

Chapter 1. INTRODUCTION

1.0 Introduction

Human resource support has slowly but surely become one of factors contributing to the competitive advantage and a way to enhance the organization status of human resource management (Mc Williams et al. 2001) towards organizational performance (Youndt et al., 1996). Thus, there is a significant need to reduce employee turnover to increase the business competitive advantage.

An effective formulation of organizational performance is vital in order to understand the commitment of human resource practices and implementation of company's policy on innovation. Therefore, the need to use human resources intensively in any company in its innovation system and process with a tailored remuneration for the 'retain' and 'retrain' approach which is strongly linked to the innovative potential (Kaufmann & Tödting, 2002).

Alongside the company's policy on innovation is the particular need to focus on the main resources of the company and how to manage, motivate and reward employees at the right time to enhance the competitive advantage (Gupta & Singhal 1993). However, time and effort are needed to achieve success in the policy of innovation which is autonomy.

Small and Medium Enterprises (SMEs) play an important role in the economy and have been recognized as one of the instruments of growth in many countries (Abdullah, 1999; Danis et. al., 2006; Johan, 2007). Thus, it merits further study to examine the level of effectiveness of human resource management because it plays an important role to stimulate innovation for a systematic and long-term approach in sustainable SMEs.

1.1 Statement of the Problem

From previous empirical research findings, it has been found that an integrated bundle of human resource practices has improved organizational performance. These include the rewards or incentives compensation of employees which have led to the success for organizational performance management as suggested by Hoque (1999). Employees who are recognized on their job related to behaviours are expected to be rewarded (Kerr, 1999). Human resource practices such as employee development programmes (EDP) in the form of training, development and performance evaluation (Bowen et al., 2002), selective hiring, organization of work, sharing information, job security and social activities as well as sports have been strongly supported and developed for business success (Hoque, 1999; Huang 2001).

However, past studies have shown that most SMEs failed to achieve their individual objectives due to the lack of human resources and organization capabilities (Chee, 1986; Hashim, 1992; Mohd Khairuddin, 1999). Other reasons were probably because there was little invention, lack of skilled or know-how workers, traditional methods of operation, cashflow and difficulties in obtaining financial support from financial institutions or the government, lack of human resources development, high level of international competition; lack of willingness to spend on technology facilities, lack of skills and knowledge, dependency on the domestic market (Saleh & Ndubisi, 2006: 24); difficulty in recruiting employees (Williamson, Cable & Aldrich, 2002) and difficulty in developing sustainable human resource systems and policies (Barber et al., 1999; Cardon & Stevens, 2004).

1.2 Purpose and Significance of the Study

Following of statement of the problem, this study is conducted hopefully to help Malaysian SMEs to have a good understanding and also to fill the gap in the body of knowledge regarding the effect of a company's policy on innovation on the relationship between the human resource practices and organizational performance. Innovation is necessary to be adopted in businesses in order to gain a competitive edge as well as to sustain globally (Gollan, 2005). Also, this study is to examine whether the company's policy on innovation mediate the relationship between HR practices and organizational performance. SMEs' human resource practices could be influence indirectly towards innovation as they can provide an insight on the best ways in order to sustain organizational performance in the long run. Moreover, this study will hopefully be considered as a useful guide and reference for SMEs management and human resource management policy implementation in Malaysia. Amongst these to be initiated can be due to reasons of legislation, fairness, relational rationality, distributive justice and others for SMEs management to implement company's policy on innovation and focusing on the alignment of human resource practices with linkages to organizational performance.

However, various studies on the implementation of human resource policies and practices through selective recruitment, training, incentive compensation and job evaluation as the sources of competitive advantage, have shown a strong relationship towards organizational performance (Ordonez de Pablos & Lytras, 2008; Collin, 2007; Chew & Basu, 2005; Khandekar & Sharma, 2005). Further, Barber, Wesson, Roberson and Taylor (1999) found that SMEs develop human resource practices to meet their needs and operating issues. However, studies on human resource practices in SMEs have shown that the adoption and development of human resource practices have been slow compared with the multinational companies (MNCs) operating in Malaysia (Chiah-Law et al., 2003). This is probably due to the lack of resources such as financial support, human training and

development programmes (Verhees & Meulenber, 2004) and unmatched expectation by the SMEs' top-management to place their rightful commitment into the human resource practices in a proper manner.

