



MEETING MALAYSIA'S TALENT NEEDS: AN INDUSTRY PERSPECTIVE

Join us @AmchamMalaysia



EXECUTIVE SUMMARY

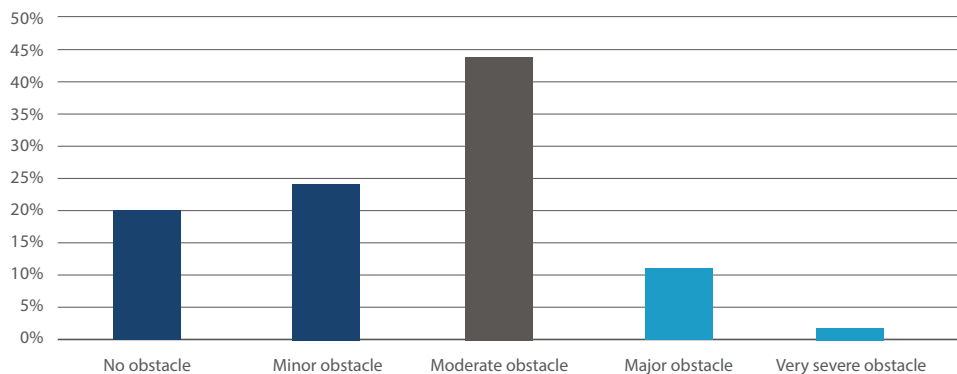
The quality and availability of human capital is one of the key differentiators that multinational companies (MNCs) consider when comparing between prospective investment sites. Structural reforms to enhance Malaysia’s talent pool, coupled with business-friendly policies that support access to talent as the benefits of these reforms accrue, will be key enablers for Malaysia to enhance productivity levels, attract inward investments, and achieve high-income status by 2024.

Greater productivity within the workforce will enable businesses to offer more internationally competitive salaries, which will contribute to the government’s goal of increasing the compensation of employees to 38% of national GDP. This would reduce the impact of the ‘brain drain’ (Malaysian talent taking roles overseas), while ensuring that

the dividends of economic growth are shared more evenly among the population.

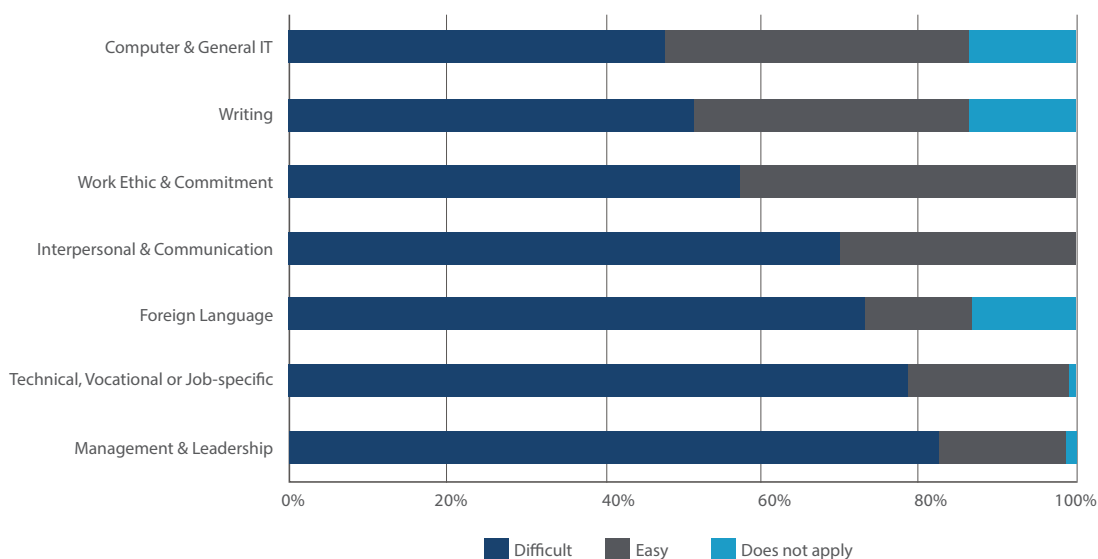
Malaysia has a considerable skills mismatch in the workforce. The World Bank Enterprise Survey 2015¹ confirmed that around 80% of companies (under both local and foreign ownership) encounter at least some obstacles in identifying suitably educated workers, with more than 55% describing the challenge as ‘moderate’, ‘major’ or ‘very severe’. Skills shortages have been identified at all ranges of the skills spectrum from those associated with high-skilled occupations through to roles at the lower end of the salary spectrum. In particular, companies found it difficult to find potential hires with management and leadership skills (82% of companies surveyed), sufficient levels of technical knowledge (78%), foreign language skills (73%) and interpersonal and communication skills (70%).

