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The relationship between human resource practices and firm performance: an empirical assessment of firms in Malaysia

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1. Introduction

Human resource management (HRM) refers to the policies, practices and systems that influence employees' behavior, attitudes and performance (De Cieri *et al.*, 2008). Human resource practices include determining human resource needs, recruiting, screening, training, rewarding, appraising and also attending to labor relations, health and safety and fairness concerns (De Cieri *et al.*, 2008; Dessler, 2007). The effective implementation of HRM practices in organizations is a key source of competitive advantage and has been shown to have a positive relationship with company performance (see, for example, Ordonez de Pablos and Lytras, 2008; Collins, 2007; Chew and Basu, 2005; Khandekar and Sharma, 2005).

The emergence of China as an economic superpower in the twenty-first century and the potential in this region of Asia have caught the attention of many researchers and scholars. The potential of this region can be illustrated through the research done by Burton *et al.* (2003), in which they categorize Japan and China as lions in the region, whereas countries such as South Korea, Taiwan, Singapore and Hong Kong are categorized as tigers and Thailand, The Philippines, Malaysia and parts of Indonesia are categorized as emerging tigers. This means that there is huge interest among management researchers to conduct in-depth research in this region.

Increased globalization and liberalization has brought about an influx of foreign investors in Southeast Asia and East Asia in the form of multinational companies and joint ventures. The entry of foreign firms helped to introduce new HRM concepts and, as a result, changes in HRM practices are happening (Butler and Lee, 2003). Locally owned firms are now exposed to global competition and must find ways to manage their employees effectively in order to survive the huge challenges posed by foreign investors. The current economic crisis, globalization, and fierce competition are now forcing firms to look again and re-examine the importance of HRM to help them to navigate through these challenging times.

The importance of HRM as a competitive advantage had been long embraced by companies in the West, however in many countries in Southeast Asia, awareness of the importance and value of HR as competitive advantage has yet to be appreciated as observed by Othman and Teh (2003) on their analysis of HRM in Malaysia. The same has been reported by Bennington and Habir (2003) whereby in Indonesia, there is recognition that HRM practices are needed depending on the nature of competition of firms in Indonesia.

Based on the discussion above, it would be interesting to examine HR practices among firms in Malaysia, and does the implementation of HR practices do have an impact on firm performance. Hence the objectives of this research are as stated below:

- to provide an understanding of HRM history and current HR practices in Malaysia;
- to examine the extent of HRM practices among Malaysian firms; effectively; and
- to investigate the relationship between HRM practices and firm performance in Malaysia.

2. History of Malaysian human resource practices

Malaysian HR practices, systems and regulations are largely influenced by the British colonization experience in the nineteenth century. It is viewed that HR practices are legacies derived from an integration of Western and indigenous HR practices (Chew, 2005). Hirano (1991) as cited by Chew (2005), categorized Malaysian HR practices into two mainstreams, namely:

1. British-oriented values and
2. ethics-oriented values.

When Malaysia gained its independence from Britain (in 1957), the wider aspects of human resource practices were not given priority, as the main focus was mainly on work simplification and methods for increasing output. This scenario continued into 1970s, when employers still gave a low priority to personnel issues, with the function often operating only as a sub-unit of "General Affairs" departments (Rowley and Abdul Rahman, 2007).

In another study done by Haslina (2009), focusing on human resource development, an emphasis on only a few HR practices was found: training and development, performance appraisal management, career planning and development. In her research, she stated that the history of HRD in Malaysia is not clear due to a lack of empirical evidence. However, clear evidence was seen when Government of Malaysia began to include HRD strategies in the country's development plans and policies in 1991 in the Second Outline Perspective Plan and the 6th Malaysian Plan. This was also mentioned by Rowley and Abdul Rahman (2007), who reported that in the 1990s, some management and organizations began to reassess their corporate philosophy in favor of regarding people not as "costs" but as "assets". This change is indeed a big step forward towards HRM.

2.1 Current human resource practices in Malaysia

Malaysia is a country of 27 million people, of whom about 11,585,000 were employed as of the year 2009. The unemployment rate increased slightly from 3.3 percent to 3.9 percent in 2009 due to the world economic crisis, and it is forecast that it will stay at 3.9 percent in 2010 (see Table I). Malaysia has seen steady economic growth from 2002 to 2008 of 4.6 percent. Much of the country's manufacturing is in sophisticated industries like computer components, electronics, medical products and services such as information technology, business process outsourcing, and healthcare (Gross and Minot, 2007). However, in 2009, the GDP of Malaysia suffered a deficit of 3 percent as an effect of the world economic crisis.

