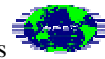


**SMEs AND ELECTRIC INDUSTRIAL MACHINERY AND  
APPARATUS IN MALAYSIA**

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## SMEs AND ELECTRIC INDUSTRIAL MACHINERY AND APPARATUS IN MALAYSIA

### 1. INTRODUCTION

Small and medium scale industries (SMIs) have been argued in the past to be better allocators of resources due to their incapacity to influence prices. The effects of competition from small resources is also considered to force SMIs to operate at optimal factor utilization limits. Recent works have added further support for SMIs due to the scope and flexibility offered by smallness. The myth of the large corporation posited by Pratten (1971), Chandler (1985) and Scherer (1970) to enjoy the capacity to reap minimum scale efficiency is now increasingly questioned (see Audretsch, 1999; Best, 1999). This debate is still unclear as size structures of firms in different industry groups still vary, even if a number have become increasingly lean.

Small firms, given their infancy, competitiveness in particular industries and critical role in assisting large firms, have often figured strongly in government support. The special advantages offered by smallness such as economies of scope, flexibility, lower capacities has often been the basis for special loans administered by financial institutions in the developed economies, including Japan, Chinese Taipei and South Korea. Where the regulatory framework discouraged the growth of efficient small firms in industries such as machine tools where small size is important, their performance have generally been dismal. The inflexible *chaebols* of South Korea have failed to generate efficient machine tool production so that the country continues to face high imports in domestic demand. While Chinese Taipei enjoys effective state support – especially in supporting institutions that solve collective action problems – its greater reliance on small private firms operations has stimulated the rise of machine tool exports. Malaysia has faced more uncoordinated regulatory industrial policies, which in general have not directly enhanced the performance of local machine tool firms.

However, the success of firms in particular settings cannot just be explained by size. *Inter alia*, industry differences and the coordination networks firms embed also explain why firms succeed sometimes and fail sometimes. The latter has become increasingly important following the growing knowledge disparity (creation and appropriation) between sites, which is particularly significant in the electronics and related industries where the miniaturization process and product cycles have evolved exponentially.

While there is growing support for leaner firms and industrial organizations where the division of labor inside firms have become shorter and that between firms longer,<sup>1</sup> it has been argued such trends only occur in locations where effective institutional networks exist. Also, given the potential for government failure, firms have also often resorted to systemic relationships that require business-coordination of government support. The Silicon Valley (Saxenian, 1997), Keihin District (Best, 1990) and Emilia

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<sup>1</sup> Which leads to Young's (1928) classic dictum that while the division of labor is dependent on the size of the market as argued by Smith (1776), the size of the market is also dependent on the division of labor.



Romania (Brusco and Sabel, 1982) are examples of relatively successful examples of effective industrial networks.

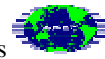
For a number of reasons problems of measurement and the regulatory environment often leads to an understatement of performance by SMIs. In Malaysia, there is a general bias of the regulatory environment towards bigger firms. Generous financial allowances for export-oriented big firms in such strategic industries as electric/electronics often qualify for substantial tax exemptions. Tax exemptions in Malaysia may actually encourage transfer pricing out of profits, causing inflated performances (e.g. profits). SMIs may deflate their performance (e.g. value added) rates, while reporting their capacity expansion figures (e.g. employment and investment). Firms with a paid capital of less than RM2.5 million enjoy registration waivers and thus no serious government scrutiny. Also, often efficient SMIs expanding operations will graduate upwards to larger scale categories shifting the positive bias towards big firms, and the converse declining firms the negative bias towards SMIs. Hence the data used in the paper must be treated with caution.

This paper attempts to show the growth and performance of the electrical machinery and apparatus firms in Malaysia based on size. The first part of the paper presents crucial policy instruments and the growth in significance of the electric/electronics industry within overall electric/electronics and manufacturing in Malaysia. The second part analyzes the growth and performance of particular size groups in the electrical machinery and apparatus industry, which constitutes the international standard industrial classification (ISIC) 5-digit code of 38310.

## **2. SMIs AND THE REGULATORY ENVIRONMENT**

The development of SMIs in Malaysia's manufacturing sector was initially constrained by weak government support instruments. During colonialism, the British introduced financial support for small and craft industries under the Rural Industrial Development Authority (RIDA), largely to reduce discontent among the Malays (see Rasiah, 1995: chapter 3). Such lukewarm initiatives were continued with greater financial support after independence under the Rural Development Ministry. It was not until the late 1970s that official policy attempted to earmark SMIs for support, albeit its development remained uncoordinated and cumbersome until SMI activities were given direct prominence by the Ministry of Industrial development following the launching of the Industrial Master Plan in 1986. The umbrella concept of marketing – originally introduced in 1983, was augmented with the Subcontract Exchange Program (SEP) in 1986 and the Vendor Development (VDP) Program in 1992. In addition to the extension of export-oriented double tax deductions to SMIs from 1986, the government introduced the Industrial Technical Assistance Fund (ITAF) and complementing credit guarantee supports as well as matching efforts in the late 1980s. A separate Small and Medium Industries Development Corporation was incorporated in the 1990s to govern their activities.

However, official state policy tended to discourage local SMIs with size above mandatory registration levels as the experienced ones were dominated by Chinese



ownership. It is only in locations where complimentary local state power and better government business coordination has helped the development of better SMI supplier firms. Given the lack of such politico-business alliances beyond Penang, the share of establishments in the manufacturing sector with size less than 50 employees have fallen over the period 1985-95 (see Rasiah, 1999). The contribution of SMIs in generating investment, value added and employment in Malaysia's manufacturing sector has also generally fallen in the period 1985-95 (see Rasiah, 1999). Firms with size exceeding 200 employees, have gradually expanded their grip on value added.

Being generally small and medium in size and dominated by Chinese ownership, the local machine tool firms faced the same fate. Much of the initial federal support for the evolution of machine tool firms came indirectly, and in some sense fortuitously. There were no clear effort to attract electronics firms with the purpose of spawning local firms when the government first launched its export-oriented industrialization policy following the Investment Incentives Act (IIA) in 1968. Electronics components multinationals only began relocating in Malaysia after the Free Trade Zone Act was enacted of 1971 and the subsequent opening of the zones in 1972. National Semiconductor — the first semiconductor firm to commence operations in Malaysia — built its factory in Bayan Lepas in 1971 and started production in 1972. Government efforts to woo export-oriented manufacturing firms have been critical at least in four important ways:

- The federal government's free trade zone (FTZ) legislation offered financial benefits in the form of:
  - a. pioneer status — which gave tariff exemptions on imports and exports, and tax holidays over a period of five to ten-years. Firms were thus exempted from corporate income tax of 35 per cent and development tax of 5 per cent;
  - b. Upon expiry of the pioneer status, firms have often been granted investment tax credit (ITC)<sup>2</sup> which has given further tax exemptions for five to ten years. The exemptions have been equivalent to approved investment. Losses during the allowance period can be replaced after the period;
  - c. Where FTZs could not be established, licensed manufacturing warehouses (LMWs) have been established. LMWs enjoy similar privileges as firms located in FTZs;
- Amendments to the Employment Act of 1955 in the late 1960s and the Industrial Relations Act of 1967 imposed tighter controls on labor organization. The government did not allow unions in the electronics industry until 1989 when in-house unions were first allowed. Several firm managements still refuse to recognise some of these in-house unions;

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<sup>2</sup> This allowance was renamed the Investment Tax Allowance following the Promotion of Investment Act of 1986.

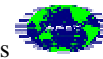


- Government leaders offered unofficial guarantees to safeguard multinational corporate interests to ensure effective production coordination (e.g. for power supplies and customs regulation);
- The local state government offered subsidized land, water, electricity and other physical infrastructure.

While the potential for the development of SMIs emerged following the growth in demand generated from the relocation of foreign electric/electronics subsidiaries, the regulatory environment generally disadvantaged their development until the late 1980s. Large firms enjoyed considerable advantage over small firms in their access to pioneer status, ITC, FTZ and LMW incentives. The initial wave of electronics component firms to Malaysia was also of large size with employment exceeding 500 employees. As a symbolic gesture the Penang government opened Penang Electronics in 1970. National Semiconductor of the United States in 1971 was the first semiconductor firm to build its factory in Malaysia. Japanese owned Clarion was the first foreign electronics component firm to start operations in Malaysia in 1971. A combination of lucrative incentives directed at firms generating larger employment and investment levels, and the labor-intensive production technologies associated with electronics assembly in the 1970s and early 1980s skewed the industry towards large firms (see Rasiah, 1993; 1996). Local private initiatives were initially constrained by official policy directives under National Economic Policy (NEP), which with the promulgation of Industrial Coordination Act (ICA) in 1975, discriminated non-Bumiputera entrepreneurs. Firms with an employment size of 25 and above and a paid up capital of 250,000 were required to obtain licensing, often requiring compliance with national ethnic restructuring conditions. Also, local non-Bumiputera firms also hardly enjoyed access to incentives.

Given the lack of production experience in electronics components making prior to the 1970s, local initiatives in the industry only began to emerge from the 1970s. With the exception of showpiece industries and other scattered small-scale efforts, local involvement in electronics component manufacture did not grow much until the late 1980s. Being small and largely owned by local Chinese capital, electronics component firms generally enjoyed little state support. Smaller local owned electronics firms only received strong impetus only following its classification among the promoted industries in the Industrial Master Plan of 1986. Being complementary to the operations of the strategic industries such as electronics, the industry enjoyed similar incentives, though, the extent of foreign direct investment was extremely small. The Promotion of Investment Act of 1986 offered the industry equal duty exemptions if located in free trade zones (FTZs) or licensed manufacturing warehouses (LMWs) and export incentives such as the double tax deduction on exports and export credit refinancing.

Under such circumstances, domestic policy have tended to be biased toward large industries. The global glut in 1984-86 forced several small electronics firms to close, especially local ones. Penang Electronics and Penang Printed Circuit Boards were a few of them. The only foreign casualty of that period, Mostek which assembled Dynamic



Random Access Memories (DRAM), was sold to Thomson CSF which later sold it to International Device Technology.

Thus, federal policy instruments generally discouraged the growth of small and medium electronics component firms in Malaysia. Against this general trend nationally, changes in production organization especially from the mid-1980s began to change the size configuration of electronics component firms in Malaysia. With considerable assembly and test upgrading, as well as, aspects of redesigning taking place in Malaysia, local state initiatives began to stimulate the development of institutional networks to enable greater deepening in Malaysia. Penang state was arguably the most advanced in pursuing such opportunities. Government-business initiatives led to the formation of the Penang Skills development Center (PSDC) in 1989. Several other aspects of infrastructure were strengthened so that firms could externalize substantial aspects of production, which was internalized in the past due to the uncertainties associated with the local structure. Such production segments were dissimilar but complementary to the operations of the main electronics component firms in Malaysia. The lack of similar strong networks in the Kelang Valley and Johore discouraged strong development of electronics component SMIs. Singapore's strong institutional network enabled the relocation of SMIs in Johore to service firms located across the causeway.

