Developing Human Capital – The Way Forward:
Managing Human Capital In The Globalised Era

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Persidangan Perkhidmatan Awam Ke-11

INTAN Bukit Kiara
21 August 2006

Good morning. My thanks to the organizers of this forum for giving me the opportunity to share a few words with you. The topic given to me is Managing Human Capital in the Globalised Era.

The term "human capital" originated in the field of economics. The words, “human” and “capital”, are equally important to the concept as we apply it. Enhancing the value of employees is a win-win goal for employers and employees. The more an organization recognizes the intrinsic value of each employee, the more it recognizes that this value can and should be enhanced with proper nurturing and investment. It should also recognize that employees vary in their talents and motivations and that incentives and working arrangements can be created to enhance each employee’s contributions to organizational performance. The organization should also appreciate the diversity of employee needs and circumstances and to act in ways that make sense in both business and human terms.

In this paper, I will attempt to define what is meant by human capital, the importance of human capital, as well as the challenges we face in managing human capital. I will also share with you the actions that we have to take in order to manage human capital in the globalized era.

Capital is typically defined as accumulated wealth especially as used in further production of other goods and services. Human capital is represented by the aggregation of investments in activities, such as education, health, on-the-job-training, and migration that enhance an individual’s productivity in the labour market. Since the level of skills an individual acquires through his lifetime depends
partly on his initial abilities, this potential is an important aspect of the human capital concept. Both components enhance the productivity of individuals in the production of goods, services and ideas within the market as well as non-market environment.

The quality of the nation's human capital will be the most crucial element in the achievement of the National Mission. And thus human capital development is a key thrust in the Ninth Malaysia Plan. Human capital development should be holistic, encompass the acquisition of knowledge and skills or intellectual capital including science and technology and entrepreneurial capabilities as well as internalizing positive and progressive attitudes, values and ethics through education, training and lifelong learning. Capacity building must be strengthened to develop knowledgeable, skilled and innovative human capital to drive a knowledge-based economy.

Developing human capital through HRD would not be complete if consideration is not given to the issue of values and ethics. Positive work values, the spirit of competition and integrity must be an inherent part of the labour force. Employers are concerned about work attitudes among workers. They are concerned about job-hopping, dislike for hard work and their unwillingness to put in extra efforts especially to work over-time.

There seems to be a preference for leisure. The question is how do we inculcate the values of hard work, competitiveness and integrity into our workforce? Probably it goes beyond our education and training system, into the family and the community as well as enforcement. In addition, industries are transforming to be knowledge-based and capital intensive. This brings industries to concentrate on high value added work, leaving the mass production of low-cost goods to other countries. Investments in human capital will be given greater emphasis during the Ninth Plan period to sustain economic resilience and growth, drive a knowledge-based economy as well as foster a community with an exemplary value system. This can be achieved through greater collaboration between the Government, the private sector and the community.

In this regard, the human capital policy development thrusts are:

- Undertaking comprehensive improvement of the education and training delivery systems;
- Strengthening the schools system to enhance national unity;
- Implementing measures to bridge the performance gap between rural and urban schools;
- Creating universities of international standing and ensuring that tertiary institutions meet the needs of employers;
- Providing the opportunities and access to quality education, training and lifelong learning at all levels;
- Nurturing an innovative society with strong S & T capabilities and the ability to acquire and apply knowledge;
- Strengthening national unity and developing a society with a progressive outlook, exemplary value system and high performance culture as well as with an appreciation for tradition and heritage; and
- Enhancing the forum of engagement and consultation between the Government, private sector, parents and community in human capital development.

We are moving from the industrial revolution to globalization and liberalization in international trade where there is free flow movement of capital, information and workers. Major changes such as in workforce diversity, would require the human resources development strategy to meet the needs of the industries in both public and private sector. People are the ultimate resource. And they must be given the fullest emphasis possible for development towards the highest standards of skills, knowledge upgrading, competencies, work attitudes and motivation. In the broadest terms, all sectors of the economy become knowledge-based when strategies are adopted to increase productivity via the application of knowledge, rather than via increased input of capital or labour.

In the K-economy, the value of an organization is measured in terms of its intellectual assets and not its tangible assets. The most important asset of a firm in the K-economy is its intellectual asset, i.e. its human capital – the combined knowledge and skills of its workers. Some of the largest technology firms in the world are valued at 10 to 16 times the value of their physical assets because of their intellectual assets. All enterprises, including small and medium-sized ones, need the resourceful and innovative thinking of knowledge workers who constitute their intellectual assets. They realize that employing knowledge workers is crucial in order to compete in an increasingly open and dynamic market. While acknowledging that knowledge workers are a prerequisite for success in the K-economy, the knowledge economy itself presents policy makers with a vast array of new ordeals and challenges. To meet these challenges and ensure sustainable development we require workers who are knowledgeable.