A. Inadequately educated workforce as an obstacle



¹ <https://datacatalog.worldbank.org/dataset/malaysia-enterprise-survey-2015>

B. Difficulty finding skills



Source: World Bank (2015), Enterprise Surveys: Malaysia 2015 - Country profile, The World Bank Group.

The extent to which these skills gaps affect our members, who are mostly MNCs, is variable:

- A common thread across a majority of industries is a lack of language and communication skills and other 'soft skills'. Graduates from Malaysian universities are said to lack 'real-world' experience and to need considerable further training before being able to fulfil entry-level MNC roles.
- For the E&E sector, there is a need for greater STEM skills among the domestic workforce, and our members face challenges in filling roles for specific technical skills such as IT, design, tooling, moulding, industry related finance analysis, manufacturing planning, industrial engineering, technical writing ability.
- The financial services industry likewise faces challenges in filling key roles such as actuary - despite an oversupply of graduates in these areas, actual skills and experience remains low.
- Similarly, in the healthcare sector, while it is relatively straightforward to fill more traditional healthcare roles (biologist, microbio, pharmacist, biotechnologist), our members are struggling to fill roles in more applied healthcare science

industry roles such as healthcare economists, big data analysts.

- It should also be recognized that Malaysia does have considerable talent in certain areas, and some of our member companies in industries such as oil & gas or those operating certain shared services and IT functions do not have significant problems in finding the necessary skills from the Malaysian workforce.

Addressing these human capital challenges requires a comprehensive and multi-faceted approach encompassing government, academia and the private sector. One of the key areas that requires intense focus is the quality of education from early years through to university level. While these much-needed reforms will take some time to bear fruit, the government must find ways to ensure that present-day businesses are able to access the talent profiles that they need. This can partly be addressed through consolidation and enhancement of Malaysia's vocational training and lifelong learning opportunities, while also making fair provisions for companies to access foreign talent pools for roles that cannot currently be filled from the domestic workforce.



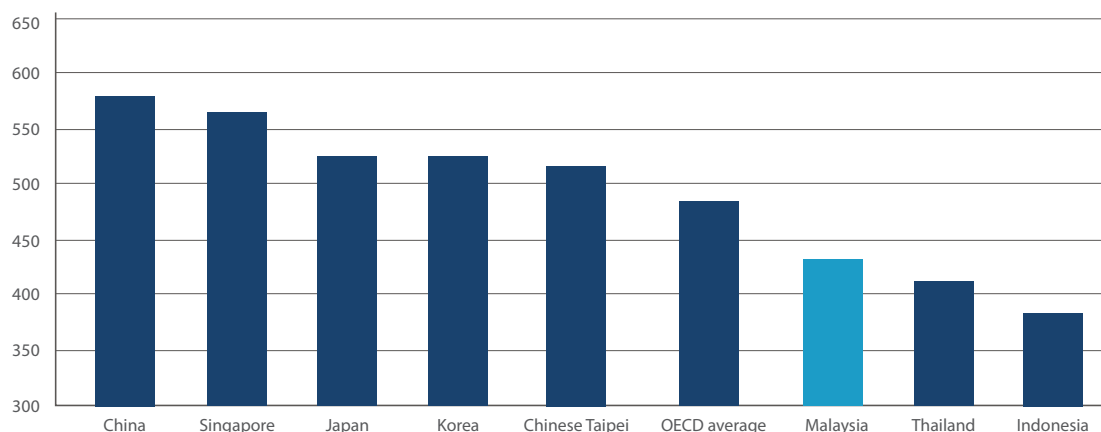
EDUCATION

MNCs make investment decisions based on long-term projections of the sustainability of their operations. To attract long-term high-quality investments, it is essential for host countries to be actively investing in their people to ensure a steady flow of talent is emerging from schools into the talent pipeline. Companies considering investment projects in Malaysia are looking at the quality of education being received by primary and early secondary students *today* as these will grow up to be the companies' prospective employees in 10 years' time or less.

Many of our member companies have been investing in Malaysia for several decades, demonstrating long-term commitment to investing in local communities and creating high-skilled jobs.