With the exception of Penang, local electronics component SMIs in the rest of Malaysia generally faced constraints accessing government support. Under such circumstances, SMIs that have had a long entrepreneurial experience and show potential linkage development effects - dominated by ethnic Chinese ownership - have enjoyed little state support. Chinese owned small and medium electronics component suppliers faced considerable problems in their efforts to supplier multinationals in locations outside Penang. The lack of state support has left them facing severe market failure problems - though ethnic congruence with the generally ethnic Chinese purchasing officers in the multinationals have encouraged some amount of local sourcing. Not only are electronics component multinationals badly positioned to identify small and medium scale firms' potential capabilities as it would require detailed scrutiny and monitoring, they themselves have received little encouragement to participate in such developments, which can be risky and uncertain. Hence, outside Penang, little links were forged between foreign multinationals and local SMIs in the electronics components industry. They not only face finance problems - including accessing subsidized loans and technical assistance from the credit guarantee schemes and the industrial technical assistance fund (ITAF) - but are also hardly prominent to attract the attention of potential multinational clients. Indeed, interviews show that the list of small and medium scale firms promoted by the government include relatively few machine tool firms operating in the Kelang Valley. Where it has involved active state promotion, such as those by the *Bumiputera* venture trust, Permodalan Usahawan Nasional Berhad (PUNB) stringent ethnic-based conditions apply.

The lack of political support has restricted the establishment and strengthening of sourcing relationships between microelectronics multinationals and local machine tool firms. The intermediary coordination role played by the PDC in Penang has been missing in the Kelang Valley. Lacking state efforts through institutionalization of risks



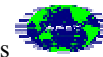
and other support services, microelectronics multinationals in the Kelang Valley reported lacking motivation to develop local machine tool capabilities. Unlike in Penang where a proactive state leadership has played a critical role in stimulating links between local firms and multinationals, state leadership in other parts of West Malaysia has generally avoided such a role (see Rasiah, 1998a). Since the federal state, *de facto* has generally been the active governance agent in the rest of West Malaysia, national considerations embedded in the NEP and its successor, the national development plan, have dictated the promotion of local sourcing. *Inter alia*, ethno-class has differences restricted the effectiveness of the nationally coordinated SEP. Its success in stimulating subcontract relations between ethnic Chinese firms and microelectronics multinationals have been modest even after the enactment of the 30 per cent local sourcing condition in 1991 for firms applying to enjoy financial incentives. Yet 2763 firms had registered under the SEP by 1993 (Malaysia, 1994: 260).

The federal state has only been slightly more successful than SEP in its promotion of the VDP involving the electric/electronics industry. Anchor companies began to support small and medium firms with an equity of not less than RM100 thousand that show *Bumiputera* participation in equity and employment of 70 per cent and 55 per cent, however, respectively. Participation in this program within the electronics industry has so far largely involved consumer and industrial electronics firms. Few of them, however, has established links with microelectronics firms. Sapura and Sharp were the initial anchor firms. This program has helped create *Bumiputera* controlled suppliers from scratch within a short time in the electronics industry. The government planned to create 80 new vendors over the sixth and seventh Malaysia plans (Vijaya Letchumy, 1993: 14). Subsidized loans and technical assistance offered through ITAF and venture companies such as PUNB have been critical in their development.

Socio-political divergence in the Kelang Valley - between the small and medium business community and UMNO dominated political leadership both at the state and federal levels - stifled the development of complementary institutions to support the growth of ethnic Chinese controlled small and medium scale businesses. With weak inter-ethnic relations at the small and medium scale level, the Chinese business community involved in metal, tooling, foundry, rubber and later electronics and plastic works enjoyed little support to grow. Federal financial incentives associated with support for SMIs too failed to stimulate the growth of local SMIs comparable to Penang. Hence, the few successful electronics component SMIs in the rest of West Malaysia have tended to be foreign owned.

### **3. GROWTH AND PERFORMANCE OF ELECTRICAL MACHINERY AND APPARATUS FIRMS**

In light of the general bias of government policy towards large firms, it is only natural that the relative contribution of SMIs to overall electrical machinery and apparatus industry would be expected to be considerably weaker than Chinese Taipei where large firm biases were generally avoided. This section presents the contribution of the electrical machinery and apparatus sub-sector to overall electronics and manufacturing output, the relative contributions of the different employment size



categories to the number of establishments, value added, employment and fixed assets, and growth and performance of these categories.

The total number of electrical machinery and apparatus establishments grew from 20 in 1988 to 116 in 1995. Firms with employment size less than 50 employees contributed 55.0 per cent of the establishments in 1988, the share falling to 26.9 per cent in 1992 before rising to 60.3 per cent in 1995 (see Figure 1). The size category of 200-499 employees contributed the next highest, 19.2 per cent in 1988 and 12.1 per cent in 1995. Firms with size of 1,000 and were the least in number, contributing 3.4 per cent of total firms in 1995. The data from the statistics department shows no firms at all in the 500-999 employment category in 1988-89.

The total value added of the electrical machinery and apparatus industry in 1985 prices, rose from 67.4 million ringgit in 1988 to 343.8 million ringgit in 1995. Firms with employment size less than 50 employees 200-499 contributed most to electrical machinery and apparatus value added in the period 1988-89 and 1994 (see Figure 2). Firms with employment size exceeding 1,000 employees was the leading contributor in 1990-91 and 1995. Firms with employment size 500-999 was the leading contributor in 1992. The value added contributions to the total of size categories 50-99 was the least by 1995, followed by 100-199 and 1-49 employment categories. The fluctuations within size categories 200-499, 500-999 and 1000 and above employees could be a consequence of firms moving in and out of size categories.

The electrical machinery and apparatus industry contributed total employment of 2,783 employees in 1988, reaching 18,318 employees in 1995. Firms with employment size of 1,000 and more contributed most to electrical machinery and apparatus employment in 1988 and the period 1990-95 (see Figure 3). There was substantial alternation between size categories of 500-999, 200-499 and 100-199 for second place, suggesting considerable movement of firms depending on their end of the year employment figures. Firms in the smaller size categories of 1-49 and 50-99 generally contributed least to overall electrical machinery and apparatus employment.

The total fixed assets of the electrical machinery and apparatus industries increased from 48.0 million ringgit in 1988 to 315.0 million ringgit in 1995. Firms with employment size 200-499 was the largest contributor in the period 1988-89, followed by employment category 100-199 (see Figure 4). The 200-499 employment category also contributed most to total fixed assets in 1994. Employment size 100-199 owned the largest amount of fixed assets in total fixed assets in 1990. Firms of employment size of 1,000 and more became the largest contributor in the period 1991-93 and 1995. These fluctuations could be a consequence of firm turnovers, and others moving up and down in along the employment categories.

The measurement of growth rates and productivity is somewhat affected by a decline in electronics production in 1995, the end year used. The production of especially semiconductors fell in 1995 following a dip in global demand (see Figure 6). A global glut caused prices to fall. Since the problem is considered to affect all size categories, the relative performance of each of the size categories can still be compared.





The contribution of the electric/electronics industry to manufacturing value added fell from 29.8 per cent in 1994 to 28.9 per cent in 1995), after rising from 15.3 per cent in 1986.

Table 1 presents the growth rates of total factor productivity (TFP), value added, inputs, labor and capital. It can be seen that firms with employment size exceeding 1000 grew the fastest in value added and factor inputs. Firms with employment size 200-499 achieved the second highest average annual growth in value added, followed by firms with size of less than 50 employees. Firms with employment size 50-99 employees recorded the second highest growth in inputs, followed by firms with size 500-99 employees. The salaries and wages of size categories 0-49 and 500-999 recorded the second and third highest average annual growth. Firms of size 0-49 employees faced the second highest growth in fixed assets accumulation, followed by size category 50-99 employees.

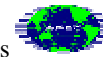
Using TFP as a measure of performance, size categories 50-99, 0-49 and 500-99 employees have done the worst, recording sharp declines in disembodied technical efficiency. Firms with employment size of 100-199 employees followed by firms with employment size 1000 and more employees have outperformed the others. Along with employment size 200-499, these are the only three categories to record TFP growth in the period 1988-95. There is also no clear pattern of TFP growth.

Interviews with officials from three firms each in all of the size categories shows that the first two categories of 0-49 and 50-99 are characterized by relatively higher turnover rates, firms ceasing operations as well as firms graduating to higher employment size categories following expansion. Hence, these two size categories may have been severely affected by relatively newer firms as well as some successful ones moving on to higher size categories. Most of the firms in these categories perform simple subcontract operations for larger firms, specializing in lower value added activities. Most firms in these categories do not enjoy financial incentives

Firms in size categories 100-199 and 200-499 are engaged in both subcontract as well as original equipment activities for export markets. Products assembled include power driven machinery, automated and other electrical machinery. Most of the firms in these categories are foreign owned and enjoy export-oriented incentives. Some enjoy investment tax allowances. Except for 1994-95 when some firms expanded and moved from employment size category 100-199 to 200-400, the number of firms in these categories have been stable with gradual increase in new firms over the years.

Interviews suggest that some firms in size category 500-999 performed badly, while others expanded operations in the period 1990-95. Two firms graduated to size category 1000-1999 in the year 1995. The negative performance of the size category which included electrical machinery assemblies, also included the onset of a downturn in 1995.

Firms in size category 1000 and above employees enjoyed a positive TFP growth. Apart from gaining from the entry of growing successful firms, the category,



which is dominated by some of the world's leading electronics component assemblers, also benefited from the market access and technological sophistication of these firms. Firms in this category assemble particularly disk drives. Seagate and Komag are some of the firms in this category. Some firms, such as Seagate also undertake redesigning of older slider products, and considerable process flow and design research.

While the general specialization of firms in each of the employment size categories in different products suggest that scale effects may still be important, further research is necessary before such a statement can be concretized. Future research should also examine the movement of particular cohorts of firms in each of the size categories before the conjectures introduced earlier can be refuted or defended. It should also be noted that there has been a trend rationalization in the industry. For example, the average per firm employment fell in 1995, largely from a decline in the largest category of employment size of 1,000 and more (see Figure 5). This category experienced a sudden rise in the period 1991-94 due to the relocation of labor-intensive disk drive firms. Overall, it seems that scale may still be important, but its effects are gradually waning from the extent of externalization made possible by developments in networks.

Table 1: Average Annual Growth by Employment Size, 1988-95 (constant 1985 prices)

Size	TFPG	VA	Inputs	Labor	Capital
1-49	-13.29	10.25	15.13	23.86	36.69
50-99	-22.53	3.28	30.50	11.01	25.66
100-199	3.69	2.46	-4.22	6.37	-0.22
200-499	0.36	21.88	22.95	17.63	21.15
500-999	-5.52	18.49	26.79	23.09	20.05
1000-	3.30	52.22	37.29	47.01	68.24

Source: Computed from Data Supplied by Statistics Department.