Nowadays, the trend companies in Malaysia are moving towards performance-based reward systems. This can be seen by a survey done by MEF on 233 companies in Malaysia, in which 86.3 percent of respondent companies linked the salaries of their executives to their performance or productivity, while 81.1 percent did so for their non-executives (Malaysian Employers Federation, 2007). The same view had been given by Chew (2005); in her research, she observes that a seniority emphasis in the reward system is weakening in Malaysia and promotion based on seniority as a reward for loyalty is being replaced with a performance and merit system.

Table I Human resources in Malaysia	2008	2009 ^a	2010 ^b
Population (million)	27.73	28.31	28.88
Labor force (000s)	11,967.5	12,061.1	12,216.8
Employment (000s)	11,576.5	11,585.0	N/A
Unemployment rate (percent)	3.3	3.9	3.9
GDP growth (constant 2000 prices, percent)	4.6	-3.0	2.0-3.0
Per capita income (RM)	25,784	24,055	24,661

Notes: ^aEstimate; ^bforecast
Source: Malaysian Employers Federation

In terms of training, most Malaysian firms perceive that it is costly to train employees beyond the basic skills required to perform their contractual scope of work (Yong, 1996; cited by Chew, 2005). This has led the Malaysian government to intervene and promote training and development for the workforce. Among the steps taken by the Malaysian government are establishing industrial training institutes that offer skills training program at basic, intermediate and advanced levels for job entry level. Besides this, in 1993 the Malaysian government also established the Human Resource Development Fund, which is based on a levy/grant system that provides training costs subsidies for employers who have paid the levy. The levy was set at 1 percent of employees' monthly wages for manufacturing firms. (Malaysian Industries Development Authority, 2009).

As for industrial relations, only 15 percent of Malaysian workers are unionized (Gross and Minot, 2007). According to the Department of Industrial Relations of Malaysia, only five strikes occurred between 2005 and 2007, indicating rather harmonious relations between labor and management.

3. Research design

3.1 Survey instrument

The survey instrument used in this study was adapted and adopted from various studies as shown in Table II. The questionnaire used in this study is divided into three parts. The first part of the questionnaire gathers information on the profile of respondents, and questions regarding gender, level of education, years of experience in the HR field, type of industry the organization is in and ownership of the organization are asked. The second part of the questionnaire measures the extent to which human resource practices (human resource planning, staffing, job/work design, training, performance appraisal, compensation and occupational health and safety aspects) are being practiced in their organization. Respondents are requested to rate these aspects based on a five-point Likert scale ranging from 1 = not at all, 2 = small extent, 3 = moderate extent, 4 = large extent to 5 = very great extent. Lastly, the third part of the questionnaire measures the organization's performance as perceived by Human Resource Managers and top executives as compared with their competitors in the same industry. In this part, respondents rate the performance of their organization based on a five-point Likert scale with 1 = much lower than competitors, 2 = lower than competitors, 3 = about the same, 4 = higher than competitors and 5 = much higher than competitors.

3.2 Sample

The unit of analysis for this study is organizations. Eight hundred organizations from different industry sectors were contacted and asked to participate in this survey. These organizations

Table II Measurement of constructs

<i>Construct</i>	<i>Number of items</i>	<i>Construct sources</i>	<i>Scale</i>
<i>Human resource practices</i>			
Human resource planning	8	Geringer <i>et al.</i> (2002)	Respondents were asked the extent to which these statements describe the current practice of the HR department, based on a 5 point Likert scale with 1 = not at all, 2 = small extent, 3 = moderate extent, 4 = large extent and 5 = very great extent
Staffing	7		
Job/work design	9		
Training and development	9		
Performance appraisal	8		
Compensation	5		
Health and safety	8		
<i>Organizational performance</i>	6	Geringer <i>et al.</i> (2002), Delaney and Huselid (1996)	Respondents were asked about their organization's performance as compared with their competitors. Respondents were asked to rate performance based on a five-point scale where 1 = much lower, 2 = lower, 3 = about the same, 4 = higher, 5 = much higher

were selected from the 2007 Directory of the Federation of Malaysian Manufacturers, and a listing of HR attendees from two HR consultation and training firms. The two HR consulting firms were HR Consulting Sdn. Bhd. and Prima Creation Consultants Sdn. Bhd. They provided the researchers with a list of companies from Central and Northern Malaysia. The questionnaire was distributed then collected either online, by mail or administered personally, and when researchers attended HR workshops. The response rate was 27.1 percent, meaning that 217 questionnaires were collected in this study.