- The government recognizes the importance of wide-ranging reforms throughout the entire education cycle. The Midterm Review of the Eleventh Malaysia Plan (2016-2020) has emphasized the need to **raise the quality of education** and improve student outcomes across preschool, primary, and secondary education.
- Malaysia currently performs relatively poorly on standardized academic tests compared to regional competitors. The most recent round of the Programme for International Student Assessment (PISA), conducted by the Organisation for Economic Cooperation and Development (OECD) in 2018, noted improvement in Malaysian students' scores in mathematics, reading and sciences, though our overall score remained below

PISA 2018 – Average Score of Mathematics, Science and Reading, comparing Malaysia to selected countries



Source: <http://factsmaps.com/pisa-2018-worldwide-ranking-average-score-of-mathematics-science-reading/>

the OECD average. The government has set itself the target of reaching the top one-third of countries participating in PISA and the Trends in International Mathematics and Science Study (TIMSS) by 2025.

- Recent proposals to **reinstate English as the primary language of instruction for maths and sciences** are also very encouraging.
- A recent OECD study² contains a number of recommendations relating to skills development that Malaysia would be well advised to adopt, including **making secondary education compulsory, providing incentive and rotation schemes to talented teachers, and ensuring that teachers spend more time teaching rather than completing administrative tasks**. Many of these initiatives are already embedded within the **Malaysia Education Blueprint 2013-2025**, which the business community widely perceives to be a comprehensive and forward-thinking national plan. There has historically been a lack of substantive implementation for
- these types of comprehensive educational reforms in Malaysia - it is imperative that the government prioritize the implementation of this Blueprint with vigilant and transparent reporting on progress towards key milestones.
- For post-secondary education, the **recent consolidation of TVET training institutes under the Ministry of Human Resources** has the potential to streamline some of the many programs being delivered in Malaysia and ultimately contribute to a more efficient allocation of resources to this important area. The creation of a harmonized TVET accreditation system under Malaysian Qualifications Framework is also encouraging. These reforms, if effectively implemented and coupled with greater linkages between academia and industry (see below), have the potential to enable the government's target of having 85% of TVET graduates employed within 6 months by 2020.

² OECD Economic Surveys - MALAYSIA. July 2019. Available at: <http://www.oecd.org/eco/surveys/Malaysia-2019-OECD-economic-survey-overview.pdf>



INDUSTRY - ACADEMIA LINKAGES

It is common for our members to report that graduates from Malaysian universities are entering the workforce with academic experience but limited relatable job skills. Common concerns relate to language and communication skills and concerns around attitude. Furthermore, companies point to a lack of internship experience / limited industry exposure of fresh graduates, suggesting that closer links between higher education institutions and industry players and the integration of real-world experiences into degree programs would be helpful in addressing this concern.

Companies also report that there is an oversupply of graduates with degrees that are considered less relevant / applicable to industry. Malaysia's university curricula need to be better aligned with the needs of industry and prospective university students should be counselled so that they can choose degrees that will prepare them with relevant technical and soft skills for immediate employment.

Greater linkages between industry and academia would also serve to enhance Malaysia's lifelong

learning and reskilling opportunities, which are essential to ensuring that all Malaysians can benefit from digital transformation and the transition towards Industry 4.0 without being left behind by the pace of technological change. Government, industry and academia need to be working together to ensure that the existing workforce is being continuously trained through lifelong learning programs, with companies anticipating the skill sets that they may need in the future and providing practical support to academic institutions in addition to their own in-house training.

AMCHAM members are very proactive in seeking out these forms of collaboration and we have seen the creation of a number of substantive partnerships between our members and some of Malaysia's academic institutions, especially over the past 5 years during which we have seen a positive increase in engagement from academia. This type of collaboration is an essential component of addressing Malaysia's talent needs, and we would like to see these examples of successful partnerships being modelled and replicated throughout the country.



FUNDING MECHANISMS FOR TALENT DEVELOPMENT

While the country's present fiscal situation limits the amount of funds that the government can allocate directly to skills development and training, considerable budgetary allocations are being assigned to education (more than RM60 billion for 2019). The private sector must also embrace its responsibility to contribute to Malaysia's drive to increase productivity. In addition to collaboration with industry on key skill development programs, the government should also provide practical and financial support to businesses that are providing high quality in-house training to their Malaysian staff.

- Recognizing that upskilling the local workforce and providing exposure to leading new technologies is one of the greatest

benefits of attracting foreign investment, the government should consider **integrating talent development objectives into their investment incentives criteria**. In an internationally competitive environment, the government should be prioritizing not only new investment but also securing reinvestments and the talent development that these projects entail. Investment incentives linked to specific talent development criteria could help to address this concern while also addressing the 'other end' of Malaysia's skills mismatch by ensuring the continued proliferation of further high-quality jobs by MNCs.