Some of the ways to develop knowledge workers include life long learning. With the rise of knowledge economies, advanced knowledge will have to be acquired well past the age of formal schooling and even through unconventional schooling. To borrow Michael Porter's words, "the competitiveness of a nation is dynamic and evolving where continuous improvement and innovation is a central element in the triumph of a nation." The constant changing landscape with the emergence of new products, new ways of marketing, new production processes and whole new market segments propels the need for lifelong learning in order for us to move forward. Life-long learning therefore becomes a prerequisite for economic development in a globalized era.
The acquisition of new knowledge and new competencies such as scenario-building, problem-solving, innovative thinking, creativity and discovery is critical to operate at the sensing, mobilizing and operational levels. For the employees, it will enhance their employability and adaptability. For the organization and the country, knowledge work and knowledge workers will help them to keep ahead of the competition. Lifelong learning is, therefore, one of the crucial components of a coordinated strategy to promote a skilled, knowledgeable, trained and adaptable workforce. The critical success factor, however, is the acceptance of shared responsibility for lifelong learning by all the key players. Creating learning opportunities at all stages of life involves all parties such as Government, the private sector, non-governmental organizations, communities, families and individuals. For example, at the organizational level, each Human Resource Department should view life-long learning as part of its continuous efforts to enhance the competencies and employability of its employees to ensure that they are ready to face the forces of change. The Government has provided the infrastructure for learning in the form of universities, colleges and skills training institutes.

However, learning ranges from formal and structured educational activities to the most informal explorations of understanding which can be gained at home, schools, universities, workplaces and communities. It is for every individual worker to make use of the infrastructure available to better himself. A learning society also integrates the objectives of economic development, social cohesion and nation building with personal development of the individuals.

Ladies and Gentlemen,

Education and training constitute the core process in developing knowledge workers. To be effective, education and training must be swiftly reoriented to enable learning institutions to be more responsive to changes in the skill needs of the business and industry. This is crucial to job creation and productivity growth. Higher education institutions in Malaysia have begun to lay the foundation for the learning communities of the future. However, their efforts should be strengthened through partnerships with local industries to avoid job mismatch as we painfully realize now. The basic principles of education and training have to be based more on the notion of enhancing learning capacities, i.e., the ability to learn, rather than formal education and training alone.

Ladies and Gentlemen,

Managing human capital must also include the transformation and upgrading of skills of those who are already in the work force to meet the new requirements of the knowledge economy. Many already in the workforce have limited basic skills in communications, literacy, skills that are even more necessary in a knowledge economy. People with outdated or inadequate skills will find it difficult to re-enter
the workforce. As such, the Government and employers must embark on new policies and strategies to provide people with new skills and competencies, related to the development of new forms of work organization and introduction of new technologies.

The Ministry of Human Resources, through the Manpower Department, continues to build and upgrade training institutes under its purview to increase capacity and quality of training in vocational skills. These include 20 Industrial Training Institutes, the Centre for Advanced Skills Training, the Japanese-Malaysia Training Institute and 4 Advanced Technology Centres. The Human Resource Development Fund, administered by the Human Resource Development Council, was established in 1993 to upgrade the skills of workers. 265.2 million Ringgit has been paid out in the form of training grants for 722,505 individuals between January 2004 and June 2005. The Graduate Training Scheme established in November 2001 has so far provided training to 21,712 unemployed graduates. Under the Skills Development Fund, the Ministry has so far provided 623 million Ringgit to 130,085 students to undergo skills training in various fields.

Ladies and Gentlemen,

Human capital will have a greater role to play in the future, taking into account the changing environment in which the government and the businesses have to operate. Creativity and innovativeness are absolutely necessary to come out with new, innovative and high value-added products and services.

