequently been encouraging Malays to choose science subjects with the aim of achieving a 54 : 47 ratio of Arts to Science students by this year, 1980.

This massive expansion of education has created a number of problems. Rural Malay medium education has been weak (13) and this has affected the quality of Malay students entering university in the 70's and consequently will influence the quality of recruits into management in the 80's. Rural Malay students in many cases are the first generation in their family to receive a secondary and tertiary level education and therefore frequently lack the advantage of a literate family background. (14) They are often amongst the first in their family to leave the village environment and so come with rural attitudes and values, and with very limited experience of operating in multiracial situations. The introduction of Malay as a medium of instruction throughout the school system and the opening up of an exclusively Malay language university, the Universiti Kebangsaan, has made it easier for these students to progress but means that their command of English, still the international, and to a great extent the local business language, is very limited. Non-Malays who have found it increasingly difficult to get into a local university have tended to go overseas with the result that in 1978 of the 49 % of Malaysian students who were studying abroad, 78 % were non-Malay. (15)

Finally, the government has sought to achieve its racial balance targets through encouraging companies to provide the training to enable new Malay recruits to progress rapidly to senior management. The statement quoted earlier by the Minister of Trade and Industry in connection

(12) Malaysia, Report of the Committee Appointed by the National Operations Council to Study Campus Life of Students of the University of Malaya, p. 44, Table IX.

(13) See Chai Hon-Chan, Education and Nation Building in Plural Societies: The West Malaysian Experience, p. 46.

(14) Laporan Keciciran [Dropout Report], p. 34.

(15) Mid-Term Review of Third Malaysia Plan, 1976-1980, Table 14-3A, p. 204-5.

with the ICA mentioned the training of workers as one of the conditions that could be imposed upon companies seeking a license to operate. However, the government has not yet tried to monitor or regulate more closely the training provided by companies to Malay as opposed to non-Malay managers, although it has supported the provision of a range of training programmes particularly aimed at Malay managers, including those at MARA Institute of Technology and the National Productivity Centre.

In this way, the government has succeeded in improving the racial distribution in management. (See Table 1) However, there is still a great deal more improvement needed to complete the restructuring process by 1990. Not only are Malays notably underrepresented amongst administrative and managerial workers, but so are Indians, while despite the rapid drop in the proportion of Chinese in these cadres they remain heavily overrepresented in relation to their proportional composition of the population.

TABLE 1

Racial Balance in Management
Peninsular Malaysia, 1970, 1975, 1978

	Malay	Chinese	Indian	Other	Total
<u>1970</u>					
Professional and technical workers (%)	47	38	13	2	100
Administrative and managerial workers (%)	22	66	8	4	100
<u>1975</u>					
Professional and technical workers (%)	47	40	11	2	100
Administrative and managerial workers (%)	27	61	7	5	100
<u>1978</u>					
Professional and technical workers (%)	53	35	11	2	100
Administrative and managerial workers (%)	33	57	6	4	100

The Implications for Business

The most immediate and obvious implication of the NEP is that companies have to work towards the target of 30 % (or 53 %) Malays in their management cadre at all levels by 1990. There are a variety of different strategies companies in Malaysia have sought to follow. Many local companies are family businesses operating in Chinese or Indian languages and offering neither the salary, the promotion prospects nor the working conditions that would attract a Malay. Prior to the ICA, they therefore did not concern themselves about racial balance. Since then they have been obliged to do so but the difficulty of attracting and integrating any outsider and resentment of government interference in a family firm is such that progress is slow.

Amongst foreign firms, only one foresaw the need for a racially balanced management structure at independence long before it became government policy, and consequently had the time to recruit very able Malays and develop them for senior management. Since the NEP most of the large Western firms in Malaysia have made the development of a cadre of Malay managers a matter of high priority; however, some medium to small sized firms, with little time for training their regular staff, have preferred to rely on recruiting trained and experienced Malay managers. Firms in commerce, which has been the preserve of the Chinese, have had particular difficulty correcting their racial balance, first because they have frequently started from a position of having no Malay managers at all; second because the wholesale and retail trade remains largely Chinese and the business language is therefore Chinese; and finally because the old stereotype of the Malay being more suited to bureaucracy than marketing dies hard, for both the private sector and the Malays alike. The entry of the government into the commercial spheres in order to expedite the implementation of the NEP has begun to break down this pattern, in the process creating a great demand for technically and commercially trained and experienced Malays.

The result of this sudden increase in the demand for Malay recruits into management, combined with the continuing influence of past as well as present shortages of Malays trained in specific technical fields, has created a sellers' market : skilled Malays are able to command premium salaries and are highly mobile. (16)

(16) That is inter-company and upward mobility, not geographic mobility.

The higher salaries Malays can command and the accelerated rate at which they must be promoted in order to attain the desired racial balance in middle and senior management, inevitably creates problems with existing staff who may have far more experience but are passed over for promotion for socio-political reasons. This period of transition where companies are forced to hold back the development of their non-Malay staff to provide opportunities for Malays generates a good deal of tension. This in turn is reflected back on new Malay recruits who can be given a hard time by non-Malay supervisors. (17)

The rapid expansion of university places in the early 1970's, has begun to influence the labour market and some of the former shortages of Malay university graduates have turned to a glut with the government absorbing much of the output. (18) However, the products of this expansion present a special problem to recruiting companies. Unlike those Malays who came through an educational system in which they had to mix and compete with non-Malays, a system in which the University of Malaya maintained high standards of performance, and in which English was the principal language of instruction, the current Malay graduates have been through a preferential system that has left them ill prepared for the needs of business. The lowering of university entrance standards to encourage the entrance of rural candidates may be highly desirable in terms of restructuring society but creates a situation of which companies need to take serious account. The new Malay recruit who has frequently had a weak education, may well be from a rural background with attitudes and values supportive of that way of life, and may rarely have operated in English nor mixed extensively with non-Malays, comes with a tremendous handicap. Non-Malays are far more likely to come from educated urban commercial background by virtue of the previous imbalances. Because non-Malays are increasingly going abroad for their university education they get a broader perspective and familiarity with the West that makes them highly attractive to foreign firms. Hence, the Malay and non-Malay recruits into management are at two completely different levels in terms of their personal and educational development, and cannot be expected to compete on a par at that stage.

