THE TRANSFORMATION OF INDUSTRIAL RELATIONS PRACTICES SYSTEM: A CASE STUDY ON SMALL AND MEDIUM ENTERPRISES (SMEs) IN KOTA KINABALU, SABAH

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Abstract

This study will focus on the relationship between the Industrial Relations practices in Human Resource Management within SMEs in Kota Kinabalu, Sabah. Being the 2nd largest state in Malaysia it is incomprehensible knowing which the number of SME establishments in Sabah are low in comparison to the other smaller states which generate higher establishment figures. In spite of the continuous effort from the Malaysian government in promoting SME activities, there has been a hidden struggle for these SMEs to retain their employees. Previous studies have shown that there are nine practices which are applied in SMEs that are known to reduce employee turnover intention. However, this study has found that only four practices are practiced provide a relationship based on tests conducted using SEM-PLS. Findings showed that compensation, job enrichment, job security, performance appraisal and training and development have no relationship in contributing towards the turnover intention. These findings provide a new dimension in the pattern of labor and industrial relations practices in Sabah’s SMEs particularly within the manufacturing sectors.

Keywords: Industrial Relations Practices, SMEs, SEM-PLS

Introduction

Sabah for which is known as the second largest state in Malaysia has been facing with declination in terms of its SME establishments in comparison to the other smaller states which generate higher establishment figures. Although there are many strategies being implemented, the development of SMEs in Sabah has remained a slow-moving process. Therefore it is crucial to evaluate factors that influence the SME development that will enable

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Sabah to improve its future economic development as well as to minimize the economic imbalances of this multi-racial country.

With SMEs’ nature being labor-intensive driven, it is indisputable that the existence of a high-performing workforce is vital in ensuring the effectiveness and productivity of SME operations. According to Chiu and Luk (2002), organizations that are able to retain their most high performing employees by applying the appropriate practices will be able to survive in the fiercely competitive global market.

The role of SMEs as the backbone of a nation’s economy development is indeed indisputable considering its significant contributions towards economic growth in Malaysia. Since the early 1970s, the government is committed to boost the nation’s economy through the formulation of the New Economic Policy (NEP) which indirectly promotes the development of SMEs in Malaysia. In recognizing the potential to achieve global competitiveness through transformation and innovation of the services and manufacturing sectors, the government vehemently encourage SME establishments nationwide. However, being as the second largest state in the country, surprisingly the numbers of SME establishments in Sabah are low in comparison to the smaller state which generates higher establishment figures. Nevertheless, Afendy Suip & Imbarine Bujang (2011), have stated that it is remained unclear as to what extent SME establishments correlates with employee turnover intention dilemma in Malaysia. Therefore in this study, it is necessary to investigate the relationship in order to view whether the leap taken by the government to boost the economy growth in achieving the country’s vision to be a developed country in the year 2020.

SMEs are famously known to be exposed with numerous challenges greater than bigger firms in which depended on a few crucial factors that must be taken into consideration as it enables positive SMEs growth in the country. Among the factors which coincide with the constraints faced among SME organizations are such as financial, business and management skills, and governmental support (Afendy Suip & Imbarine Bujang, 2011). Even so, this study will focus on the business and management skills transformation aspect as it involves the relevant industrial relations practices which contribute towards the enhancement of SME organizations in Kota Kinabalu, Sabah.

**Literature Review**

**Industrial Relations Practices**

A contemporary industrial relations practices particularly focused on their attention towards unions, collective bargaining and miscellaneous labor market issues namely, minimum wage, flexible/performance pay, dispute prevention, labor rights, changing patterns of work, human resource management and the never ending transition economies. According to Appelbaum et al (2011) and Chadwick (2010), a set of high performance work practices are defined as modern employment management practices such as formal employee training, high pay levels, group based performance pay and self-directed team which have shown to contribute towards the enhancement of employee performance. According to Marsden (1995), industrial relations practices have its impact towards a country’s pattern of labor market. This is because industrial relations practices such as salary, compensation, performance appraisal,
training and development, job security, job enrichment, voice, employee engagement and employee empowerment may contribute towards the change of behaviour as well as the intention among employees who work in an organization (Storrey & Sisson, 1993; Johanim Johari et al., 2008). In order to create an innovative teamwork leading to high level of performance within organizations, a set of high performing practices should be implemented in order to reduce employee turnover intention as employees are generally known to be the valuable asset as the driving force towards an organization’s performance (Sturman & Ford, 2011).

