

## **DRIVING LABOR PRODUCTIVITY: THE ROLE OF CAPABILITY AND HUMAN CAPITAL IN MALAYSIA'S FOOD MANUFACTURING FIRMS**

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Productivity gains are not only important for competitiveness but also for other welfare gains. And, importantly, industry structure matters in driving the productive gains. This study examines the labor productivity of food manufacturing firms in Malaysia and the effect of capability and human capital on productivity. The findings show productivity heterogeneity among firms, and as capabilities and human capital grow, productivity gains become much higher. Importantly, it shows that bundles of capability, namely, innovation, information and communication technology (ICT) and marketing as well as human capital become more relevant as firms move to the higher end of the productivity distribution. The findings are robust to different measures of human capital and capabilities. Examining the effects separately indicates that innovation matters the most in driving labor productivity. The coefficient of ICT declines as firms move up the conditional productivity distribution. Likewise, market creating capability of the firms enhances productivity, but the coefficient does not vary across the lower and upper productivity quantiles. The study concludes the implications for persistent labor productivity differences across capabilities and human capital by drawing policy implications.

*Keywords:* Labor productivity; food manufacturers; Malaysia; capability; human capital; heterogeneity.

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