- **Companies should be supported in working with local institutions of higher learning** to develop specialized technical training programs tailored to their specific needs. Such programs developed alongside reputable academic institutions should be eligible for HRDF funding even if they do not possess full certification from the Malaysia Qualifications Agency (MQA).
- The government may consider allocating funds collected from other employment-related sources (such as EIS and foreign worker levies) to provide some level of financial contribution to private sector investments in training and upskilling programs via **matching grants**. As a first start, funding via an industry:government ratio of 3:1 would be helpful, with government committing to increase their financial support for private sector investments in training and upskilling programs as the country's fiscal situation improves over the coming years; for example, moving from 3:1 to a 2:1 and eventually to 1:1 ratio.

Turning specifically to the **Human Resources Development Fund (HRDF)**, the fund has the potential to become a highly advantageous tool that can support company efforts to upskill their employees and enhance the competitiveness of Malaysia's workforce. Achieving this goal will require effective management and governance of the Fund.

HRDF is one of several pools of funds being collected by the Ministry of Human Resources, in addition to the new Employment Insurance Scheme (EIS) and funds collected from foreign worker levies. Recent initiatives to review the governance processes around HRDF are welcome, and should form part of a broader strategic review of the ways in which funds are deployed by the Ministry for training and upskilling by both public and private organizations.

The government should look to **empower companies** to deliver more **in-house training using HRDF funds**, as many of our members feel that the current array of HRDF-accredited programs do not meet the specific needs of their operations. Limitations placed on companies in accessing HRDF funds, both through capped claimable allowances and a lack of clarity on eligible programs, limit the extent to which the fund can contribute to skills development and productivity gains in Malaysia. If funds cannot be allocated to training programs that meet industry needs, then HRDF simply becomes an additional cost to doing business rather than a tool to bring Malaysia to the next level.



THE NEED FOR TALENT MOBILITY

AMCHAM companies are staffed overwhelmingly by local hires from C-level through to entry level. Our members invest heavily in skills development and on-the-job training, contributing to talent development at all levels. Indeed, many of our member companies are entirely localized with 99%+ of positions being filled by Malaysian staff, and several have developed Malaysian talent to take on regional or even global leadership roles.

This being the case and noting some of the present-day challenges with Malaysia's education system as described above, there remains a need for companies to have access to foreign talent to fill some specific positions that cannot be filled from the domestic labor pool. We emphasize that the presence of skilled expatriate workers from overseas does not take opportunities away from Malaysian workers but actually creates new ones, as these skilled workers can contribute

to the training of their Malaysian colleagues who in time can come to fill these specialized roles.

At present, member companies face several unnecessary hurdles for the small number of expat positions they seek to fill:

- Despite improvements in recent years with the introduction of TalentCorp's '5 Working Days Client Charter', companies can still experience substantial delays and challenges in navigating the approvals process.
- Furthermore, member companies can encounter inconsistencies in the ways that applications are treated, and there remains too much discretionary decision-making on the part of individual immigration officers who may ask for additional information or make judgements based on unclear criteria rather than adherence to a transparent set of guidelines.

- In the longer term, there remains uncertainty over Malaysia's future policies when it comes to access to foreign talent.

For some companies with very specialized business operations, foreign hires represent a larger proportion of their workforce. Sudden policy changes in the hiring and use of foreign/contract workers (sometimes with extremely short notice) are costly and disruptive to companies in the global supply chain.

To address these concerns:

- **There is a need for transparency, clarity and consistency in terms of government policy on the hiring of foreign workers.**
- The government should seek to **clearly define** the conditions under which foreign workers will be approved and the associated costs, and minimal opportunity for discretionary decision-making on the part of public officials. Businesses should be provided the opportunity to hire foreign staff under these conditions as per their business needs.
- Furthermore, the government should engage with industry to **better understand the necessity of hiring foreign talent in some business contexts**. There is a need for a strategic assessment of the current gaps within the domestic workforce, with more lenient criteria for companies filling roles or functions for which there is known to be limited domestic talent available. 'Manufacturing' should be divided into sub-sectors with different criteria and thresholds, reflecting the different needs of different industries, businesses and the variable availability of the necessary skill sets within the domestic labor pool. Singapore's foreign workers model may be a useful model for consideration.