For this study, a set of industrial relations practices have been identified to have its role in influencing an industrial relations system within SME organizations, namely compensation, performance appraisal, salary, training and development, job security, job enrichment, voice, employee engagement and employee empowerment.

a) Compensation
According to Milkovich et al. (2011), compensation is the total financial or non-financial rewards paid to an employee as a return for their services within the organization. The compensation rewarded is usually based on the value of job, level of personal contribution, efforts and performance for which have been designated by the organization. A competitive compensation package is known to enhance an employee’s performance as well as influence an employee’s decision whether to stay or leave the organization (Fatima, 2011).

b) Performance Appraisal
Dessler (2011) has stated that performance appraisal is a formal system whereby it is utilised by the organization to evaluate an employee’s performance in a certain amount of period. Moreover, performance appraisal is defined as a process of which an employee will be evaluated on how well they have performed their tasks as compared to a set of requirements or organizational expectations. Nonetheless, Lau & Sholihin (2005) have argued that performance appraisal can also be a source of frustration for employees due to unfairness of the performance appraisal processes.

c) Salary
Salary levels which are set by the organization is a factor that aids towards the recruiting process as well as retaining the existing employees. The practice in providing highly competitive salary levels than those in the labor market is crucial in order to empower as well as to encourage employees in developing their knowledge, skills and motivation in the organization. (Bohlander & Snell, 2007).

d) Training and Development
Past researchers (Jones et al., 2004; Vorhies & Harke, 2000; Jehanzeb et al, 2015) have commonly agreed that training and development are capable in influencing an employee’s performance as well as their intention to withdraw from the organization. Anantha Raj (2013) also supported by stating that inappropriate training and development may drive an employee towards turnover intention. This is due to every employee’s view that the availability of appropriate training and development mirrors the employer’s commitment and appreciation towards their employees’ contribution in the organization (Storey & Sisson, 1993; Brum, 2007; Owoyemi et al, 2011; Jehanzeb & Bashir, 2012). On the contrary, Johanim Johari et al. (2012) strongly argued that training and development had no impact towards the intention
of an employee whether to stay or leave the organization. Long (2012) and Benson (2006) supported this argument by stating that training and development had a positive relationship towards organisational commitment but negatively related when associated with an employee’s turnover intention.

e) Job Security
Job security is an important element in an effort to gain trust as well as confidence among the employees (Fu, 2004). According to Senol (2011), job security refers to a position whereby an employee feel that their employment in the organization is guaranteed which in turn motivates the employee to remain loyal and committed towards the organization by performing their task to their fullest. Senol (2011) added that job security is not only crucial for an employee in terms of keeping their jobs or finding a new one, but it is also equally important for the employers since it enables them to retain their employees or recruit new ones.

f) Job Enrichment
Leach & Wall (2004) defines job enrichment as a job redesign in order to reduce repetitive tasks being performed which in turn will initiate a sense of boredom, lack of flexibility and increase employee dissatisfaction. Trivellas et al (2013) firmly stated that job enrichment is crucial for organization particularly among SME organizations in order to retain their employees. This is due to the fact that challenging and meaningful tasks may contribute a significant effect towards an employee’s physical and mental well-being.

g) Voice
Ahmed Imran Hunjra, et al. (2010) defined voice as an employee’s expression towards dissatisfaction or their grievances at the workplace. Industrial relations with its main role to strive for employee rights by acting as the medium for the employees to voice their grievances has grown significantly important for organizations to build loyalty and trust among employees (Dundon, 2004; Addison, 2005). This is because the ability to recognize the interest in the notion of employee voice will reflect the organization’s effort in appreciating the employees who have contributed significantly towards the organizational performance (Milliken et al, 2003).