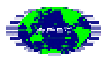


Figure 1: Distribution of Establishments by Employment Size, 1988-95

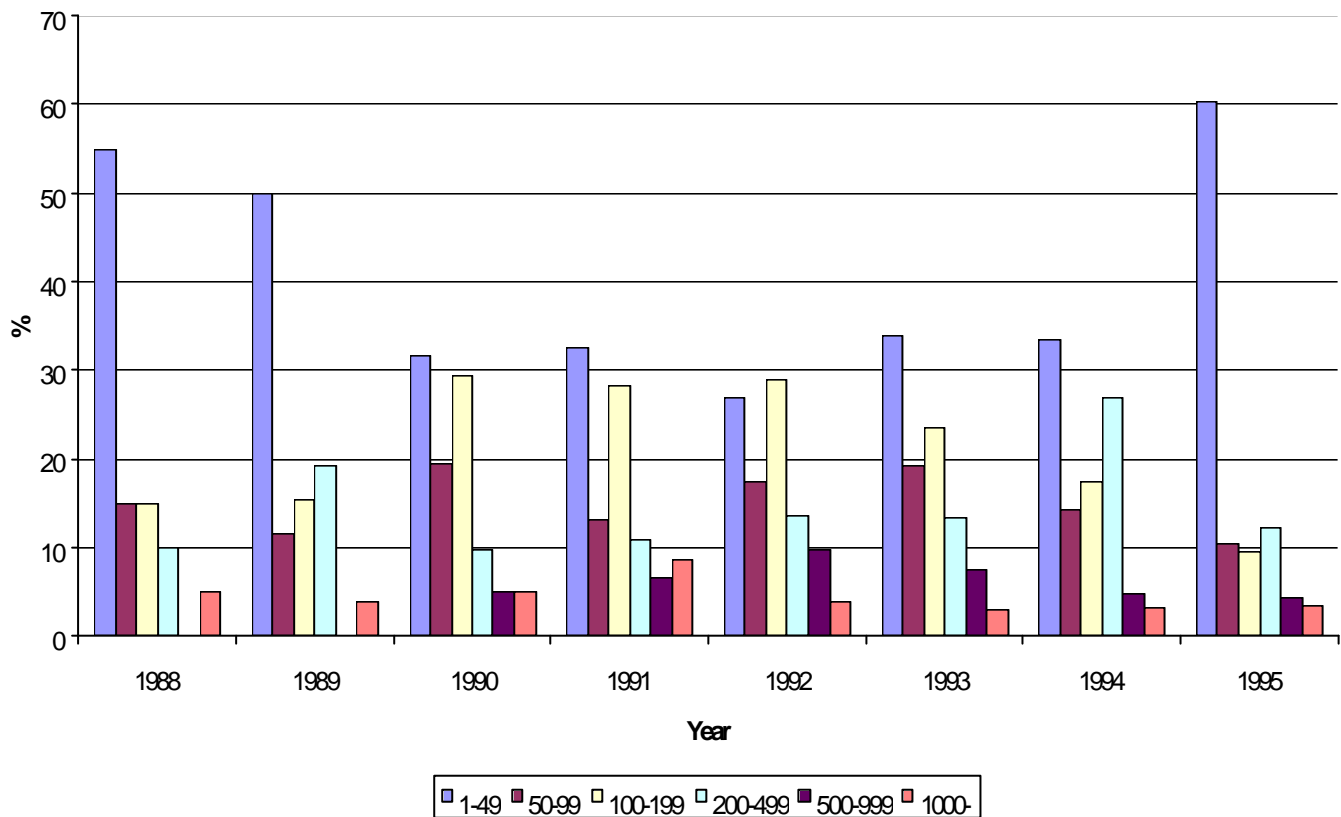
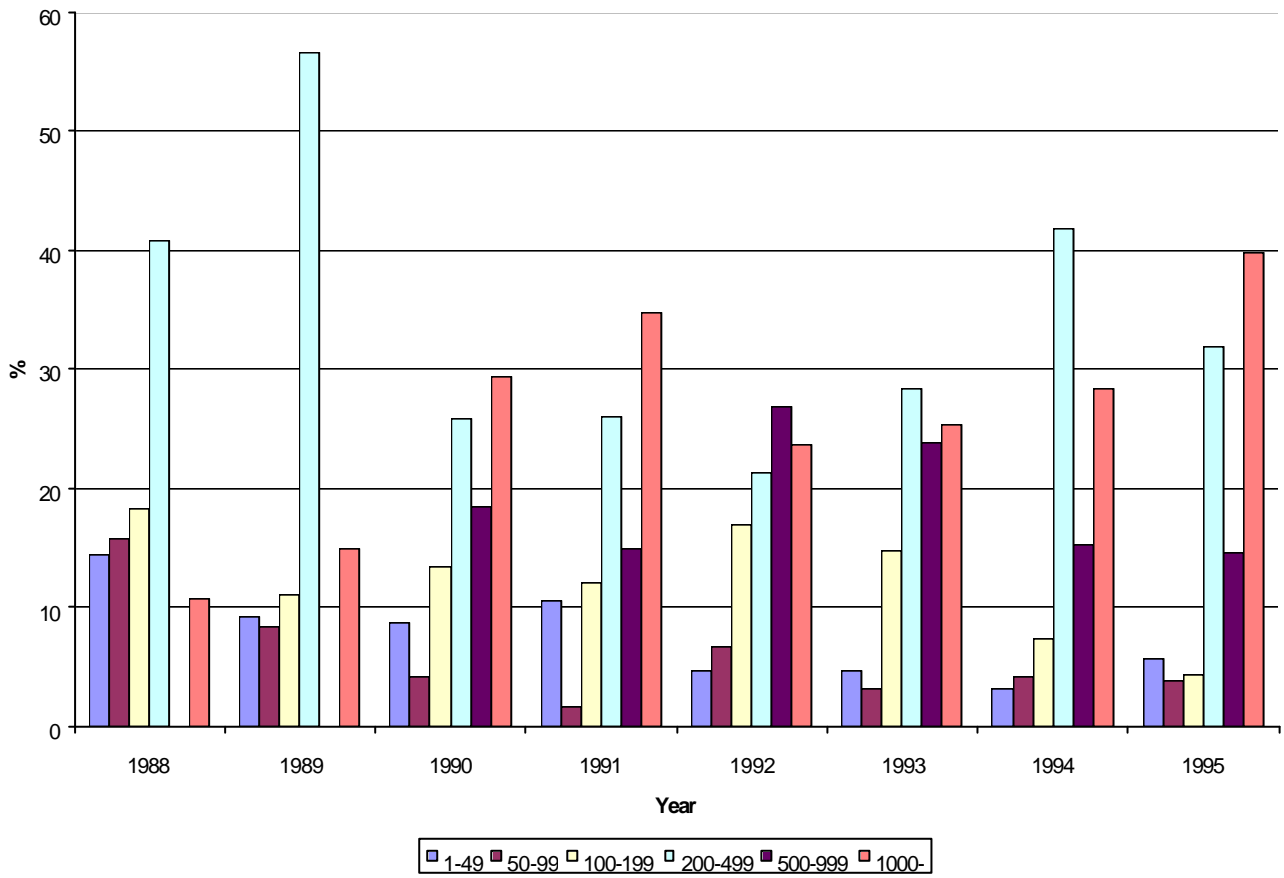


Figure 2: Distribution of Value Added by Employment Size, 1988-95



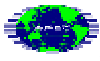
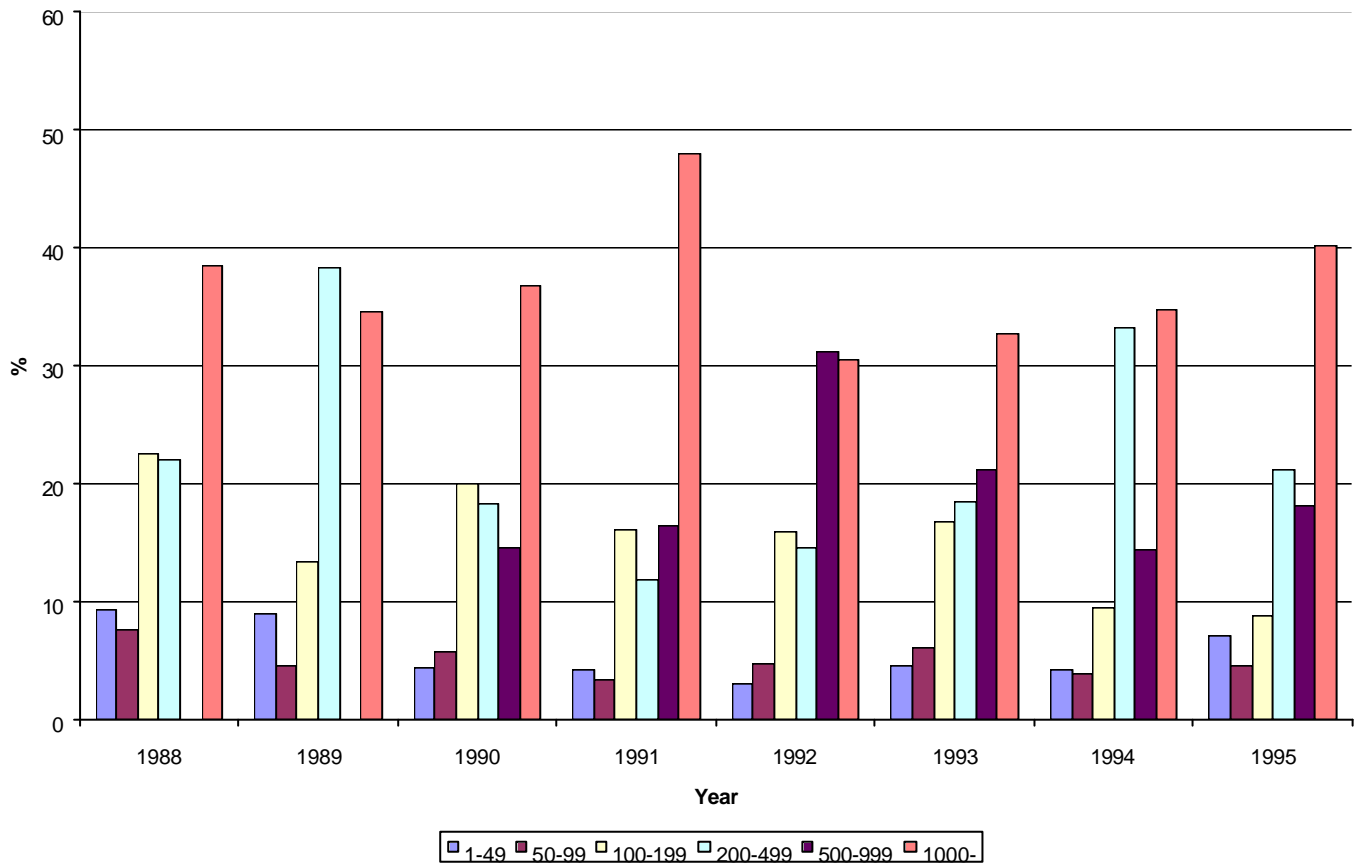
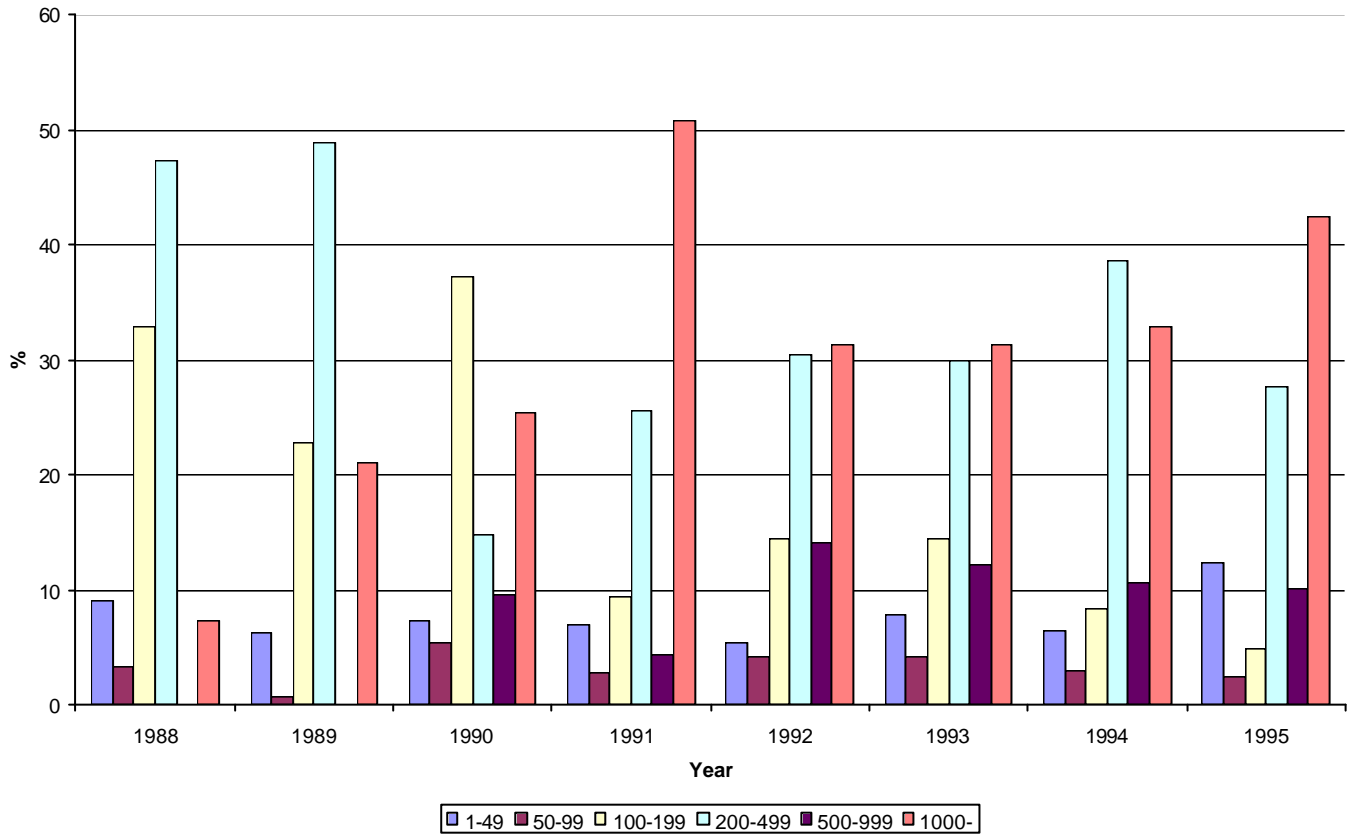