The same is needed in the public sector to come up with new policies and programmes and reduce red-tape and to be more responsive to the needs of the private sector and the people. This requires extensive knowledge, skills and the right attitude and work culture. Institutions of higher learning and training institutions will have to continually review their roles and their curriculum. Those graduating from these institutions must have an in-depth understanding of the subjects taught. Understanding the basics and the underlying logical relationships rather than a superficial understanding of the subject will promote creativity and innovativeness. Furthermore, the courses must be designed to meet the needs of the market. Students join institutions of higher learning or training institutions with the expectation of getting a decent job upon graduation. Potential students must be informed of the possible job opportunities in advance so that they can make informed decisions as to whether they should pursue a particular course of study. Current approaches such as doing double major should be expanded. As employers want job-ready graduates, there is a proposal for internships with employers for a longer period. Some employers feel existing internship programmes are short and ineffective as interns seldom do meaningful work. Funding and cooperation is necessary between the employers and the institutions of higher learning as well as the training institutions. Laws and regulations will have to be amended to ensure that they facilitate such internships.
In the face of increasing competition, employees must acquire new skills on a continuous basis. Skills enhancement can be in the same area or in related areas. The Skills Development Fund should look beyond funding pre-employment training to provide loans for workers interested in enhancing their skills but are not covered by the HRDF. Furthermore, given that a large number of individuals are seeking employment opportunities without any kinds of skills, it is important that they be given the opportunity to go for skill training so that they will have better bargaining power.

Ladies and Gentlemen,
It is in the interest of both the employers and the institutions of higher learning to learn from each other. In this respect, attachment programmes for instructors at the factory floor should be extended to cover all skills training institutions. Adjunct positions should be extended to individuals from the private sector so that they can impart their experience to the students and trainees. Joint research and funding from the private sector is yet another effort at HRD. It is also imperative that we exploit the developments in information and communications technology for more effective HRD. E-learning and distant education should be used more extensively for the purpose of education and training. Learning from the workplace will shorten the time an employee is out of the workplace. It also allows them the flexibility to study at their own pace.

Information and knowledge are replacing capital and energy as primary wealth-creating assets. Technological developments in the 21st century have transformed the majority of wealth-creating work from being physical-based to "knowledge-based". Technology and knowledge are now the key factors of production. With increased mobility of information and the global work force, knowledge and expertise can be transported instantaneously around the world, and any advantage gained by an organization can be extinguished by competitive improvements overnight. The information technology has brought dramatic changes to the world of work. The only comparative advantage an organization can enjoy will be its creativity and innovativeness - combining market and technology know-how with the creative talents of knowledge workers to solve problems. The relentless changes arising from globalization and liberalization constitute a serious challenge for all organizations, public or private.

Organizations now realize the need for people who can adapt smoothly and quickly to changing environments, both within and outside the organization and within the marketplace. Organizations are also recognizing the need to harness their workers' knowledge, skills and experiences in order to capitalize on new opportunities. This explains the perpetual demand for knowledge workers. This is especially important in Asia, where organizations are seeking to move away from their traditional dependence on cheap labour for manufacturing into higher value-added activities across a range of industries.
To meet the challenges of globalization and developments in information and communications technology, firms are now harnessing knowledge as their main driver of growth, and selling knowledge as their primary commodity. Any organization trying to ignore this trend risks extinction. In order to survive or thrive, organizations need to ensure that they are effectively developing and managing their knowledge workers. This is true both in developed economies and emerging markets. Technological advancement, globalization of industries, changing forms of organization, which include the advent of the virtual organization, and the explosion of electronic commerce, are but a few of the many changes transforming the nature of knowledge and work across the globe. In short, knowledge and knowledge workers are now a mainstream resource and a basis for effective competition.

The pivotal role played by human capital in the process of economic growth in knowledge-based economies is increasingly recognized by academics and policymakers. We have to bear in mind that the world’s economy continues to evolve into an increasingly complex form. Consequently, the amount of information needed is rising and new proven ways are needed to apply knowledge to generate profits for businesses or increase productivity in organizations. There is no place for societal and cultural values that inhibit risk-taking, initiatives and innovation. In the K-economy, organizations that are able to attract, nurture and retain its knowledge workers will be at the forefront of achieving sustainable economic growth. As such, a new breed of versatile, autonomous and highly skilled worker is now needed.

Organizations must realize that their knowledge workers are the key to growth through innovations, creativity and adaptability. Those that are able to nurture and harness their workers’ knowledge, skills and experience will be able to adapt and evolve with the rapid change of the world environment and emerge as the growth engines of the country’s economy. Those that do not or cannot are going to whither and fail.

Ladies and Gentlemen,
I hope my paper will provide some food for thoughts for HR managers and workers alike. There are obvious challenges we have to face in Human Capital Management in the future. We just have to be prepared to take the necessary measures to meet these challenges and to embrace the changes. I thank the organizers again for the opportunity to speak here this afternoon.

Thank you for your attention.