This study is to examine the linkage between internal resources such as human resource practices e.g. incentive compensation, training, selective hiring, performance evaluation, organization of work, sharing information, job security, social activities and sports (i.e. independent variables, IVs) and organizational performance (i.e. dependent variable, DV), mediated by the company's policy on innovation (i.e. mediator variable, MV) in SMEs in Klang Valley. The conceptual framework is shown in Figure 1.

1.3 Research Objectives

Based on the scenario presented above, human resource practices could play an important role in SMEs (Small and Medium Enterprises) in Malaysia and form a strong backbone for business development. This study hopes to investigate the relationship between HR practices and the organizational performance, whether the relationship is mediated by company's policy on innovation.

The research objectives are:

1. To determine which of the HR practices have the most effect on organizational performance in SMEs in the Klang Valley
2. To determine whether there is a significant relationship between incentive compensation; training and organizational performance mediated by the company's policy on innovation in SMEs in the Klang Valley
3. To determine whether there is a significant relationship between selective hiring; performance evaluation and organizational performance in SMEs in the Klang Valley
4. To determine whether there is a positive relationship between sharing information; job security; social activities and sports and organizational performance in SMEs in the Klang Valley
5. To determine whether there is a significant relationship between organization of work and organizational performance, mediated by the company's policy on innovation in SMEs in the Klang Valley

1.4 Research Questions

This study aims to investigate the relationship between HR practices and the organizational performance, mediated by company's policy on innovation in SMEs in the Klang Valley which may give them a competitive advantage. Up to the present day, there have been few scholars who have examined the relationship between human resource management and organizational performance in the manufacturing sector in SMEs in Malaysia (Saleh & Ndubisi, 2006). Without the vital contribution of human resources, there would not have been any product or service innovation and process innovation in the existing practices by SMEs in Malaysia.

With this premise in mind, the researcher has carried out a research study to address the following research questions:

1. What the HR practices which has the most significant effect on organizational performance in SMEs in the Klang Valley?
2. Is there a significant relationship between incentive compensation; training and organizational performance, mediated by the company's policy on innovation in SMEs in the Klang Valley?
3. Is there a significant relationship between selective hiring; performance evaluation and organizational performance in SMEs in the Klang Valley?
4. Is there a positive relationship between sharing information; job security; social activities and sports and organizational performance in SMEs in the Klang Valley?
5. Is there a significant relationship between organization of work and organizational performance, mediated by the company's policy on innovation in SMEs in the Klang Valley?

1.5 Limitation of the Study

The scope of the research study was limited to 100 out of 548,267 SMEs registered in the country. The population was located in the Klang Valley. Hence, the findings and conclusions drawn from this study is only representative of SMEs in the Klang Valley in Malaysia. Also, the available studies do not encompass all human resource practices. In 2000, MIDA has conducted a study on the manufacturing sector to investigate the relationship between HR practices and organizational performance. Though this study covers both manufacturing and non-manufacturing, the population was limited to Klang Valley only.

1.6 Scope of the Study

This study concentrates on the relationship between human resource practices and organizational performance, mediated by the company's policy on innovation in SMEs in the Klang Valley. SMEs in Malaysia have contributed significantly to the nation's gross domestic products (GDP) and employment opportunities (SME Annual Report, 2009/2010).

1.7 Organization of this Study

This study is divided into five chapters. Chapter 1 provides the introduction, purpose and significance of the study, research questions, research objectives, scope of the study, organization of the study and the conclusion for this study i.e. factors influencing human resource practices, company's policy on innovation towards organizational performance in SMEs in Klang Valley. Chapter 2 of this study gives the literature review on the theme specifically targeting on the factors that impact on SMEs in Malaysia by the use of the three major variables such as human resource practices (independent variables, IVs); company's policy on innovation (mediator variable, MV) and organizational performance (dependent variable, DV) as the theoretical conceptual framework (see Figure 1). Chapter 3 outlines the research methodology, the development of hypotheses, the selection of the measurement scales, the sampling design, the data collection procedure and the data analysis techniques used in this study. All the results and findings of the statistical analyses are presented and interpreted in Chapter 4. Finally, Chapter 5 presents the conclusion and recommendations for this study including the limitations of the study, implications and some suggestions for future research.