Figure 3: Distribution of Employment by Size, 1988-95



**Figure 4: Fixed Assets Distribution by Employment Size, 1988-95**



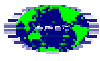
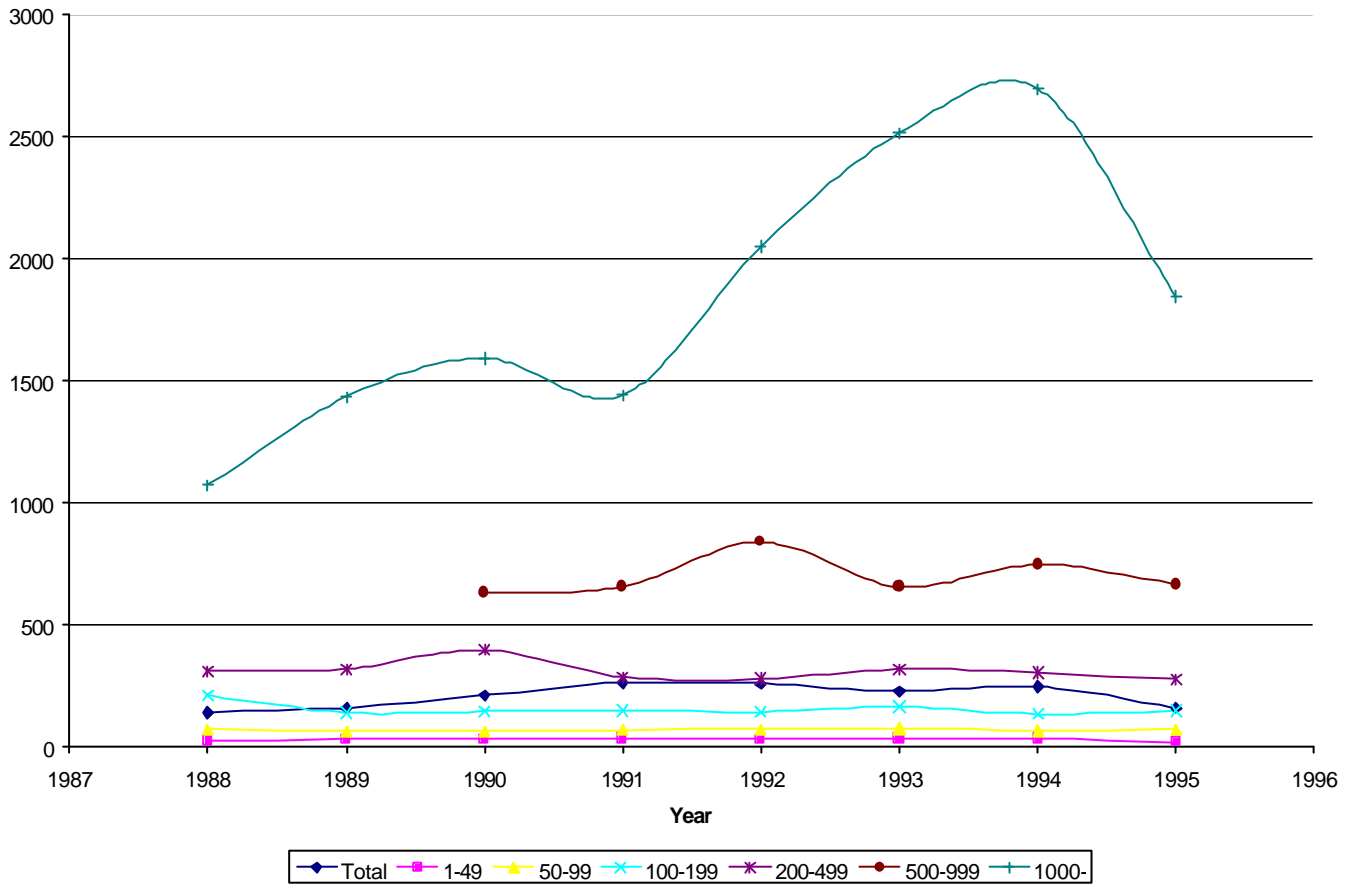
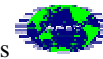


Figure 5: Average Per Firm Employment by Size, 1988-95





The rationalization tendencies with falling employment size began first in the electronics components sub-sector. Its spillovers following buyer-supplier links with other industries as well as exhaustion of labor reserves in West Peninsular Malaysia, led to similar developments in the electrical machinery and apparatus sub-sector. The general work organization began to change strongly from the 1980s in the electronics components firms (see Rasiah, 1995). Especially in semiconductor production - where product cycles have become increasingly shorter and prices have fallen sharply - firms began to introduce rapid changes in work organization. Most high technology firms began to introduce flexible production systems - superimposing cellular manufacturing onto state-of-the-art human resource techniques such as total quality management (TQM) (Rasiah, 1987; 1994). From the late 1980s, the larger electrical machinery and apparatus firms irrespective of ownership began introducing flexible production techniques, integrating innovative capacity with execution throughout the division of labor - thereby reducing hierarchies and making them interlock in the process. The sharp fall in labor reserves from the late 1980s left even disk drive firms to turn to flexible production strategies (Rasiah, 1995; 1996).

Off-shore production involving electronics multinationals in Malaysia had transformed from a mobile off-shore activity (Lim, 1978; Rasiah, 1987) - to a deep-rooted regional operation (Rasiah, 1987; 1988). The growth of product and process customization within the rapidly growing Asia Pacific market enhanced such a development further. These developments - particularly to enable productive flexible specialization - has encouraged a strong impetus for proximate local electrical machinery and equipment sourcing and the intensification of employee training in-house and externally. Currency fluctuations too were important but as Rasiah (1994) has argued, they accompanied rather than initiated such developments. Some elements of research and development in the redesigning of mature products such as the 80386 and 80486 microprocessors and EPROM chips has also emerged to tap the direct externalities generated out of the development of local labor's innovative faculties and changes in financial incentives (Rasiah, 1996a). Interestingly the appreciation of the ringgit after 1992 reversed the exchange rate advantage.

Using direct and indirect (cutting edge process techniques) proxies such as quality control circles (QCCs), small group activities, just in time (JIT), quick change overs and multi-product lines, total quality management (TQM), total preventive maintenance (TPM) and statistical process control (SPC), the timing of application of flexibilization of production. A detailed time-series presentation of the absorption of flexible production techniques into both electrical and non-electrical machinery firms is undertaken in Rasiah (1994: Figure 2).

The analysis in this section did not establish any clear pattern of growth and performance in electrical machinery and apparatus industry with employment size. Compared to general international statistics, SMIs in the electrical machinery and apparatus industry tend to contribute less to the number of establishments. Their contributions to value added, fixed assets and employment have generally been smaller but the pattern again is not obvious. Employment size categories of 100-199, 200-499 and 1000 and more show positive TFP growth, while the rest negative. While the dip in





1995 could have affected overall performance, the size categories of 1-49, 50-99 and 500-999 have performance dismally. The smaller categories seem to be affected by high turnovers and the graduation of successful firms to bigger groups. The large category of 1,000 and more employees have benefited considerably from the relocation of giant disk drive companies.

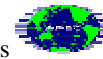
## 5. CONCLUSION

This paper broached the role of SMIs in Malaysia's manufacturing sector, with specific reference to the electrical machinery and apparatus industry. The overall lack of effective government support for SMIs was advanced as a major drawback that has reduced the contribution of SMIs in the manufacturing sector. Government incentives have clearly shown a strong bias towards larger firms.

Relatively complementary local socio-political structure helped enhance effective coordination between markets, institutions and firms to enhance the development of small and medium scale firms in Penang. The specific nature of local politics in Penang, and the local political leadership's relative autonomy over the federal government helped the local state to support ethnic Chinese small and medium scale businesses more actively. The special intermediary role of the Penang Development Corporation has been instrumental in forging strong state-business-multinational coordination. Thus, markets, trust and in-house command worked complementarily to coordinate the expansion and deepening of machine tool subcontracting firms in Penang. Although similar federal policies also faced other locations in West Peninsular Malaysia, weak development of institutional networks restricted the expansion of similar electrical and electronics SMIs. The local state offered little proactive support the growth of SMIs and to forge links between electronics multinationals and local electrical machinery and apparatus firms. The official vendor development programs promoted by the federal governments have remained under-utilized.