h) Employee Engagement
Since SMEs are the ones which are negatively affected during challenging economic area in which resources are scarce, competition is fiercely intense and demands are competitively increasing, it is indisputable that employee engagement plays a vital role in order to sustain its competitive edge in the global labor market (Gupta, 2009; Kishore et al., 2012).

i) Employee Empowerment
Kishore et al. (2012) firmly believes that employees need to feel that their capabilities in making decisions are put into action. This is because empowered employees are expected to be able to act much alike the owners rather than just an employee (Kishore et al., 2012). Vance (2006) and Kishore et al. (2012) state that by appointing employees with certain decision making powers to execute a task has been a challenge for HR personnel. Consequently, employee empowerment can only be enforced along with clear explanation on the definition of the values and mission of the organization among the employees.
Turnover Intention

Issues concerning turnover intention among employees have remained inexplicable over the years and IR practitioners along with HR personnel have diverted their efforts into grasping a good understanding about the interest of their top-performing employees. As defined by Medina (2012), turnover intention is defined as an employee’s intent to search for a new job with another employer within the next year. Arokiasamy (2013) suggests that employee turnover is the rotation of workers around the labor market between different companies, occupations, jobs and also between states of employment and unemployment. According to Trevor (2001) and Muhammad Rizwan et al (2014), whenever an employee is satisfied with the practices for which is applied in the organization there is the negative relation with employee turnover intention. However, when the employee is deprive from their rights there is highly a positive relation with turnover intention which forces the employee to discontinue his or her job.

The relationship between Industrial Relations Practices towards Turnover Intention

According to Dess and Shaw (2001), turnover intention among employees is inevitable for most organizations irrespective of their size for which it involves both direct costs and indirect costs. Direct cost involves the recruiting of new employees to train them. Meanwhile, the indirect cost consists of loss of clients. Nonetheless, evidence suggests that turnover intention may cause detrimental effect especially on smaller firms because of their limited financial resources and the challenges they need to confront in attracting appropriately qualified labor (Long et al, 2014). Therefore, the implementation of industrial relations practices is imperative towards achieving higher satisfaction, motivation and commitment among employees resulting in a stronger positive culture and a lower level of employee turnover rate (Appelbaum et al., 2011).

Methodology

Study Context

The target population for this study is among the employees from the Small and Medium Enterprises (SMEs) in Kota Kinabalu, Sabah. This study focuses on the manufacturing sector of the SMEs in Kota Kinabalu, Sabah.

Sampling Instrument

For the current study, random samplings were used whereby the Small and Medium Enterprises (SMEs) were randomly selected based on the list of SME establishments in Kota Kinabalu, Sabah. A quantitative approach was applied in the course of developing the questionnaire. The questionnaires were divided into 3 sections. Section A was designed using nominal scales focusing on the respondent’s demographic profile. Section B was focusing on the practices in the industrial relations system. Meanwhile, section C was designed to identify the turnover intention among the employees. There were 11 items to identify the turnover intention. Section B and section C require respondents to indicate their level of agreement on five types of Likert scales ranging from one (1) with “strongly disagree” to five (5) with “strongly agree”.
Data Collection

The data collection period was done within a month in Kota Kinabalu, Sabah, by using a random sampling whereby the respondents are from the Small and Medium Enterprises (SMEs) in the manufacturing sector. The list of SME establishments in Kota Kinabalu, Sabah, was gathered from the Immigration Department in Kota Kinabalu, Sabah. Respondents were briefed about the confidentiality and anonymity through the information sheet attached along with the questionnaire. The questionnaires were coded and keyed by using the Statistical Package for Social Sciences (SPSS) Version 21 and analysed using the Structural Equation Modelling via Partial Least Squares (SEM-PLS).

