

# HUMAN RESOURCE MANAGEMENT PRACTICES AND PERFORMANCE IN MALAYSIAN SME: A PROPOSED CONCEPTUAL FRAMEWORK

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**Abstract:** *The objective of this article is to introduce a conceptual framework about the relationship between human resource management practices and organizational performance in the context of small industry in Malaysia. Based on an extensive review of the study in the past, the relationship between human resource practices and organizational performance remains unclear. Previous studies from various industry sectors had found the results were inconsistency about the relationship. Despite these studies, human resource management practices have been suggested to be studied in order to determine the relationship between organizational performance. Hence, this concept paper attempt to study the relationship between four variables of human resource management practices which is known as selective hiring, training, compensation and empowerment and organizational performance of Malaysian SMEs. Based on the Resource Based View (RBV) perspective, HRM practices are the best way of utilizing vital internal resources that influence performance in organization. Most of researchers are now paying extra attention on different human resource practices that can enhance performance. This study will contribute to knowledge by providing insights on the impact of HRM practices on SMEs performance in Malaysia.*

**Keywords:** *Organizational performance, Selective Hiring, Training, Compensation, Empowerment*

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## 1. Introduction

In the new global economy, performance has become a central issue for an organization to stay competitive to ensure the success of the organization. Therefore, performance plays a critical role in every organization and become the key variable of interest for the researcher and academicians that mostly studied (Imran, Majeed, & Ayub, 2015). Moreover, performance of an organization depends largely on the individual performance. Thus, the ultimate contribution that is common to all organization which has been widely focused in increasing

theoretical and empirical is human resource (Sheehan, 2014). Employees is known as the most crucial assets in the organization. As mentioned by Ulrich & Lake (1991), people may be the ultimate source which can contribute to competitive advantage because other sources such as technology, financial capital, and scale economies can be easily imitated. Hence, an ineffective HRM is likely to be relatively common and can damage a firm's efficiency as well as its ability to secure competitive advantage. The critical issue of human resource has received considerable attention among business operations especially in small business to gain competitive advantage for long term survival, and thus a deeper understanding of managing human resource in the small firm is vital. Previous studies has shown that many researchers suggested various HRM practices that foster the organizational performance. However, much uncertainty still exists about how the overall set of HRM practices may ultimately contribute to the competitive advantage of the organization. Therefore, this study aims to contribute to this growing area of research by exploring the practices of HRM that may contribute to the success of the organization.

## 2. Problem Statement

Plethora of research so far discovered that HRM practices is positively influence the organizational performance.

Organizational performance and HRM have received considerable attention in the field of behavioural sciences indicating that there is a relationship between HRM practices and the performance (B. Becker & Gerhart, 1996; Georgiadis & Pitelis, 2012; Singh, 2004).

However, it is believed that small organization are not formally implementing human resource practices (Cardon & Stevens, 2004). Regardless of the type of the organization, all firms need to use the HRM practices in managing their workforce. For instances, among practitioners noted that small business such as small medium enterprise (SME) has lack of managing human resource effectively (Sheehan, 2014). The contribution of Malaysian SMEs to economic development of a country is important especially for developing countries. Moreover, the relationship between HRM practices and the performance of SMEs remains under-researched. This paper attempts to enhance knowledge about HRM practices among SMEs in manufacturing industry in Malaysia. Hence, there is a need to further investigate human resource issues in SMEs (Heneman, Tansky, & Camp, 2000).

For example, Cassell, Nadin, Gray, & Clegg (2002) noticed that employment practice have been found as lack of practice in smaller firms. Another example as noted by Wall & Wood (2005) that HRM practices would be better if implemented together for instances; to have a good workers the organization still need to send for training, and empower them to make a decision. Therefore, it is important to manage employees through a formal approach of HRM practices; whether the use of a greater number of HRM practices or 'bundles' would enhance the performance or otherwise, should be carefully considered.

Hence, this study presents a set of four key of HRM practices suitable for the manufacturing industry, pertaining to selective hiring, training, compensation and empowerment. Further, this study verifies whether this set of HRM practices affects performance. Past literature showed that there were inconsistencies and mixed reporting (Miah & Islam, 2017; Sarker, 2017; Tzabbar, Tzafrir, & Baruch, 2016; Vlachos, 2008). Hence, this study aimed to examine the relationship between four HRM practices and SME performance. Thus, the research is guided by the following objectives:

- 1) To examine the relationship between selective hiring and SME performance.
- 2) To examine the relationship between training and SME performance.
- 3) To examine the relationship between compensation and SME performance.
- 4) To examine the relationship between empowerment and SME performance.