As a consequence the growth and performance of electrical machinery and apparatus SMIs in Malaysia have fallen short of their bigger counterparts, albeit the firms compared tend to fall in slightly different product groups. Apart from holding small contributions to value added, employment and fixed assets, the employment categories of 1-49 and 50-99 also show highly negative TFP growth in the period 1988-95. The poor performance could also be attributed to high turnovers and graduation of some successful firms to larger categories. However, the pattern is unclear as the best performers were size categories 100-199 and 1000 and more employees. The employment category of 500-999 also recorded negative TFP growth. Also, the largest category also benefited from the relocation of American disk drive firms in the 1990s.

The results suggest tentatively the significance of the relationship between industry type and scale in firm level performance. However, a more rigorous individual firm level assessment using the same firms historically is essential for more definite conclusions. Also, the scope and flexibility offered by smallness may still be relevant if it can be established that these firms have graduated to larger categories over time.

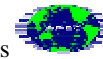


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**HUMAN RESOURCE MANAGEMENT IN SMEs IN PAPUA NEW  
GUINEA: TRADITIONAL Vs TECHNOLOGICAL**

**Karuppannan Sengodan  
Office of Higher Education (Papua New Guinea )**



## **HUMAN RESOURCE MANAGEMENT IN SMEs IN PAPUA NEW GUINEA: TRADITIONAL Vs TECHNOLOGICAL**

### **1. ABOUT PAPUA NEW GUINEA**

**The Country:** Papua New Guinea (PNG) lies south of the Equator and approximately 150 kilometres north of Australia occupying an area of 463,000 square Kilometres. The country with a population of about 4.5 million people comprises the eastern half of the world's largest island with several hundred islands in the Bismark and Solomon seas. Vast tracts of the country are wild and underdeveloped. Extremely rugged mountains, thick jungles and seas, have for centuries restricted contact among different tribes, inhibiting the growth of a common language and contact with the rest of the world. The geographical features of Papua New Guinea partly account for the large number of diverse groups who speak more than 850 languages and dialects. These features contributed to the unequal distribution of amenities including, education, training and industrial development.

#### **Social indicators**

Compared with other South Pacific and Asian countries in the same income group, PNG ranks last in terms of most major social indicators. In 1995 life expectancy at birth was 57 years, the lowest among South Pacific countries and much lower than in Asian countries with comparable income levels. The infant mortality rate is nearly twice the average in comparable countries. The level of adult literacy in PNG is significantly below the levels in most other South Pacific countries. Enrolment and attendance rates are poor and there are high attrition rates at primary schools. A significant gender imbalance exists at all levels of the education system. It reflects the general lack of participation of women in social and economic development in PNG.

#### **The Economy:**

Papua New Guinea prides itself of a potentially very rich country with ample resources in mining, gas, marine, agriculture and forestry. Its marketed Gross Domestic Product (GDP) was an estimated K6.5 billion, equivalent to about US\$ 500 per person.. Following negative growth in 1989, the rate of growth has increased from 3 percent in 1990 to 9.4 percent in 1991 to 11.8 percent in 1992 to 14.4 percent in 1993. These high rates of growth were due to the construction and operations of few large projects in the mining and oil sector. However, real GDP rose by only 3 percent in 1994, fell by 1 percent in 1995 and was virtually unchanged in 1996

#### **Basic features of PNG and its society**

- PNG is a very mountainous country coupled with the fact that its outer island provinces and surrounding atolls are separated by large expansion of sea.
- Eighty percent of its population are subsistence farmers and live in rural areas and only 20 percent live in urban and semiurban areas.



- There continues to be a heavy urban drift resulting in a lot of unskilled and worse, unemployed people living in the towns.
- One can observe a clear and obvious build up in the economic concentration in the urban areas. Industries establish themselves in the urban areas and thus increase the magnetic pull (urban migration) on the rural people.
- Rural economic activities are basically concerned with cash cropping and subsistence farming.
- The larger economic activities in the rural areas are the mining enclaves such as OK Tedi, Porgera, Misima and Ligor Gold and Copper Mines, which remain as the major export revenue earners for the country.
- The government remains as the major educator and employer in the country. Higher education is almost fully subsidised with only 2 percent of those who enter schools benefit. Still only about 67 percent of the school age children enter into school system.

### **Political status**

As an independent country, PNG is fairly young having obtained its political independence on 16 September 1975. Since attaining independence, PNG embarked on a very ambitious but noble political task of administration and decentralisation. In embarking this process, PNG was thinking about its development with emphasis on self-reliance, equitable distribution of wealth, political participation and therefore, the adoption of institutions and policies to further these aims.

The decentralised system of government was formally introduced in 1976 to among other goals, bring the administration closer to the people. Nineteen provincial departments each under a Provincial Government were created outside the National Capital District which remain the seat of National Government. The Provincial governments have control over their own administration and budget. Under the provincial government reform introduced in 1996 the Regional Parliament Member of each province will be the governor with a provincial assembly consisting of Members of Parliament from the province and the Presidents of the Local Level Governments as members of the Provincial Assembly assisting him. Nationally PNG has adopted the Westminster Parliamentary System of Government with National Parliament having 109 elected members from all provinces. The Prime Minister is the executive Head of State and is elected by majority members. Queen of England is still the Head of State with a Governor General as her representative in Papua New Guinea.

## **2. HUMAN RESOURCE DEVELOPMENT IN PNG GOVERNMENT POLICY**

The National Government maintains the responsibility for general human resource development in the country. This includes all forms of general education and skills training conducted in primary, secondary, vocational and tertiary levels. The function of education and training fall within the Ministry of Education, Ministry of Youth and Employment and Public



Service respectively. Under the Ministry of Education, Department of Education is responsible for the general and vocational education while the Office of Higher Education is responsible for the tertiary education. The National Training Council and the Apprenticeship Board within the Department of Employment and Youth are responsible for training while the Department of Personnel Management is responsible for the training in the Public Service specifically..

As stipulated in the Constitution and the Public Service Act, the Public Services Commission has specific legal responsibilities in recognising that training and human resource development are a necessary and inseparable functions of each department/ organisation? management. As such the Commission adopts the crucial role of planning and promoting the development, improvement, coordination and evaluation of all training and human resource development activities for both private and public sector.

It is recognised that timely and accurate assessments of training needs are an essential and integral part developing and maintaining a capable and qualified workforce. As much as possible training needs are linked up with the human resource planning to ensure that short and long term staffing needs are met.

Papua New Guinea? human resource policies reflect the growing population, extensive resource base, the infrastructural needs and the range of services provided. PNG like many other developing countries in the region is disadvantaged by the critical shortage of trained and skilled human resource which has adverse effects on development programmes. It has been recognised that the adoption of an appropriate human resource planning framework would greatly assist in the assessment of likely required skilled labour over a defined period of time, analysis of the employment possibilities in the formal sector of the PNG economy and the policy implications on education, training and localisation.

Analysis of the work force in the formal sector indicated that almost two thirds of the citizens with jobs in the formal sector are less than thirty years of age while non-national workers average between thirty and forty years of age. This clearly indicates the relatively recent history of education expansion in Papua New Guinea. In relation to educational attainment it has been estimated that about 59 percent of all citizens employed has no more than primary schooling. About 70 percent of the employed non-nationals occupy more professional, technical, administrative and managerial occupations. Despite the relatively short history of education development it is encouraging to note that base levels of the public service and of the private sector are now localised.

### **Training facilities**

At present Papua New Guinea aims to adequately meet the general training needs within the country and where possible prefers to utilise training opportunities and facilities in the region. However, for post graduate training and certain technical and other specialised needs, training is acquired overseas. Efforts are continually being made to upgrade the standards of training to ensure that the programs are responsive to the national needs. More emphasis is also being placed on utilising foreign-aid for in-country training which is proving more appropriate, effective and economical. The establishment of National Training Council (NTC) to coordinate both public service and private sector training is a welcome step in the right





direction. AusAID assists the country in setting up a National Apprenticeship and Trade Testing Board (NATTB) which will increase the quality of technical personnel coming out of technical colleges.

The development of technical education in Papua New Guinea is a recent history. There are four state technical colleges, several vocational centers and six universities supplying human resource for the SMEs. The problem of irrelevant curricula, unqualified instructors and out of date equipment in the institutions results in the production of graduates who are not attracted by the industrial sector. They prefer foreign workers.

### **Training and Development**

Training and development of human resources is important to improve the productivity and international competitiveness of any enterprise. Most of PNG SMEs spend nothing for this purpose while most of the industrialised countries spend about 2 percent of their GDP on training. Industries are pinching people who have learned skills elsewhere than give them those skills themselves. One survey indicated that there is no skill shortage in many fields. But only half of the work force with skill qualification work in the jobs for which they are trained.

PNG schools and colleges are also criticised for producing graduates with irrelevant training to the needs of the SMEs. Controversy rages over classroom hours against practical training, under qualified and inexperienced instructors, outdated equipment and facilities and irrelevant curricula.. There is also criticism about quality of graduate output from state institutions which resulted in large number of private training institutions both local and overseas being established. Control and monitoring of such educational institutions are worries for the state authorities.

When Asian countries are moving so fast in providing relevant training to meet global competition, PNG is lacking in this regard and may not be able compete meaningfully in the global competition. Realising the lack of training provision by industries the government has enacted a legislation forcing all the companies pay 2 percent of the pay roll as training levy. But instead of the government using this levy for training purposes the money is paid into general government account and is used for purposes other than training.

Papua new guinea gives low priority to matters of labour. Everywhere in the world and in all forms of development, labour is always a priority, a key and most important factor of production, without which no development can take place. This is also true for PNG and for PNG to give lowest priority to matters of labour continues to be the single hindrance in creating jobs for people. Labour is the engine room for development because it skilfully converts capital, land and entrepreneurship into the kind of infrastructure and wealth that the nation boasts for today.

The Department of Employment and Youth? (DEY) mission statement charges it with the responsibility of creating and sustaining a harmonious industrial relations climate between employers and employees on both the private and public sectors; with the responsibility of promoting job opportunities for citizens; and with the responsibility of setting and enforcing acceptable employment terms, conditions and standards.



DEY achieves HRD through training. Its various training programs facilitate the training and imparting of skills to enable citizens to secure jobs in the labour market. It has a number of continuing and new programs for the training and development especially for school leavers and unemployed. The human resource programs that the department delivers are the apprenticeship training scheme, the trade testing and certification scheme and training and localisation programs. The private sector supplement the DEY training programs by conducting training programs using local resources or from abroad. One example is Daltron Electronics in association with Australian Institute of Management conducting training programs. Two such programs relevant to HRM are: "Taking control with time management" and the "New supervisor" focussing of team leadership and increase the ability to achieve overall objectives.

### **3. HUMAN RESOURCE MANAGEMENT (HRM)**

Human resource management? simple definition is managing people within the employer-employee relationship. It involves the productive utilisation of people in achieving the organisation? objective and the satisfaction of individual employee needs. HRM is a major contributor to the success of the enterprise. Likewise ineffective HRM can be a major barrier to employee satisfaction and organisation success. Thus HRM is thus either a part of the problem or part of the solution in gaining the productive contribution of people.

#### **Human Resource Planning (HRP)**

Human resource planning is the process by which an organisation attempts to ensure that it has the right number of qualified people in the right jobs at the right time. It does this by comparing the present supply of people with organisation? projected demand for human resources. Simply HRP is used to achieve:

- . more effective and efficient use of human resources
- . more satisfied and better developed employees
- . more effective equal opportunity planning.

