

# Wealth, job creation lessons from Malaysia

South Africa must focus on growing more credible black businesses from the ground up if it is to help foster more equitable growth according to Mahathir Mohammed, Malaysia's former Prime Minister.

The new draft black economic empowerment (BEE) codes of good practice, which were released for comment last month by the Department of Trade and Industry, allocate 40 out of a possible 105 points to companies that buy from black suppliers and support and mentor black business owners.

Any attempt to shift the focus to growing the number of black shareholders of JSE-listed companies over increasing the size of business ownership among the multitude of small and medium-sized firms risks leaving black people as passive shareholders at best, or as rent-seekers at worst.

Real transformation, as Malaysia has come to realise, takes place in business ownership.

In some respects, Malaysia has achieved much since the launch of its New Economic Policy (NEP) in 1970, which aimed to have 30% of the country's wealth in Malay hands by 1990.

At the onset of the policy Malays, or *Bumiputeras* as they are also known, held less than 2% of the economy, despite making up more than 60% of the population. Much of the economy was held by foreigners and Chinese Malaysians.

By 1990, Malay ownership of shares on the country's stock exchange reached 20% and has remained fairly constant over the past 20 years, even with subsequent policies having favoured Malays.

Chinese Malaysians, who make up a quarter of the population, still dominate the economy, holding about 40% of listed company shares.

While many have criticised the NEP and its subsequent policies as having fuelled rent-seeking behaviour by Malay entrepreneurs, the reliance on shareholding to transform the country has also come in for some questioning.

Mohammed, who is credited with running the NEP, wrote in last year's autobiography, *A Doctor in the House*, that almost a third of Malays' wealth on the country's stock exchange is held in trust by various government institutions, which insulate most *Bumiputeras* from the real risks of doing business.

Similarly, the real estate that *Bumiputeras* own is held by institutions set up by the government for the *Bumiputeras*, rather than being owned in person by Malays.

Mohammed points out that although the policy helped increase the number of Malay professionals, artisans and heads of companies, it did little to encourage more Malays to run their own businesses.

"They (Malays) are not enterprising risk-takers but rather government co-ordinated rentier shareholders," he wrote.

The attitude and mentality of the passive beneficiary is not the mental revolution that the government wants to promote in the Malay and other *Bumiputera* communities, especially through the NEP," Mohammed wrote.

Figures from SME Corp, the Malaysian government's small-business support organisation, show that just 37.4%, or 205,000, of Malaysia's firms are Malay-owned, and just 40% of small-business funding goes to *Bumiputeras* entrepreneurs.

Most government funding still goes to Chinese and Indian entrepreneurs. Business owner Lee Teck Meng, who was secretary-general of the Small and Medium Industry Association until the end of last year, says about 90% of the 120,000 small manufacturing firms in Malaysia are Chinese-owned.

He credits this to the Chinese experience in working in factories and to family ownership, which has help pass the art of entrepreneurship down through the generations.

He believes it is because young Malays don't have parents who are entrepreneurs that they don't own a business and why those Malays who run businesses have to rely on government projects, because they don't have the confidence to compete in the private sector.

However he says a new brand of Malays is emerging in the information technology, services and logistics sectors.

Azrai bin Schuib, the general manager of incubator and entrepreneur development at Technology Park Malaysia, says that although only 20% of the about 80 entrepreneurs in incubation at the facility are Malays, this is slowly changing.

He says more sophisticated Malay entrepreneurs are emerging because of the push by state funds to develop high-growth potential.

The government, through its *Bumiputera* agency, Mara, is also rolling out more incubators aimed at assisting Malays to supply large companies, but most of these are in less sophisticated areas - such as furniture and food processing.

Mohammed Karmal bin Ismail, a Mara deputy director, admits that Malay entrepreneurs still fail at a higher rate than Chinese and Indian entrepreneurs and says Malays need training to be able to run bigger companies.

"I think we still have to help this group (Malays) for another 10 to 15 years," he says. However, he says the government must be careful not to give more assistance than is necessary to Malay entrepreneurs because they risk becoming complacent.

SME Corp CE Dato' Hafsah Hashim says the government funds and supports *Bumiputera* and other groups, but recently has begun to support the growth of more sophisticated *Bumiputera* firms. Under its *Bumiputera* SMEs High Performance Programme, 1,100 Malay companies will be assisted to grow the business regionally.

In addition, the government also introduced the *Bumiputera* Economic Transformation Roadmap in November last year, which aims to strengthen the participation of *Bumiputeras* in the economy.

It outlines the policies, strategies and specific initiatives to strengthen the *Bumiputera* economy and adhere to the principles contained in the country's New Economic Model.

If anything, this shows that South Africa needs a clear plan to build black business owners in all areas and not just as suppliers. It also needs more innovative, high-growth black-owned firms.

Figures from the *Finscope 2010 Small Business Survey* suggest that while most business owners are black (92%), most of these firms are unsophisticated, with few assets and employees.

Where almost 14% of businesses owned by white people employ five or more people, just 2% of black-owned firms have five or more employees.

There is already evidence that large companies are getting stuck in - with enterprise development programmes and incubators. The Technology Innovation Agency can also play a stronger role in nurturing those black business owners with bright ideas, while universities can use their technology transfer offices to set up incubators to commercialise new ideas.

Source: *Business Day* via I-Net Bridge

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