- Approvals criteria should also incorporate an appreciation for **regional differences in the availability of domestic talent**. For example, companies with facilities in Johor may struggle to find enough skilled local workers as many of them have gone to work in Singapore, whereas the same talent profiles may be more available in Penang.
- Given the necessity of hiring foreign staff for some skilled positions, and given that businesses would already prefer to hire Malaysian workers if they were available, the **proposals to impose increased levy fees on employers of skilled foreign workers** would not be supportive of the industry's needs. This proposal would serve only to add additional costs to business, who in any case would continue to need these skilled foreign workers due to lack of availability in the domestic talent pool.
- In parallel to streamlining the approvals process for foreign talent, **the continued efforts of TalentCorp to attract skilled Malaysian citizens to return from overseas to work in Malaysia are to be encouraged**, as well as other initiatives to make full use of Malaysia's potential talent pool such as the Career Comeback Programme Grants to support the objective of increasing female participation within the workforce. Such initiatives can contribute to ensuring a wider pool of Malaysian talent, which would reduce the need for some foreign staff applications.



A MORE NUANCED APPROACH TO “FOREIGN WORKERS”

It is not the case that access to foreign workers inevitably deters industry from upgrading towards capital-intensive projects - our members in the E&E sector alone have made historical capital investments in excess of RM 78.5 billion³, but nonetheless some companies find that they are unable to find Malaysian workers for certain less-skilled roles. These roles in testing, assembly and inspection nonetheless require high degrees of dexterity and/or judgement, and given the high degree of task specificity they may not be readily suitable for cost-effective automation.

AMCHAM alongside other industry associations has previously submitted data

to the government to demonstrate that hiring Malaysian workers is much more cost-effective for companies than hiring foreign workers. To provide an example, once all recruitment fees, application costs, visas and bank guarantees are taken into account, as of March 2018 a minimum-wage machine operator from overseas would cost a company approximately RM 7,500 to hire (including the first month's salary), compared to only RM 3,100 for a Malaysian worker. This calculation serves to emphasize the key point that businesses prefer to hire Malaysian workers whenever they can, and will only resort to applying for foreign workers at the lower end of the skills spectrum after exhausting all possible avenues for attracting Malaysians to fill these roles.

³ AMCHAM MAEI Economic Impact Survey 2018/19



Malaysian worker
(cost of hiring + first month salary)*

RM3,100



Foreign worker
(cost of hiring + first month salary)*

RM7,500

**including all applicable fees and guarantees*

Similar to the process for hiring high-skilled foreign staff, our small number of member companies that require low-skilled foreign workers encounter a considerable lack of clarity and lack of consistency in the treatment of their applications which can cause great disruption to business planning and operations.

Our recommendations in addressing these concerns are as follows:

- The government should conduct a **strategic analysis** of industries that are reliant on access to foreign workers in order for Malaysia-based businesses to remain viable and competitive. As Malaysia continues to prosper as a country and move towards developed-economy status, aspirations change among the Malaysian citizenry so that it becomes challenging to find Malaysian citizens willing to accept certain types of less-skilled job. For this reason, the end goal of Malaysia's foreign worker policy should not be to move towards zero foreign workers, but to limit foreign worker approvals to industries where such workers are necessary.
- As with skilled foreign workers, the government should make clear to businesses the **criteria under which foreign worker applications will be approved**, and how much this will cost - this provides clarity and the decision whether or not to hire foreign workers becomes a business decision driven by cost-benefit analysis on the part of companies.
- To provide businesses the opportunity to achieve greater efficiency and adaptability, **companies should be allowed to deploy their foreign workforce within the same group / conglomerate for similar activities**, provided the entity that originally applied for foreign worker approval(s) has applied with all Malaysian laws and regulations.
- Given the Malaysian government's policy objective of reducing reliance on foreign workers, the **150,000 refugees** currently in Malaysia that are registered with the United Nations High Commissioner for Refugees should be provided eligibility to work in Malaysia. Creating opportunity for this vulnerable group to work within the formal sector would reduce the number of refugee workers in the informal (and therefore unregulated) sector, while also helping to fill positions for which companies currently need to apply for foreign workers.
- Many of our members participate in the Responsible Business Alliance (formerly the Electronic Industry Citizenship Coalition) and are fully compliant with the organization's set of social, environmental and ethical industry standards. Malaysia should be encouraged to adopt employment laws that are aligned with international standards, particularly with regard to **'freely chosen employment'** and the **principle of 'zero fees' for workers**.