#### **Diagnostic Approach to HRM**

Many factors affect HRM. These may be from organisation? external environment or its internal environment. Whatever may be the case, the impact of a particular influence must be identified and considered by the HR manager. HRM is influenced by factors such as changes in technology, laws, social values and economic conditions which exist outside the organisation in addition to factors which exist inside the organisation such as the organisation? objective, strategy, culture and structure. All of these can have a significant influence on the organisation? HRM objectives, strategies and action plans. An integral part of strategic HRM involves the human resource manager in analysing the environmental influences to identify those factors which inhibit the organisation and those which help the organisation achieve its objectives. An ideal situation in this circumstances is to identify and access the external and internal influences against the organisation? purpose, objectives and strategy and plan the



HRM objectives and HRM strategies. The HRM activities will follow then. Finally the HRM outcomes can be compared with HRM objectives that were designed.

### **Influences:**

Effective HRM depends on the identification of external and internal influences that affect the HRM. Internal influences are influences such as organisation mission or purpose, objectives and strategies, culture and structure involving factors which are found within the organisation. Some of the major external influences existing outside the organisation include: political, legal, environmental, technological, cultural, demographic, social, business, economic and industrial relations. Political attitudes towards business and unions and such issues as management rights, strikes, secondary boycotts and enterprise bargaining can influence HRM. Laws and regulations regarding such matters as hours of work, holidays, equal employment, affirmative action, sexual harassment, workers compensation, health and safety, fringe benefits have clear impact on HRM.

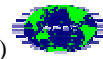
The level of technological advancement and rate of technological change affect job design, recruitment, selection etc. The boom in portable PCs have changed the nature of some jobs. Computer networks are eroding traditional workplace hierarchies. The historical background, ideologies, values, norms and language all influence employees' views on the role of HRM. The nature of human resources available to the organisation in terms of numbers, geographical distribution, age, sex, literacy, skills and education levels have obvious impact on HRM. Changing values and attitudes toward such issues as work, minorities, unions, management, social mobility, status, rewards, smoking, job security have impact on every aspect of HRM. Changing values and attitudes typically create new challenges for the HR manager. These influences will be discussed in detail later in the context of HRM in Papua New Guinea.

### **HRM activities:**

HRM involves the acquisition, development, reward and motivation, maintenance and departure of an organisation? human resources. Certain key HRM activities must be undertaken to satisfy these aims. Each of these activities is interrelated and together represent the core of HRM. These activities are job analysis, human resource planning, employee recruitment and selection, employee appraisal, training and development, employee motivation, compensation, benefits, industrial relations and health and safety.

### **Human Resource Information Systems (HRIS)**

Computer technology is revolutionising the entire world. SMEs are of the opinion that computer software is a modern technology that can be used only by big enterprises. HRIS, if used correctly can provide a powerful competitive edge. Many organisation use the information system only to record employee information. It must be used an integral approach to acquiring, storing, analysing and controlling the flow of HR information throughout the organisation. It provides the necessary data for planning activities such as forecasting, succession planning and career planning and development. The major benefit of HRIS is the accurate and timely access to diverse data for the HR manager and the top management. HR



manager must be thus computer literate. Even in many developed countries majority of senior executives are computer illiterate since computer literacy is a low corporate priority.

### **Changing work force:**

With greater movement of people from one part of the country to other and from one country to other we are faced with greater mix of racial and cultural differences. This presents a significant challenge for HR managers. The proliferation of cultural backgrounds at work brings to the surface many varieties of values, work ethics, and norms of behaviour that are ethnically and culturally based. Attempts to work together with employees of different background are likely to be hampered by communication issues, insensitivity and ignorance of each other? motivation. The best approach will be to look for ways to integrate and not assimilate the mix of people from diverse cultures into the workplace.

The present climate of economic turbulence, savage competition and pressure for increased productivity has identified the need for HR managers to adopt a strategic approach, be part of the top management team, be involved in corporate planning, develop business know-how, become bottom-line oriented and develop a vision of what HRM is all about. The central challenge now facing HR managers is performance improvement in the shift from an industrial to an information society. Organisations must now manage their employees quite differently if they are to compete successfully in a world where human resources have become the competitive edge.

## **4. SMALL AND MEDIUM ENTERPRISES(SMEs)**

What are the small and medium enterprises and why should we talk about human resource planning in SMEs? Small business makes up the majority of companies, basically in any country including developed countries. They contribute to employment, export and GDP. If we take Europe for example there are more than 15 million small businesses contributing to almost 60 percent to total employment. They contribute almost 50 percent to GDP and 40 percent to exports. In many countries the majority of businesses are small and not medium and that is why we should help small businesses more than anything else. This fact is not realised in many countries especially developing countries like Papua New Guinea and thus tend to ignore the development of SMEs which are vital to the national development.

Across the world , SMEs face two constraints: financial services and competitiveness. Financial services that are needed by SMEs are such as checking accounts, letter of credits, overdrafts etc. Most of the SMEs do not need loans. They will be happy with the overdraft account for their working capital and also need a safe place to store money and get access when they need.

Competitiveness include **capability, market functioning, government policies and physical infrastructure**. The studies show that companies that invest in the human resources have the bigger chance to survive and compete. Due to government education policy many small businesses face problems of finding skilled labour. Sometime the government policies on businesses will also affect small businesses.

### **Challenges for SMEs**



The major challenge for SMEs is to be able to stand up to competitive pressures and effectively participate in both home and international markets. SMEs also need to be able to exploit new markets opportunities arising from globalisation and trade liberalisation. The SMEs should be supported for the development, growth, diversification and internationalisation. Three major dimensions must be developed to achieve this. First is to develop the entrepreneur. His/her technical, managerial and human relation skills; the interest to grow, exposure to growth stimuli, and basic foreign language skills must be developed. The second is the development of the enterprise itself. The enterprise? productive capacity and technical capability; the level of modernisation; its proximity to suppliers and markets, its stage of development and growth must be given attention. The third issue that must be addressed is the product and services of the enterprises. The overall quality of the product or services, design standards, suitability to foreign markets and compatibility must be looked into.

## **5. HRM IN SMES IN PNG CONTEXT INDUSTRIAL DEVELOPMENT IN PNG-SMEs**

PNG became an independent country only in 1975. Rugged and terrain landscape, diverse culture and languages, lack of contact with outside world and the colonisation until 1975 restricted industrial growth. Infrastructural development such as road links, bridges, water supply and power are still rare and movement by road to many parts of the country is very difficult even now. PNG has ample raw materials such as coffee, tea, rubber, timber, cocoa which are not being processed within the country due to lack of initiatives and relevant government policies on downstream processing. Raw materials were being exported overseas for processing. Few industries that were established are mostly service industries and are owned and operated by foreigners. PNG does not have manufacturing industries as most of the products are still imported. Some manufacturing industries that were established could not survive due to problems in importing raw materials and identifying market for the products. The establishment of SMEs in PNG is seen only in urban areas due to the absence of infrastructure development in rural areas. This has also forced urban migration increasing law and order and social problems in towns.

Only mining companies, timber companies and agricultural plantations operate in rural areas some in very remote locations. Most of the above companies are still foreign owned.

International and Australian companies such as Shell, British Petroleum, Mobil, Commonwealth development Corporation, ANZ, Westpac, BHP, Hornibrooks are operating in Papua New Guinea.. In developing HRM policy a key question that must be raised is for what type of organisation we develop HRM policy?. A PNG Company, an Australian Company operating overseas or a multinational company with foreign workers operating in Papua New Guinea? This will decide what type of management practices that can be imposed on the company. It will also permit the organisation to identify those core values which are critical to its success and which makes it unique. Lack of understanding of the above procedure will result in applying improper management policies in the organisation.

In order to promote effective HRM, ILO in its 1994-95 general program for the region defined three priorities as below:



- promoting the advance of democracy-through the rule of law, tripartism, sound industrial relations practice and the elimination of discrimination;
- the fight against poverty - by developing responsive training systems, employment creation schemes and social institutions, and ensuring that restructuring policies take account of social needs; and
- protecting working people- by creating safe and human working conditions, reforming and extending social security and meeting the needs of the most vulnerable groups: child workers, women workers, migrants and those in the informal sector.

Within these priorities, the ILO in PNG focussed on labour standards, equality of women, employment promotion, work environment and informal and rural sectors.

### **Future role of SMEs in PNG**

In the era of globalisation and free competition in the next millennium the future of SMEs in Papua New Guinea is unknown. There is a fear that SMEs will not be able to survive in future trade era where there will be stiff open competition in which Papua New Guinea may not be able to compete. Another factor which will affect the SMEs in Papua New Guinea is its high labour cost which is one of the highest in the region. It is believed that the Asia Pacific region will become the dominant factor in guiding the economy of the world in the next century. What will be the part played by PNG in this effort as one of the countries in the region. Unless measures are taken to improve the future of Papua New Guinea SMEs will be uncertain.

In the next century trade will become increasingly global and there are moves towards elimination of all trade barriers and restraints in trade. Papua New Guinea industries find themselves at a cross-road; they must achieve more with less effort in order for their products to remain competitive in the world market or be prepared to sink. Increasing productivity in any business is a challenge. Improvement of productivity depends on many factors, some of which are related to workers, some others are related to the supervisors and the relationship between the two. Human resource management is thus a contributing factor in the survival game for SMEs in Papua New Guinea.

Since Papua New Guinea is a small country with small number of enterprises there is no role model for workers from leaders, politicians and churches. Overall human values does not exist in PNG. Organisations cannot develop in this situation. There is no motivation for workers who are only interested in all perks that a job can offer to them but are not responsible for the work that they are doing. They are also least interested in increasing productivity. Organisation? vision statement is short term and not long term due to frequent changes in the government policy.

### **Impact of cultural values**

Cultural, social and economical values have impact on work. Melanesian culture is very easy going where punctuality, time conscious and responsibility are not considered very important. Many workers do not show up at work usually after a long weekend. Wantok



(relatives or who speak same dialects) system is very strong in the social system. Urban migration brings more wantoks from rural areas. They come to town and stay with their wantoks sharing their income and facilities. This creates extra social pressure, unemployment, law and order and other social problems on the community. Except some multinational companies housing is not provided for the workers by small and medium enterprises. Housing rental is very high and workers are forced to live in settlements with their unemployed wantoks. Safety and security are not guaranteed. Health services in Papua New Guinea is very poor and there is no separate hospitals for workers or such as Employees state insurance for workers as exists in many Asian countries. Drinking, gambling and polygamy are accepted factors by the society. Family breakdown is quite common in the PNG society. Detachment of workers for a longer period for training overseas changes the situation and their attitude towards work but on return quickly influenced by the society and return to the original situation. Hence the change is not sustainable. Group training will be preferable. Village values have more influence on work style. Though the National Constitution stipulates integral human development PNG educational institutions fail to achieve this objective.

