Chapter 8
Human Resource Management for Innovative Capability Development in Malaysia’s New Economic Model

Rosdi Intan-Soraya
Multimedia University, Malaysia

Kok-Wai Chew
Multimedia University, Malaysia

ABSTRACT
This chapter spotlights Malaysia’s New Economic Model (NEM), which aims to create a sustainable and robust economy through increased productivity and innovation. An innovation-driven business environment is to transform the Malaysian economy into one of high income and quality growth. Innovation is fueled by knowledge in organizations, and knowledge resides within individual employees. Thus, firms need to bring about knowledge exchange among employees to build on its innovative capability. Specific strategies can be utilized to encourage employees to acquire, share, and apply knowledge to create organizational value. The field of Human Resource Management (HRM) therefore becomes relevant in understanding organizational innovation in Malaysia. However, a comprehensive framework bridging HRM and organizational innovation has yet to be developed. This chapter fills in the gap by proposing a human resource management framework for innovative capability development in organizations for Malaysia’s New Economic Model.

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INTRODUCTION

The Malaysian government recognizes that the business environment in the knowledge economy is highly complex and driven by rapid technological advancements. Innovation is the main enabler for an organization’s sustainable competitive advantage, and it depends on an organization’s ability to manage its knowledge stocks or intellectual capital (Chen & Huang, 2009). Malaysia’s New Economic Model (NEM), which was announced in May 2010, is focused on ensuring a sustainable and robust economy, increasing innovativeness, and achieving high income levels (Government of Malaysia, 2010).

The NEM is based on three principles, which are high income, sustainability, and inclusiveness. The last two principles champion environmental stewardship and better quality of life for all Malaysians. The first principle, namely creating a high income nation, rests on the country’s ability to push for higher wages stemming from greater productivity through enhanced skills and innovation (Government of Malaysia, 2010). At the time of the announcement of the NEM, per capita annual income in Malaysia is at RM23,100, or approximately US$7,000. In 2020, that figure is targeted to more than double to RM49,500 or US$15,000 (“NEM will be led by three principles,” 2010). As outlined in the NEM, an innovation-driven business environment is to transform the Malaysian economy into one of high income and quality growth, thus realizing the country’s vision of becoming a fully developed nation by the year 2020.

The focus on innovation is further addressed in the launching of the country’s Tenth Malaysia Plan (10MP) in June 2010. The 10MP is a blueprint prepared by the Economic Planning Unit of the Prime Minister’s Department and the Finance Ministry of Malaysia, and approved by the Cabinet of Malaysia to apportion the national budget for the period of 2011 to 2015 to all sectors of the Malaysian economy (“Tenth Malaysia Plan,” 2010). The 10MP is to spark high economic growth with RM230bil having been allocated for development expenditure, and the target for real Gross Domestic Product (GDP) growth set at 6% per annum during the 10MP period. Through the 10MP, special programs and funding for businesses are geared towards encouraging higher research and development activities and innovation (“PM tables RM230bil 10th Malaysia Plan,” 2010).

Malaysia’s NEM and 10MP are embodiments of national strategies for the country’s survival in the knowledge economy. The Malaysian government is aiming for higher involvement of the country’s private sector firms in driving innovation and economic development (“PM tables RM230bil 10th Malaysia Plan,” 2010). Hence, there is a need for in-depth analysis on innovation issues in organizations in Malaysia.

Knowledge is crucial for firms to produce new products, services, and processes in meeting customer needs and create competitive advantages (Gloet & Terziovski, 2004). More importantly, knowledge resides within individuals in organizations, which means that firms need to facilitate communication and exchange among individuals in order to gain new insights and capabilities (de Pablos, 2004; Nonaka & Takeuchi, 1995). It is found that specific strategies can be deployed to encourage individual employees to acquire, share, and apply knowledge towards organizational value-creation (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Reference to the field of Human Resource Management (HRM) is therefore necessary in understanding organizational innovation.

However, a comprehensive framework bridging Human Resource Management (HRM) and organizational innovation has yet to be developed. Existing literature has established the importance of HRM in innovation performance, but few have explained ‘how’ it manages to do so (Kang, Morris, & Snell, 2007). Therefore, this chapter
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