3.3 Methods of analysis

Frequency distribution was used to describe the profile of the sample. The next method of analysis used is reliability analysis to test internal consistency of the scales. This was then followed by computation of means and standard deviation of all variables used in this study. The variables used refer to the HR practices and organization performance. Finally regression analysis was performed. The R^2 value was computed to examine the goodness predictive validity so that it can be used to predict a future behavior.

4. Research results

Table III summarizes the demographic profile of the respondents. In terms of respondents, 41 percent were male and 57.6 percent were female. The remaining percentages are concluded as missing data. As for the level education of respondents responding to the questionnaire, they are mostly graduates with a first degree (48.4 percent), with diploma graduates contributing 16.1 percent of the total respondents. The respondents are gathered from various industries, although the largest group was from the service industry (42.8 percent), followed by manufacturing (29.6 percent) and information technology (10.1

Table III Profile of respondents		
<i>Variable</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Gender</i>		
Male	89	41.0
Female	125	57.6
<i>Level of education</i>		
Certificate	23	10.6
Diploma	35	16.1
First degree	105	48.4
Master's degree	32	14.7
Professional certificate	10	4.6
PhD	7	3.2
<i>Years of experience in HR functions</i>		
Less than 1	6	2.8
1-3	73	33.6
4-6	46	21.2
7-9	23	10.6
10-12	21	9.7
13-15	11	5.1
More than 15	25	11.5
<i>Industry</i>		
Services	93	42.8
Manufacturing	64	29.6
IT/computer	22	10.1
Agriculture	3	1.4
Property	4	1.9
Others	13	6.0
<i>Foreign ownership</i>		
Yes	51	23.5
No	165	76.5

percent). In addition, respondents' years of experience in managing HR functions was also examined. As indicated in Table III, the majority of the respondents have at least more than three years' experience in managing human resource functions. Thus, the researchers conclude that the respondents are sufficiently well versed with their companies and their human resources practices and are able to comprehend the needs of the questionnaire.

In the next section, the goodness of the measure was then examined by performing a reliability test to measure the internal consistency of the scale used in this study. According to Pallant (2007), reliability can be assessed by measuring internal consistency, which refers to the degree to which the items that make up the scale are measured in the same underlying attribute. One commonly way to measure reliability is Cronbach's coefficient α . Nunnally (1978) recommends a minimum level of 0.7 for α as the acceptable threshold. As shown in Table IV, there are ten variables are used in this study; the number of items for each variable are shown. In this current study, all of the variables have good internal consistency, with all of the Cronbach α values exceeding the recommended level of 0.7.

Once the internal consistency of the scale had been determined, a descriptive analysis was computed to analyze the extent of HR practices implemented by Malaysian firms. As indicated in Table V, variables 1-10 represent the extent of the human resource practices that are currently being implemented in Malaysian organizations. Table V suggests that most companies in Malaysia practice a moderate to large range of Human Resource practices, with a range of mean score of 3.00-3.43. An examination of what the companies think of their current performance (mean = 3.43, SD = 0.676) shows that most companies perceived that they performed in a range between about the same to higher as compared with other firms in the same industry.

Next, a regression analysis was performed to evaluate each independent variable and also the variables as a group in terms of their predictive power. Table VI shows the results of the regression analysis. The R^2 value is 0.497, suggesting that 49.7 of variation in the dependent variable – i.e. organizational performance – can be explained by variation in the ten independent variables. In other words, nearly 50 percent of the change in organizational

Table IV Reliability coefficients for major variables

<i>Variable</i>	<i>Number of items</i>	<i>Cronbach's α</i>
Human resource planning	8	0.901
Staffing	7	0.764
Job/work design	9	0.853
Training and development	9	0.945
Performance appraisal	8	0.893
Compensation	5	0.698
Employee relations and communication	8	0.895
Career planning	4	0.910
Health and safety	6	0.942
Organizational performance	13	0.948