### **Traditional Vs Technological style of HRM in PNG**

Two sectors of work exist in PNG: the traditional sector work in rural areas covering almost 80 percent of the population and modern sector mainly in urban areas covering just 20 percent of the population. These two are fundamentally different in organisation of production. While in the modern sector labour is perceived as a factor of production and compensated by prevailing wages, in the traditional sector the labour is mainly for subsistence living. A range of social and cultural factors determine the organisation of production and the use of land and labour in the traditional sector. The use of textbook HRM style cannot work in the traditional sector. Any effective HRM policy must take into account the characteristics of traditional employment in the rural areas in order to be relevant and meaningful to the needs of the majority.

### **Occupational Shifts**

Frequent movements in the occupational categories from traditional to modern and vice versa in PNG make the work of HR managers difficult. Due to heavy competition for education and training in the later part of this decade there are notable shifts in the job categories. Overall people from rural areas moved out of subsistence into monetised and formal sectors. They moved mostly into cash farming, a positive shift for development. On the other hand in the urban areas the shift was out of wage employment and into unemployment. There were also shifts as well out of housework and into cash farming, schooling and self-employment.

Due to its well known diversity in culture and languages traditional management has been built on clan or wantok system. Since Papua New Guinea has been exposed to outside world very recently compared to other countries in the region the people are not exposed to external pressure either in their normal life or in their working environment. Exerting pressure at the work place will result in the workers leaving their job even if they do not have any alternative work or means of living. They will simply return to their villages. Due to the above factors management and workers in Papua New Guinea do not have a close ongoing



relationship. Human resource management seeks to integrate the interests of an organisation and its employees. The obstacles to the effective human resource management in Papua New Guinea is the authoritative and irrelevant management style of mostly expatriate supervisors against Melanesian cross-cultural setting of work force, wantok system in the hierarchy and the resistance to change. A participatory management approach blending technological management principles with the traditional management practice is necessary for successful employee investments in Papua New Guinea. Another factor is the government unstable industrial relations policy.

### **Expatriate Bosses**

Most of the SMEs in PNG are foreign owned and are managed by expatriates. Expatriate bosses in Hong Kong are regarded by their staff as more supportive than their Chinese counterparts, according to a survey. This was particularly felt to be the case among female middle managers. Chinese bosses were found to be far more authoritarian and hierarchical leaving their subordinates feeling powerless. What is the situation in Papua New Guinea? Immediately after the independence and during 1980s majority of the supervisory work force in SMEs were all foreigners and hence the management was much easier. At present very few expatriate managers exist in any single enterprise. Unlike Hong Kong expatriate managers in PNG are not well liked by the national work force. HR managers relationship with the subordinates can be assessed in terms personal interest in the subordinates work, friendliness, information sharing, consultation, recognition and job assistance. Expatriate managers working in PNG are not same in terms of the above factors. Some are friendly with subordinates and some are not, some consult with the subordinates and share information and some are not and some managers are friendly with their staff. Some feel that closeness with staff might diminish differences in status and will make supervision difficult. Some managers are authoritative and use foreign style management creating unrest and conflict. Three case studies were conducted to access the HR managers view on their work force and to establish the style of human resource management techniques that exist in Papua New Guinea.

### **Case study 1**

The first case study was conducted with the Lae Branch of the Australia and New Zealand Banking Corporation, an Australian Bank with an Australian Branch Manager

There are a total number of fifty staff with only the manager as expatriate leaving all other forty nine staff as PNG nationals. The manager has already worked in Australia and Vanuatu. He has full exposure to the Melanesian culture. His views are that expatriate managers will fail in their work if they do not understand the local values and culture. He says text book method of human resource management will not work in Papua New Guinea and he has no problem in managing his staff except in some situations his decision is not acceptable by his staff. His experience is that expatriate managers are respected more than the national managers. Sometime wantoks short circuit the management cycle. He has found out that values are diluted when Papua New Guineans manage Papua New Guineans and managing female staff easier than male staff.



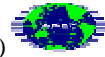


## **Case Study 2**

The second case study was conducted at the Lae International Hotel which has a total of 150 plus staff. There are 6 expatriates while the rest are Papua New Guineans with 25 percent of them female staff. The HR manager is a Papua New Guinean with about 6 years experience mainly in airline industry. His view is that national manager supervising national staff is easier due to the clear understanding of cultural values. Wantok system gives pressure on his work but ignoring the pressure makes the work more recognised. He thinks that cultural values have more impact than social values on one's work and hence solution to the problems such as punctuality and attendance must be dealt in cultural way and not using textbook methods.

## **Case study 3**

The third case study was conducted in an airline sales office where the sales supervisor is a female Papua New Guinean. All her 22 staff are female Papua New Guinean staff. She has no problems in managing and supervising her staff and is well respected by her staff. She has been awarded Queen's honour for her outstanding achievements as sales supervisor of one of the busiest sales office of the airline.



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**THE PINOY MANAGEMENT STYLE: HOW IT HAS SERVED  
THE PAST AND HOW IT SHOULD EVOLVE TO SERVE THE  
FUTURE**

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## **THE PINOY MANAGEMENT STYLE: HOW IT HAS SERVED THE PAST AND HOW IT SHOULD EVOLVE TO SERVE THE FUTURE**

In their management style, Filipino, or to use a colloquial term, “Pinoy,” managers are like the proverbial bride on her wedding day – they use something old, something borrowed and something new.

As “Pinoy” is a term of fairly recent coinage – it must have begun to be popularized in the late 1960s ---- Pinoy management style is often used to refer to the management approaches and practices adopted by the contemporary Filipino manager.

While the discussion made in this paper covers Filipino managers in general, they are, in the perception of the authors, more easily observed among small and medium enterprises or SME’s.

### **SOMETHING OLD, SOMETHING BORROWED**

Old and much-vaunted is the Filipino manager’s role as patriarch to his work force. To him, they are an extended family, whom he does not only pay just wages but also feeds, shelters, nurtures. Lesser known but also quite old is a preference for the subtle approach in controlling workers -- not so much by direct orders as by suggestions, not so much by discipline as by persuasion, not so much by formal rules and systems as by more personal, spontaneous ways.

Borrowed by today’s Pinoy manager, on the other hand, are lessons and insights from Anglo-American popular management theories and concept. These have taught them to become more objective, less personal and more organization-oriented.

### **THE AMALGAM**

The combination of old and borrowed has evolved into something new and quite unique – a Pinoy managerial style that tempers the blunt, straightforward ways of Western managers with “good, old” Filipino values and traditions, including familism and personalism. It might also be described as a dualistic style that varies at different levels in the organizational hierarchy, more “borrowed” at the top rungs and traditional at the lower levels. It might also be regarded as achieving a tricky balance between being people- and work-oriented.

A study conducted in the 1980’s asked 200 managers in Metro Manila whether they thought Western theories and concepts worked. Their answers were intriguing: at the managerial level of interaction, yes; at the floorshop level, no.

To understand this contradiction, it is important to take a look at the cultural foundations of the Filipino, and then to trace the western influences that have helped shape the “hybrid” which is now known as the Pinoy management style.

### **ORIGINS OF PINOY MANAGEMENT STYLE**

How did the Pinoy management style evolve?



A noted Filipino anthropologist and author, Dr. F. Landa Jocano, spent decades conducting studies on Filipino culture values and practices and how they impact on the various aspects of the national life, and his works will be prominently cited in this paper. According to him (Jocano: 1997), the Filipino management style derives from the dominant features of the Filipino culture. These include familism, personalism, and emotionalism.

### **Familism**

Familism dominates Filipino behavior whether at home, in the community, or in the work place. The family is considered as the most important social unit in the community. In its expanded sense, the family includes kinsmen acquired through descent (consanguinity of blood) as in parents-children relations; marriage (affinity) as in husband-wife relations; and *compadrazgo* (ritual affiliations) as in godparents-godchildren relations. The latter, *compadre* relationship, is formed when one stands as sponsor for baptism, confirmation or marriage rites.

Informal kinships are also built through the “barkada” or peer group. It may be a street corner gang or sorority, fraternity, civic or professional group, and church or religious organization.

Terms to express kinships are liberally used. Older people are addressed *lola* or *lolo* (grandmother or grandfather); *tito* or *tita* (uncle or aunt); or *kuya* or *ate* (older brother or older sister) both by blood and non-blood kin. Professional, civic, and religious group members call each other “brods” and “sis”. The term *pare* (where President Joseph Estrada’s nickname “Erap” originated from in its inverted form) has become a byword among mensfolk as synonym for “pal” although it originally denoted *compadrazgo* relations.

In the corporate world, a close circle of family and friends of business owners usually occupies the sensitive positions in the company. Vacancies are also filled up with kinsmen or their recommendees. But this practice is not regarded as nepotism. Rather, this is believed helpful in producing a binding spirit, as that in the Filipino family, that will lead to internal cohesion in the organization.

In turn, the families are held responsible in looking after their proteges. It is believed that a wrongdoing on the part of the latter will discredit the whole family. Filipinos love to say that “Ang sakit ng kalingkingan ay dama ng buong katawan.” (A pain in the small finger is felt in the whole body.)

Conversely, a success achieved by a kin is feather on the cap of the entire family.

A study conducted in Philippine industrial setting patterned after Maslow’s Hierarchy of Needs shows Filipinos being family-centered. Psychologist Leonora de Jesus’ Ph.D. dissertation (1985) compared Maslow’s hierarchy of needs with that of Filipino workers in the industrial setting.

Maslow’s hierarchy of needs includes:

1. Basic psychological needs



2. Safety and security
3. Belonging and social needs
4. Esteem and status
5. Self-actualization

On the other hand, Filipino workers' hierarchy of needs includes:

1. Having a happy family
2. Having/owning a house and lot
3. Having educated and successful children
4. Having a good and fulfilling job
5. Being financially secure
6. Getting social recognition
7. Being liked by friends and neighbors

It can be gleaned from the above that in the Filipino workers' mind, the family comes foremost. Specifically, having a happy family is their paramount concern.

Jocano (1988) contends that being kin-oriented, Filipinos tend to integrate the "self" to the "other selves," as reflected in their use of plural pronouns *tayo*, *natin*, or *namin*, (we, us, ours) in formal conversations rather than *ako* or *akin* (I, me or mine).

Closely related to familism is the value of paternalism. In the ancient days when Filipinos used to reside in barangays (communities), they were governed by a datu (chief of the people), who wielded his power not like a ruler governing his subjects, but like a parent nourishing his children.

The datu was known to be morally upright, too, and ruled by example. And although not a tyrant, he imposed strict discipline on his people. Yet his style of governance applied consultation, persuasion and consensus – the same style after which Pinoy bosses would pattern their own centuries later.

### **Personalism**

Personalism, according to Dr. Jocano, is a tendency of Filipinos to take things personally—or to be taken personally. It is rooted from their predilection towards being relationists, or to their strong desire to belong to the collectivity. Thus, this value runs counter to the Western concept of objectivity.

Personalism is also demonstrated by Filipinos preference for personalized service over self-service. Some self-service restaurants have been reported to have hired waiters to carry



trays or water for the customers. Between a self-service and a non-self-service gas station, Filipinos would troop to the latter.

One Filipino habit that foreigners find amusing, if not irritating, is their inclination to ask personal questions. “How old are you?” “Are you married?” “How many children do you have?” “What do you do for a living?”—these are some of their usual queries when they start an interaction. Some foreigners may feel that these personal questions encroach on their privacy. To Filipinos, to be personal is to be friendly, to want to connect, to want to establish a positive relationship.