### **3. Literature Review and development of hypothesis**

#### **3.1 Organizational performance and HRM**

Organizations must stay competitive to ensure the success of the organization. To accomplish certain objectives, organization must achieve their goal attainment regardless the type or nature of the organization. The success of the organization is derived from the performance of the organization. Hence, the only way to assess the success or failure of the organization is to measure their performance.

The only way organizations can use to assess their goal attainment is to have their organizational performance (OP) assessed against some organizational criteria. As a result, organizational performance has become the ultimate concern for researchers and has led them to study the variable extensively (Jayawarna, Macpherson, & Wilson, 2007; Rogers & Wright, 1998). However, even though OP has been studied widely, the construct remains vague and there is no strong definition of what constitutes OP (Carton & Hofer, 2006).

Moreover, human resource being a valuable asset to the organization and it is the answer to clarify all doubt pertaining how organizations could compete in the market and achieve their performance. Early research on the relationship between HRM and performance has suggested that the adoption of 'best practice' human resources may have a positive effect on the performance of the large organizations (Becker & Huselid, 1998; Becker & Gerhart, 1996; Delaney & Huselid, 1996; Huselid, 1995; Youndt, Snell, Dean, & Lepak, 1996). However, very few studies has been done in the context of small organization (Cardon & Stevens, 2004; Cassell et al., 2002; Nguyen & Bryant, 2004).

#### **3.2 HRM Practices**

Human resource management (HRM) practices are a common feature within organizations. HRM practices are defined as organizational activities which related to staffing, hiring, performance appraisal, compensation and training (El-Ghalayini, 2017).

A growing body of empirical research has examined the effect of certain HRM practices on organizational performance. There are relatively a long list of best HR practices whether single practice or in bundles that can effect performance. However, still no consensus is achieved on what are the HRM practices that is highly essential to HRM in contributing the performance of organization (Boselie, Dietz, & Boon, 2005). Assuming HRM practices does influence performance, in this paper, we have selected four practices based on previous literature to be our essential predictor that can enhance the performance of an organization. The four variables are selective hiring, training, compensation and empowerment.

##### ***Selective hiring***

According to Hornsby & Kuratko (2003), selective hiring is important for small organization. Selective hiring is one of the key practices of HRM that can improve the performance of the company. This practice can ensure that the right people that hired when full with desirable

characteristics, skills and knowledge will stay fit in the culture and the climate of the organization (Vlachos, 2008).

Hence, selective hiring is considered important to most of the organization to select the right people for the right job. Several studies found significant in the relationship between selective hiring and organizational performance (Moideenkutty, Al-Lamki, & Murthy, 2011; Sheikh, Hasnu, & Khan, 2016; Vlachos, 2008). Thus, it could be hypothesized as:

**H1a:** *There is a positive relationship between selective hiring and organizational performance.*

### ***Training***

Training can be defined as “any attempt, within or outside the organization, to increase knowledge and skills of either employees or managers (Jayawarna et al., 2007). Although there are some clear examples of how training influences the performance of the organization, small firms are much less likely than large organization to provide the training to their employees. There is one reason that explain why small firms provide less training, not because of a lack of awareness of the benefits of the training program, but they have to bear the higher costs of training provision (Storey, 2004). However, studies proved that training incurred in the organization can positively influence the workers to learn new skills that will enhance their knowledge and become more competitive (Muduli, 2015).