Table V Descriptive statistics for major variables

<i>Variable</i>	<i>Mean</i>	<i>SD</i>
Human resource planning	3.27	0.869
Staffing	3.13	0.687
Job/work design	3.00	0.710
Training and development	3.17	0.940
Performance appraisal	3.43	0.834
Compensation	3.16	0.709
Employee relations and communication	3.27	0.822
Career planning	3.00	0.964
Health and safety	3.27	0.960
Organizational performance	3.43	0.676

Table VI Results of regression analysis

<i>Regression result for extent of HR practices and firms' performance</i>	<i>Beta</i>
Human resource planning	-0.11
Staffing	0.08
Job/work design	0.24*
Training and development	-0.46
Performance appraisal	0.02
Compensation	0.06
Employee relations and communication	0.29*
Career planning	0.23*
Health and safety	0.06
<i>F value</i>	20.05**
<i>R²</i>	0.474
<i>Adjusted R²</i>	0.451

Notes: * $p < 0.05$; **sig. $F = 0.000$

performance is caused by the effectiveness of implementation of human resources practices in organizations. The independent variable that contributes the most towards organizational performance in this study is employee relations and communication with a value of 29 percent, followed by job/work design (24 percent) and career planning (23 percent).

5. Discussion of results

Based on the results, we can conclude that the effectiveness of implementing HR practices in a company does indeed have a major impact towards a firm's performance. Our findings shows that HR practices have an impact of nearly 50 percent on firm performance. This is consistent with the research done by Chew and Basu (2005) and Khandekar and Sharma (2005). Thus, this form of analysis could help organizations to realize and be more aware of the importance of human resource practices and the need to integrate and align HR into the firm's strategic plan. Firms in Malaysia should also emphasize strategic effectiveness, as most firms in Malaysia practice a moderate number of HR practices in their companies.

The regression analysis shows that three main HR practices seem to have the highest influence on organizational performance:

1. employee relations and communication;
2. career planning; and
3. job/work design.

Employee relations and communication allow employees to know about the organisation's espoused values and HRM practices, giving them a channel to voice their complains and grievances, hence closing the gap and minimizing any conflict that might occur in the workplace. This was also mentioned by Sirota in an interview with Knowledge@Wharton (2005) whereby he states that:

Conflicts across the organization are obstacles to performance. Some of the most negative findings were between IT and their internal customers, the employees. Conflict between functions is debilitating. People don't come to work to fight.

The second highest influence is job/work design. This refers to the degree to which employees are given the freedom to decide, participate and get involved in their area of work. This enables employees to feel empowered and to exercise flexibility in their jobs, and hence to be more motivated in the workplace. This is consistent with the Herzberg two-factor motivation theory, which proposes that employees will be motivated to perform if intrinsic factors such as responsibility, recognition and personal growth are offered to employees.

The third highest influence is career planning, through which career paths are made known to employees. This creates a sense of empowerment of employees regarding their career paths, hence encouraging employees to be more enthusiastic in achieving their career goals. This will lead to increased productivity and performance of the firm.

The three influences mentioned above are also in agreement with what was proposed in the Job Characteristics Model of Hackman and Oldham (1976). Communication (feedback), meaningfulness and responsibility (job/work design and career planning) may lead to work motivation, growth satisfaction, general satisfaction and work effectiveness.

6. Limitation and recommendation for future research

Although this study has shown the importance of human resource management practices for organizational performance, it does have its limitations. Firstly this study has been conducted in one national context (Malaysia) and was limited to peninsular Malaysia. Hence the findings and conclusions drawn from this research are representative of the Malaysian context only. It is recommended in future to include other countries in this research. In addition, a cross-national comparison of HR practices can also provide a greater insight into the importance of HR practices towards the well-being and sustainability of an organization. In addition, this study only includes the views of HR managers and top executives, and hence may only provide perceptions of the management point of view. Therefore, it is recommended that researchers include the perceptions and views of other employees in order to provide a more holistic view of this study. Lastly, this study also recommends further research to incorporate other moderating variables such as the legal and regulatory environment and organizational characteristics.

7. Conclusion

This paper attempts to explore the extent of implementation of HR practices among companies in Malaysia and to establish a relationship between HR practices and firms' performance. An interesting finding was that almost 50 percent of firm performance is affected by the extent of implementation of HR practices in the firm. These results show that HR practices that are in line with the organization's strategic goals are important for future performance.

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