In the workplace, bosses are expected to know by heart some significant details about the workers’ private lives. If they fail to show interest in such, the managers are seen as distant, aloof or lacking in concern.

Personalism is recognized in the workplace when a manager approaches a personnel privately to tactfully inform him to expect a management decision unfavorable to the said worker before a memorandum is sent to him. This usually softens the blow.

### **Emotionalism**

Dr. Jocano considers Filipinos as extremely sensitive. According to him, this is often attributed to how they are raised. As adults, they are quick to be moved to tears as they are to anger. Hence the rule is, as much as possible, one must avoid hurting other people’s feelings.

It is this concern for other people’s feelings that make Filipinos dwell in ambiguities sometimes. For instance, if someone is invited to a party, she will not say outright that she does not intend to come, even if she is sure that she will not come. She is likely to say “I will try.” An outright “no” is considered rude.

It is well-known that the average Filipino will say “yes” to mean any of the following: 1) he does not know; 2) he wants to impress; 3) he is annoyed; 4) he wants to end the conversation; 5) he half-understood the instruction or what is being said; 6) he is not sure of himself; and 7) he thinks he knows better than the one speaking to him.

One saying in a Philippine dialect captures this spirit: *Tangu ng Basti, bang agad mikawani*. (Say yes fast, to part ways fast.)

What would move Filipinos to anger? When their personal honor and dignity is under attack or when they lose face. Thus, to avoid conflicts, one should then prevent others from being shamed. Being respectful helps.

Being blunt offends Filipinos. Hence, the traditional way through which they communicate follows three steps: to hint, to make conscious, and to open up.

In disciplining personnel, bosses resort to the circuitous manner of communicating sanctions. This approach follows the following steps: to call attention, to give advice, to censure in private, to threaten, and to impose sanctions.



But things should not reach the extent where bosses and employees take positions adversarial to each other. Managers can nip problems in the bud by talking things through. It is generally believed that everything can be settled by talking things through. In jest, men, often transform this saying into everything can be talked through with a bottle of drink (as in a bottle of beer). It is a common practice that a male boss joins the male employees in drinking sprees as this gesture does not only give them a feeling that he is one of them. It also provides a venue for them to ventilate to the boss some work concerns in a convivial atmosphere.

Being a lady, one business proprietress considers it a handicap that she cannot join her male workers in their drinking sessions. To make up, she supplies the “pulutan” (foodstuffs taken while drinking) to give them the sense that she is one of them!

### NEW INFLUENCES

In the 1940s, just after World War II, the American influence on Filipino culture became more pronounced. It was to become a dominant contemporary influence on Philippine society, education, politics, arts and, yes, management style.

Filipino entrepreneurs come from various socio-economic origins. Many were raised by entrepreneurial parents. . Some are self-made entrepreneurs, driven to business by necessity and dint of hard work. Some are professionals like doctor or lawyers. Some are retirees. Some are graduates of business and training schools with masteral or doctoral degrees. Lately an increasing number are foreign contract workers who have made small fortunes in overseas employment.

Whatever their origin, most Pinoy managers have adopted one or another of Western management theories and principles. Taylor’s Scientific Management theory convinced most Pinoy managers that financial incentives was the best way to motivate workers to perform well. Likewise, Maslow’s Hierarchy of Needs Theory, David McGregor’s Theory X and Y and Mouton’s managerial grid attracted huge followings among those who were more interested in the human side of the enterprise. Similarly, Reinforcement Theory, Expectation Theory, Behavior Modification Theory and Job Satisfaction Theory were pursued by Pinoy managers who were in quest for alternative techniques on how best to influence their workers. And there were other Western concepts that caught their interest.

The Western textbook orientation taught them to give high premium on:

- Being objective in handling problems, situations and people
- Being oriented to goals through building a team of people dedicated to the common goal.
- Being productivity-oriented by resorting to the most efficient ways to finish a job with the least input of time and energy
- Being impersonal or professional detached in hiring, promoting and firing employees





- Being organization-oriented, to the extent of putting company interests before other interests, including those of family. interests first before other interests, including those of the family.

These new management orientations brought in, too, formal management systems and tools, including organizational charts, job descriptions, wage and salary structures, training needs analysis, personal career paths, and performance evaluation systems, to name a few.

As soon as the Pinoy managers take all these principles to the shopfloor, however, their dilemma begins. They remember that workers' orientations are rooted on traditions and hence run counter to that of the managers. Usually being minimally educated and recent migrants from the provinces, workers carry with them traditional values that uphold subjectivism, personalism and familism. Some educated employees and even some managers may share the same outlook, but not to the same extent as the workers.

There lies the contrast in value orientation between the managers and the workers. Western-oriented Pinoy managers tend to be bureaucratic (formal and sticking to specific rules), legalistic, and confrontational. They have learned to decide and act according to procedures. On the other hand, workers expect their superiors to be non-formal and behave according to customs, use standards consistent with the workers' values, and favor non-adversarial relations.

### RECONCILING OLD AND NEW

Noting the adverse effect of these contradictions on the workplace over time, Pinoy managers learned to be flexible in their approaches. Today, most have kept management structures patterned after Anglo-American models while they have slowly shifted to Pinoy-oriented human resource management practices.

Management expert Ernesto Franco (1986) identifies four general styles of Pinoy management.

- Management-by-*kayod* (working like a dog) or Realist Manager is wielded by an autocrat who wants quick action, has gut feeling, priority-oriented, strives for optimal performance, knows how to use people and resources, cuts problems down to manageable size, practical, fast decision-maker, impatient and shrewd.
- Management-by-*libro* (book) or Idealist Manager is a thinker and technocrat; is meticulous, cautious, stubborn, planning-oriented and systematic; strives for professional performance; thinks first before deciding; seeks quality results; and has high ideals.
- Management-by-*lusot* (shortcuts, bribery, rulebreaking) or Opportunist Manager is willy-nilly, has no conscience, loves to get by, likes to resort to shaky deals to achieve easy settlements, avoids headaches, and believes in non-money-no-work philosophy.



- *Ugnayan* (movement to interrelate)-management or Reconciler-Manager is a cross of idealist and realist manager, believes in contingency management, solid, shares his knowledge, and has excellent behavioral skills.

How do they take in people? The opportunist headhunts. The realist manager applies the jungle method, that is, he pits the candidates against each other and whoever survives is considered the fittest and therefore is the one hired. The idealist manager opts for high-quality candidates with suitable degrees and training. The reconciler-manager gets partly experienced applicants, tries them out and screens them meticulously.

How do they act during implementation?

The Realist Manager does-evaluates-plans a little-does. The Idealist Manager plans a lot-does-evaluates-replans a lot. The Opportunist Manager plans-does-does again and again. The Reconciler-Manager evaluates-plans-does and at the same time evaluates again.

Franco believes that Idealist-Managers eventually realize that they are ineffective in real life and become Realist Managers. The same goes for the Opportunity Managers. The best of the four are the Reconciler-Managers, claims Franco. It is noteworthy that this type is equipped with superior human relations skills.

### **SUGGESTIONS FOR THE FUTURE**

Business enterprises that want to survive and grow must gear up to the challenges and opportunities of a “globalizing” future. Simply, this means, for the Pinoy managers, being able to bring out among their people the optimum in productivity and efficiency. This is then translated into products and services that are able to compete in the barrier-free marketplaces.

Thus the best parts of the effective Pinoy management style (Jocano: 1997) – consultative, persuasive and consensual – can serve the Pinoy manager well in drawing out the best performances from workers.

A consultative approach goes beyond consultation. It is allowing people to participate in planning and implementation activities and thereby making them share their perceptions and feelings on the possible ways of working things out. They share in decisions affecting their future, including their own personal development plans as an employee. When he goes to a technical training program for example, he is motivated to give his best because he “owns” the decision to be trained as well as how to be trained.

Using persuasion involves appealing to values, emotions, and conscience of others. It is the counterpart of the Western pathos. This is a crucial managerial skill in that if used proficiently it can lead to creating the desired feelings or response on the part of the worker. The worker must be made to feel, for example, that changes, including new technology and production control systems, would benefit the whole company of which he is the vital part. Thus, the paternal, one-family system is still at work here.

Persuasion is anchored on concern and respect. A supervisor who uses persuasion conveys concern over teamwork, respect for the rights of members to participate in group



activities, and trust for their ability to handle the task given them. In a sense, it is a gesture of delegation, which is an effective modern management technique.

A consensual style takes into account the collective position, which has been agreed on by the concerned parties. Using consensus in decision-making expands the superior's control over the group activities and increases his moral ascendancy. Thus he can tactfully remind dissenters that the matter at hand has been agreed on and weren't they in that job since the start?

All these values are consistent with Pinoy paternalism. The authoritarian patriarch is tempered by his personal concern for his workers, which manifests in consultation, persuasion and consensus-seeking. On the other hand, the patriarch with the soft touch must take care that his kindness is not abused. For example, one can only consult, persuade and seek consensus so much, with a recalcitrant worker, after which more formal and direct measures must be applied. Indeed, Pinoy managers have been known to "crack the whip" when necessary.

The Pinoy manager is in the right direction when she tries to marry the management principles that have worked in the western world with time-honored value systems in the native country. Practising objectivity, goal-orientation, professional detachment, productivity-orientation, etc. while taking time out to consult, persuade, seek consensus and, indeed consulting, persuading and consensus-taking have been known to work with the Filipino workers and must be reinforced and encouraged.

How does this admixture translate in the work-a-day world of the Pinoy manager as she deals with her people?

Some specifics include:

- Quality and problem-solving circles – These should not be just randomly organized but instituted, with regular meetings and program of activities. The circles should gather managers, supervisors and rank-and-file workers to brainstorm on creative solutions to problems of productivity and quality. They should also be made to participate on decisions affecting their future. In such circles, workers would be encouraged to speak openly and frankly if an informal, friendly and non-judgmental atmosphere is created.
- Customer-feedback system involving workers – Workers hearing feedback from customers – both positive and negative – would feel an increased sense of responsibility for the quality of and a sense of ownership of the product and services.
- Productivity awareness campaigns and workshops – Improved productivity, quality and efficiency should be seen to have direct benefits to workers. The Pinoy manager should see to this.
- Information and communication tools – It is often said that those working below an organizational hierarchy tend to be myopic and unable to see the "bigger picture." Workers should then be helped to broaden their perspective by a policy of



transparency and information-sharing. Communication and information is specially important in introducing changes – whether in production methods or in administrative policy

- Leadership by example – Managers should set the example. In the Philippine setting, actions speak louder than words. The best way to implement rules is to show that managers are following. The best way to suggest action is for managers to show the way.
- Values orientation – Seminars and workshops on values should be introduced and actively pursued.
- More systematic recruitment, selection and hiring practices – Recruitment efforts should be expanded to target more applicants, other than kins. Similarly, scientific selection methods like tests can improve the hiring process.

### **CONCLUDING REMARKS**

The advent of globalization is on the doorstep of Filipino enterprises. It is both a threat and opportunity – it can't simply be ignored by the Pinoy manager. Hence, more than ever there is a need for him to steer his enterprise skillfully if he wants to cope with the demands of the times. And as it has been in the past and will be in the future, a Pinoy management style that adopts modern textbook approaches tempered with Filipino cultural psychology will better harness the workers' potentials for teamwork, efficiency and productivity.



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