Result and Discussion

From the total of 80 questionnaires which were distributed among the employees within the SMEs in Kota Kinabalu, Sabah, a total of of only 52 questionnaires (65%) were collected. Based on the analysis, it was found out that 44.2 percent consists of male respondents while the remaining 55.8 percent were female respondents with ages ranging between 20-29 years (50.0%), 30-39 years (30.8%), 40-49 years (13.5%) and 50-59 years (5.8%). Most of the respondents are SPM holders with a total of 21 (40.4%), followed by Bachelor Degree holders with a total of 18 (34.6%), Diploma holders with a total of 11 (21.2%) and STPM holders as well as respondents whom did not indicate their highest education level each with a total of 1 (1.9%). As for the respondents’ occupation positions, 34 (65.4%) consists of Non-Executive level and 18 (34.6%) consists of Executive level. The table below summarizes the demographic profile of the respondents involved in this study.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Gender</td>
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<tr>
<td>Male</td>
<td>23</td>
<td>44.2</td>
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<tr>
<td>Female</td>
<td>29</td>
<td>55.8</td>
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<tr>
<td>Age</td>
<td></td>
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<tr>
<td>20 – 29 years</td>
<td>26</td>
<td>50.0</td>
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<tr>
<td>30 – 39 years</td>
<td>16</td>
<td>30.8</td>
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<tr>
<td>40 – 49 years</td>
<td>7</td>
<td>13.5</td>
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<tr>
<td>50 – 59 years</td>
<td>3</td>
<td>5.8</td>
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<tr>
<td>Race</td>
<td></td>
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<tr>
<td>Malay</td>
<td>18</td>
<td>34.6</td>
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<tr>
<td>Chinese</td>
<td>7</td>
<td>13.5</td>
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<tr>
<td>Bumiputera Sabah</td>
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<td>51.9</td>
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<tr>
<td>Marital Status</td>
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<tr>
<td>Single</td>
<td>27</td>
<td>51.9</td>
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<tr>
<td>Married</td>
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<tr>
<td>Education Level</td>
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<td>SPM</td>
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<tr>
<td>STPM</td>
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<tr>
<td>Diploma</td>
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<tr>
<td>Bachelor Degree</td>
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<tr>
<td>Master Degree</td>
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<td>0.0</td>
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<tr>
<td>Others</td>
<td>1</td>
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<tr>
<td>Position</td>
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<tr>
<td>Executives</td>
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<tr>
<td>Non-Executives</td>
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<td>Years of Service</td>
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<td>5 years and below</td>
<td>26</td>
<td>50.0</td>
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<tr>
<td>6 – 10 years</td>
<td>16</td>
<td>30.8</td>
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</table>
Table 2 summarizes the evaluation of PLS measurement model for this study. The convergent validity was measured by Average Extracted Variance (AVE) where AVE should exceed 0.5 in order to suggest adequate convergent validity (Bagozzi & Yi, 1988; Fornell & Larcker, 1981; YY Chen, 2012; Ali et al, 2014); all constructs fulfilled this condition. The composite reliabilities ranged from 0.923 (Job Security) to 0.984 (Training and Development) which was above the recommended level of 0.7 (Nunnally, 1978; Mehran Nejati, 2010; Fulford, 2011). Moreover, the Cronbach Alpha rules state that the values should be 0.7 or higher in order to indicate the adequate convergence or internal consistency (Nunally, 1978). In conclusion, the measurement model in Table 2 has good reliability and validity.
The main findings of this study suggest that out of nine practices (e.g., Compensation, Performance Appraisal, Salary, Training and Development, Job Security, Job Enrichment, Voice, Employee Empowerment and Employee Engagement) only four practices are found to be most effective practices applied by SME organizations in Kota Kinabalu, Sabah in order to retain existing employees. Among the four practices are Salary, Voice, Employee Engagement and Employee Empowerment.

Conclusion

As a conclusion, the findings of this study provide a whole new dimension in the pattern of labor and Industrial Relations practices within SMEs in Kota Kinabalu, Sabah particularly among the manufacturing sectors. Besides that, this study examines the effectiveness of Industrial Relations practices in order to assist the SMEs to strive for global competitiveness through the transformation and innovation of the manufacturing sectors. In addition, this study contributes towards the knowledge in formulating recommendations on reducing turnover intention among employees within SME organizations. The implication and recommendations of the study is for SMEs to partake aggressively in ensuring what motivates their employees to stay in the organization. With competitive salary package in line with encouraging employees to voice out their grievances and opinions as well get involved in the organization’s operations, this may drive the employees towards creativity and innovation in order to promote the business activities and provide a competitive advantage for the SMEs in Kota Kinabalu, Sabah.

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