(17) See B.M. Conway, op. cit., p. 300.

(18) The government has decided to increase the size of the civil service by 40,000 people. FEER Yearbook 1980, p. 234.

To the employing company, this has implications particularly for training, which must make up for past deficiencies and provide sufficient impetus to accelerate the managerial development of the Malay recruit. A number of companies have been experimenting with different types of training programme. Extending the initial period of training to two years was found, for instance, to lead to frustration at being denied responsibility. On the other hand, most of the large companies accept that a Malay needs a longer period of training and adjustment, and companies consistently train a higher proportion of their Malay than their non-Malay managers. (19) This is an area that requires a great deal of care and a great deal more work before the most effective means of training are found. There is a need carefully to analyze job requirements, more clearly to identify the abilities and the potential of the new recruit, and to develop accelerated training that can bring the recruit into active and responsible management as soon as possible. While this requires a special effort, it is vital if the company is to make the best use of its management cadre.

Conclusion

The goal of the NEP is the restructuring of Malaysian society, "so that the identification of race with economic function and geographical location is reduced and eventually eliminated". Implicit in this is what amounts to a social revolution, a revolution which is to be achieved in the short time span of 20 years, from 1970-1990. Malaysia is thus in the middle of this process and it is very much to its credit that it has been able to bring about such changes with so little social unrest and while maintaining such high levels of economic growth. For companies currently operating in Malaysia or contemplating going into Malaysia, the attainment of racial balance in management creates a special problem and a special challenge to their management development abilities.

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APPENDIX 1

PERCENT EMPLOYMENT BY OCCUPATION, RACE * AND SECTOR PENINSULAR MALAYSIA, 1970

<u>Primary Sector: Agriculture</u>		Malay	Chinese	Indian	Others	Total
Professional and technical workers (%)	..	56	24	17	3	100
Administrative and managerial workers (%)	..	20	70	8	2	100
Clerical workers (%)	31	36	32	1	100
Sales workers (%)	19	73	8	0	100
Agricultural workers (%)	69	21	9	1	100
Production workers (%)	44	33	24	0	100
Service and other workers (%)	44	31	24	0	100
TOTAL (%)	..	68	21	10	1	100

Secondary Sector: Mining, Manufacturing, Construction, Utilities, Transport

Professional and technical workers (%)	..	26	54	16	4	100
Administrative and managerial workers (%)	..	15	76	6	3	100
Clerical workers (%)	32	50	17	1	100
Sales workers (%)	9	81	10	1	100
Agricultural workers (%)	46	37	17	1	100
Production workers (%)	31	62	7	0	100
Service and other workers (%)	33	56	10	0	100
TOTAL (%)	..	31	60	9	1	100

Tertiary Sector: Wholesale and Retail Trade, Banking, Public Administration, Education, Health, Defence

Professional and technical workers (%)	..	49	37	12	2	100
Administrative and managerial workers (%)	..	35	50	9	7	100
Clerical workers (%)	34	53	12	1	100
Sales workers (%)	24	64	11	0	100
Agricultural workers (%)	64	13	23	0	100
Production workers (%)	31	55	13	1	100
Service and other workers (%)	49	35	14	2	100
TOTAL (%)	..	38	48	13	1	100

* N.B. The racial composition of the population of Peninsular Malaysia in 1970 was:

Malays	53 %	Indians	11 %
Chinese	36 %	Others	1 %

Source: Third Malaysia Plan, 1976- 1980. Table 4-15, pp. 80-83.

APPENDIX 2

PERCENTAGE EMPLOYMENT BY RACE AND OCCUPATION PENINSULAR MALAYSIA 1970, 1975, 1978

OCCUPATION	Malay	Chinese	Indian	Others	Total
	1970				
Professional and technical workers (%)	47	38	13	2	100
Administrative and managerial workers (%)	22	66	8	4	100
Clerical workers (%)	33	51	14	1	100
Sales workers (%)	24	65	11	0	100
Agricultural workers (%)	69	21	10	1	100
Production workers (%)	31	60	9	0	100
Service and other workers (%)	43	43	13	1	100
TOTAL (%)	51	37	11	1	100
	1975				
Professional and technical workers (%)	47	10	11	2	100
Administrative and managerial workers (%)	27	61	7	5	100
Clerical workers (%)	45	42	12	1	100
Sales workers (%)	24	67	9	0	100
Agricultural workers (%)	70	19	11	1	100
Service workers (%)	46	41	13	1	100
Production, Transport and other workers (%)	39	50	10	1	100
TOTAL (%)	52	37	11	1	100
	1978				
Professional and technical workers (%)	53	35	11	2	100
Administrative and managerial workers (%)	33	57	6	4	100
Clerical workers (%)	47	41	12	1	100
Sales workers (%)	29	63	8	0	100
Agricultural workers (%)	68	20	12	1	100
Service workers (%)	50	37	13	1	100
Production, Transport and other workers (%)	42	48	10	0	100
TOTAL (%)	52	36	11	1	100

Sources: Third Malaysia Plan, 1976-1980. Table 4-15, pp. 80-83.

Mid term Review of the Third Malaysia Plan. Table 3-4, p. 47.

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