Lu, Zhu, & Bao (2015) in the study about employees of Chinese manufacturing industry enterprise which mainly from Beijing, Shenzhen, Shanghai, Changchun, Harbin and other cities found that training has positive effects on firm performance. In the same vein, several studies found that training has positively influence organizational performance (Moideenkutty et al., 2011; D. J. Storey, 2002; David J. Storey, 2004). Thus, it could be hypothesized as:

**H1b:** *There is a positive relationship between training and organizational performance.*

### ***Compensation***

Compensation is a part of human resource management practices and also known as “Employee Remuneration” has become an important things in every employees (Qureshi & Sajjad, 2015). Compensation comprises a series of decisions of an organization pertaining to the payment of its workers, including pay levels, pay mixes, pay structure, and pay raises (Cardon & Stevens, 2004). In particular, human resource department in every organization should consider an attractive compensation schemes to be given to their staff to attract, motivate and retain the potential of the employees. For employees, the compensation will benefit them to be more loyalty and enhance their productivity towards the organization. In addition, giving out compensation is important to the employer as it will contributes to the profit of the company through the performance of the effective employees. Thus, the aim of giving an employee remuneration is to attract the employees to give more attention to their job and motivate them towards superior performance. Therefore, SMEs need to offer equitable compensation scheme so that they can encourage the employees to apply their proficiency in their work-related activities efficiently and effectively. Several studies found that there are positive linkages between compensation and organizational performance (Katou & Budhwar, 2010; Mohd Hamran, Khulida Kirana, Suhaimi, & Rashid, 2016).

Thus, it could be hypothesized as:

**H1c:** *There is a positive relationship between compensation and organizational performance.*

### ***Empowerment***

Empowerment has been defined as ‘moving decision-making authority down the (traditional) organizational hierarchy (Menon, 2001). In other words, empowerment is ensuring that the employee has the authority to make a decision to do a job in the organization. In broad terms, empowerment focuses on the transfer of some power to the less powerful. By being

empowered, employees feel more appreciated for being part of the team in the organization as they can take part in making any decision related to their job. Hence, empowerment can be resulted in enhancing organizational performance. Empowerment has been found positive relationship with organizational performance (Moideenkutty et al., 2011).

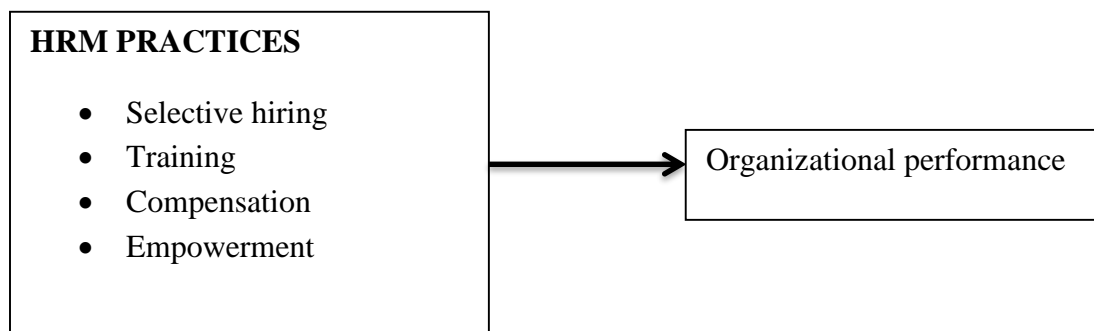
Thus, it could be hypothesized as:

**H1d:** *There is a positive relationship between empowerment and organizational performance.*

#### 4. Conceptual Framework

The research model as per figure 4.1 below represent the proposed conceptual framework for this study. In detail, the proposed framework comprising selective hiring, training, compensation and empowerment as independent variables and organizational performance as the dependent variable.

Figure 4.1: Proposed Conceptual Framework



#### 5. Methodology

Since this is a conceptual paper, it reviewed theoretical and empirical literature particularly on selective hiring, training, compensation and empowerment and organizational performance. Based on previous articles and literatures that has been gathered, reviewed and synthesized, the proposed framework as illustrated in Figure 4.1 has been developed in line with the objective of this paper which to demonstrates the linkage between human resource management practices and performance in Malaysian SMEs.

#### 6. Conclusion

The field of human resource management has evolved from the beginning as personnel management where its preliminary function was to keep handling recruitment, payrolls, promotions. Gradually, over the years the personnel manager has assumed an increasingly important role – not only within the HR section of the organisation, but also within overall decision-making process of the organisation. They will also be of interest to managers of SMEs who are planning to implement best HR practices in their organizations. This conceptual paper contributes to an understanding of the impact of HRM practices on SMEs performance generally and particularly in Malaysia. If the proposed framework empirically validated, finding will provide important insight to the policy makers, academics and practitioners into the significant direct effect of HRM practices on organizational performance especially in Malaysian manufacturing sector.

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