

# Chapter 80

## Innovation Culture as a Mediator Between Specific Human Capital and Innovation Performance Among Bumiputera SMEs in Malaysia

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### **ABSTRACT**

*SMEs in Malaysia are dominated by Bumiputera that represent more than 50% of the Malaysian SME's population. However, there are many challenges faced by Bumiputera SMEs such as limited skilled workers, lack of creativity and knowledge. In this point of view, considering the specific human capital approach, the value, uniqueness, creativity, innovativeness and proactiveness are the most relevant features for innovation performance. To have an excellent innovation performance is to have an innovative culture where entrepreneurs needs to have creative employees which simultaneously improve the innovation performance in Bumiputera SMEs. This study focuses mainly on owner-manager of Bumiputera SMEs. It provides useful pointers to entrepreneurs and policy makers on the importance of specific human capital, innovative culture and enhancing innovation performance in Bumiputera SMEs.*

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## **INTRODUCTION**

Small and medium enterprise (SME) plays an important role in Malaysia economic development. The government of Malaysia has constantly recognized that SMEs is a major factor in injecting investment and transforming Malaysia into a developed nation by 2020. According to Small and Medium Industries Development Corporation, the sectors in SME is based on the annual sales turnover or number of full time employees. There are two sectors which divided into; manufacturing, manufacturing related services and agriculture industries; and services (including ICT) and primary agriculture (SMECorp., 2015).

According to SMECorp, 98.1% (591,883 of total business establishments) of the SMEs are in the services sector, 95.4% in the manufacturing sector and only 76% is in the agricultural sector (SMECorp., 2015). The SME provides 59.5% of the nation's employment and despite having 99.2 percent of the total number of business establishments in Malaysia it contributes to merely 1/3 or 32% of the nation's GDP (National SME Development Council, 2012). In year 2010, according to National SME Development Council (2012), SMEs performance showed many positive indicators such as increase in sales, increase in new orders, introduction of new products, business expansions within the country and even expansion to other countries. Based on technical analysis by Malaysia data from SME Masterplan 2012-2020, six key areas influence the SMEs performance. These six performance keys are:

1. Innovation and technology adoption.
2. Human capital development.
3. Access to financing.
4. Market access.
5. Legal and regulatory environment.
6. Infrastructure.

These keys serve as the benchmark that would encourage SMEs to enhance their productivity and performance (Masterplan S.M.E, 2013). However, SMEs in Malaysia dominant by Bumiputera where represented more than 50% of the Malaysian SME's population because Bumiputera is known as a son of the soil in Malaysia as compared to Chinese, India and other races (Awang et al, 2009). According to 11<sup>th</sup> Malaysia Plan, only 37.4% or 241,281 of the total 645,136 SMEs were owned by Bumiputera and 90.7% or 218,930 of Bumiputera SMEs are micro enterprises (11MP). Unfortunately, Bumiputera SMEs continually fail to secure larger share and they only can manage to share less than 20% of the Malaysian economy as well as the GDP of Bumiputera SMEs in 2015 was only about 16% (ETP Annual Report, 2014). Based on EPU (2015), There is a need to grow Bumiputera SMEs to match non-Bumiputera SME contribution to the GDP by year 2020 to at least a 50:50 ratio.

In order to continuous effort to increase the growth and to achieve the contribution of 20% GDP by year 2020 as well as includes encouraging the participation of Bumiputra SME's in the 12 National Key Economic Areas (NKEAs). Therefore, TERAJU launched a programme known as TERAS which is aims to increase the Bumiputera SMEs' participation in the economy by enabling SMEs to scale up, accelerate their growth and could compete in the open market (ETP Annual Report, 2014). In addition, the promotion of Bumiputera into business is often seen as a socioeconomic initiative engineered by the Malaysian government. The respective policies under the New Economic Policy (NEP) and National Development Policy (NDP) sought to enhance and intensify the participation of Bumiputera economic

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