Conceptual Framework

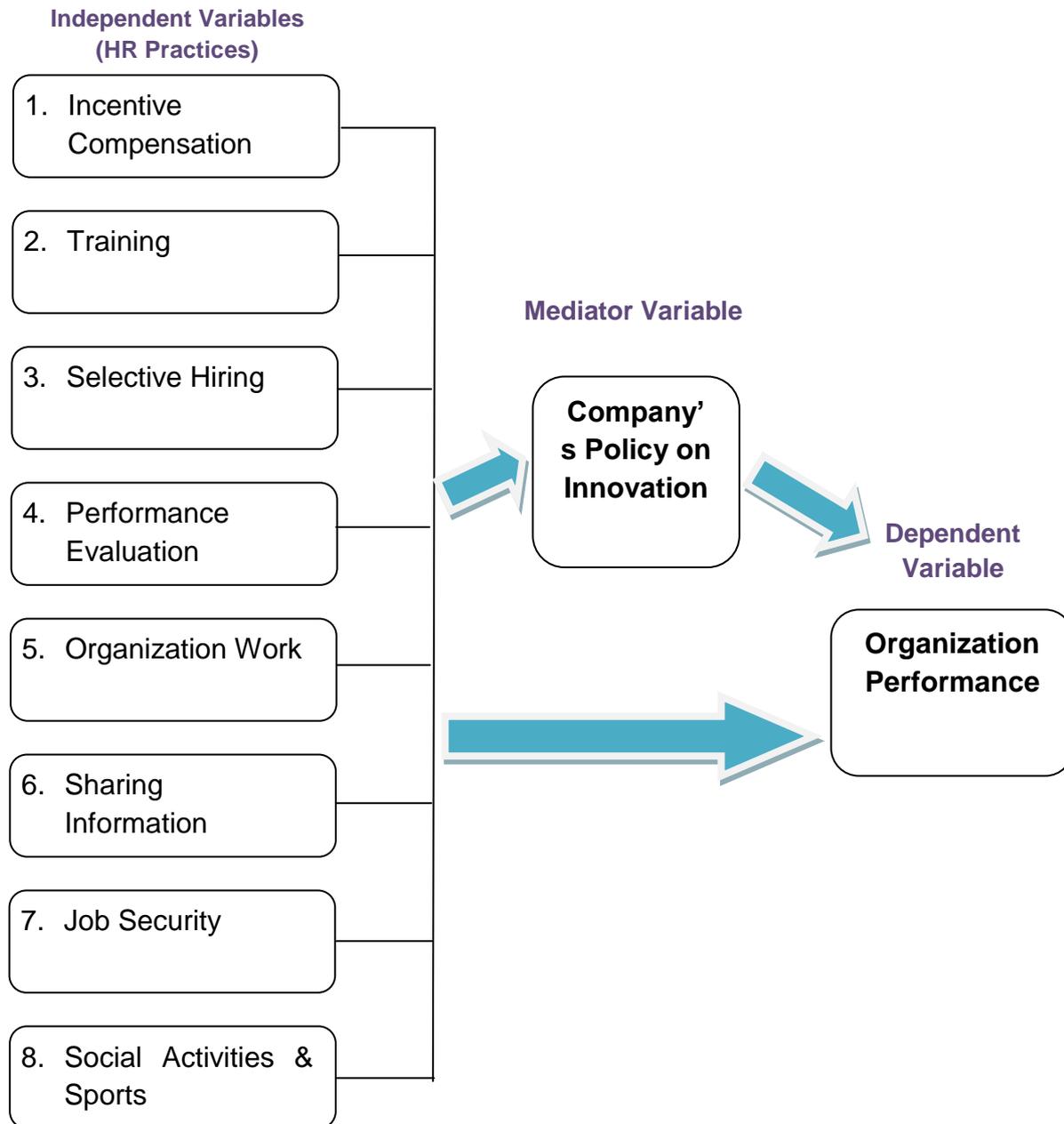


Fig. 1 Conceptual Framework on the relationship of HR practices and company's policy on innovation towards organizational performance

(Adapted from secondary sources derived from a previous research study done by Zhu, 2010)

1.8 Conclusion

This chapter discusses the introduction of the study, the purpose and significance of the study, the research questions, the research objectives, the scope of the research and the organization of the study. The next chapter, Chapter 2 will discuss the literature review on human resource practices that can have any significant relationship with the company's policy on innovation and the resultant overall organizational performance.