



The Relationship between Human Resource Management and Firm Performance in Malaysia

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Abstract

Drawing upon resource based theory which explains human capital as the key resource for the firms' development, this paper hypothesized that the human resource management (HRM) was anchored on firm performance. HRM were conceptualized as 4- and unidimensional constructs, respectively. The main thrust of the paper is to assess the impact of HRM on firm performance. The research uses a sample of 85 firms surveyed in Sarawak, Malaysia. The findings suggested that incentives and information technology are positively related the firms' performance. Implications of the findings, potential limitations of the study, and directions for future research were further discussed.

Keywords: Firm performance, Training, Incentives, Performance appraisal, Information technology

1. Introduction

Human resource management faces challenges of bringing better fitted workers into the organizations and meeting the workers' needs and expectations. Thus, there is a compelling demand to develop better ideas, strategies to improve the interface between employees and employers, and to elaborate comprehensive insight that can help human resource managers get better results and improved performance (Vigoda & Cohen, 2003). The relationship between human resource management (HRM) and firm performance has received extensive considerable attention from researchers in recent years (e.g., Li, Zhao, & Liu, 2006; Sanchez, Jimenez, Carnicer, & Perez, 2007; Lin & Chen, 2007).

A vast amount of research has proved the positive relationship between HRM and firms' performances in terms of sales revenue, profitability, net asset ROI, and market share (Huselid, 1995; Schuler & Jackson, 1987; Hill & Rothaermel, 2003). However, limited researches on HRM have been observed to empirically examine its impact on the firms' performance. Hence, this study will add to the growing body of research by linking HRM to firms' performance and expands the domain of this relationship. Considering the potential cascading effect that employees' power could have on firms' performance, previous researches may have underestimated the impact of HRM on firms' performance.

HRM and firm performance have become the foundation of a new era of managing a diversified workforce in the advent of globalised world. Sarawak, a state located in East Malaysia, has gone through rapid transformation from primary sector such as agriculture and mining to a highly skilled manufacturing sector in the 1990s. Thus, understanding the relationship between HRM and firm performance would serve as a platform for companies' managers, to assist them in achieving better performance. Hence the main purpose of this study is to investigate whether certain components of HRM such as training, incentives, performance appraisal and information technology influence

firms' performance. This study assumes that answers to such questions would have relevant implications for the business growth and further enhance a firms' market value.

2. Theoretical Background

2.1 Firms Performance

Performance can be viewed in many aspects and connotations depend on the application. Derek, Torrington and Laura (1995) attributed performance as bottom line profit, doing better than competitors, maximum organization effectiveness and achieving specific organization objectives. In fact, Laitinen (2002) defined performance as the ability of an object to produce results in a dimension determined a priori, in relations to a target. Recent study conducted by Cho and Punick (2005) have confirmed that top managers increasingly relate quality to firm performance and hence it has been viewed as one of the important key variables in achieving long-term competitive advantage. This is further supported by Yun and Good (2007) that loyalty is positively related to the company's profitability and the long-term growth. Indeed, renowned researcher posted there is something about the way that decisions were made in successful organizations that shows the seeds of eventual failure (Christiansen, 1997).

2.2 Employee Training and Firm Performance

HRM is known as the central business concern, as matters related to policies, practices, and systems that shape employees' behavior, attitudes, and performance will be referred to (Noe, Hollenbeck, Gerhart & Wright, 2000). One important role that HRM plays is training. Training is a planned and systematic effort to modify and develop knowledge, skill, competency and attitude toward learning experience to achieve effective performance through work productivity (Buckley & Caple, 2004). Past researchers such as Drummond (2000) revealed that training provides adequate criteria to an individual to perform better in a given task and subsequently contributes to the firm performance (Rothwell & Sullivan, 1994). However, Drucker (1995) commented that training is an expensive way of attempting to enhance human productivity.

On the other hand, Robert, Alan, Compton and McCarthy (1999) were of the opinion that effective training would not only equip employee with most of the knowledge and skills needed to accomplish jobs, it would also help to achieve overall organization objectives by contributing to the satisfaction and productivity of employee. Therefore, we state the following hypothesis:

H1: Employee training will be positively correlated to firms' performance.

2.3 Employee Motivation and Firm Performance

Theorist such as Harsanyi (1969) indicated that people's behavior can largely be categorized into two components: economic gain and social acceptance. These two dominant interests have actually created incentive for the firms' employees. Incentive pays are part of a complex arrangement to express and to maintain the working relationship between the employers and employee. It demonstrates not only what the management is trying to achieve but in circumstances which contributed to the overall firms' performance (Lupton & Bowey, 1975). Rajkumar (2004) posited that the concept of incentives practiced by organizations like stock options and bonuses particularly should help to reinforce employee productivity.

Research by Armstrong (2001) linked incentives to the achievement of previously set targets which are designed to motivate people to be more productive to achieve high level of firm performance. In this further supported by Ian, Jim and Haper (2004) who noted that incentives should be incorporated to organization strategies as seen as a technique which organization can apply in order to achieve higher productivity in accordance with goals. In view of the above, the following hypothesis was proposed.

H2: The more emphasis on employees' incentives, the most possibility of better firms' performance.

2.4 Information Technology and Firm Performance

Technological innovation was found to have strong impact and influence on firm performance (Nohria & Gulati, 1996). Hitt, Hoskisson, and Kim (1997) further elucidated that the technology capabilities of the firms has vital influence on long-term performance of the firms. In addition, Dave and Wayne (2005) concluded that human resources regularly find new application of technology to improve their efficiency and their effectiveness in an effort to influence firm performance.

Nonetheless, past researchers (McLoughlin & Harris, 1997) found out that technology account on business is minimal as many firms which incorporated technology to do transaction work, surprisingly, has a relatively low impact on performance. As stated by Mumford (2000), if firms emphasize too much on outcomes, they will tend to develop low-level technological innovation in order to avoid high uncertainty. Hence, we offer the following hypothesis.

H3: Information technology will be positively correlated to firms' performance.

2.5 Performance Appraisal and Firm Performance

Comprehensive performance appraisal system form basis yardstick for assessing individual's performance, highlight

potential for future career advancement, most importantly, to improve the performance (Mullins, 2002). Lecky (1999) defined performance appraisal system as a benchmark which is set against specific task performance, define and evaluating current performance. It requires the input and output where criteria like remuneration, pay rise, level of expectation, promotion and managerial planning. In addition, it is a merit rating which should be benefit to both parties and must be constantly reviewed to suit the requirement. The system explicitly mentioned the individual's needs and thus has far reaching effect of improving productivity. Dave and Wayne (2005) argued that performance appraisal is an instrument whereby an individual was retaliated by the assessment due to certain personal disgruntled, and it has adversely affected future performance. Hence, the following hypothesis has been stated.

H4: Performance appraisal will be positively correlated to firms' performance.

3. Methodology

3.1 Sample

With an aim to generalize on firms in Sarawak, the population of the present study consists of manufacturing companies located in Sarawak, East Malaysia. Currently, the manufacturing sector is considered as one of the cornerstone of Malaysia's economic diversification strategy. Two hundred sets of questionnaires were distributed to executives working at manufacturing companies in Sarawak, however only 85 copies of questionnaires were usable for analysis.

3.2 Measures

The questionnaire used in this study consists of three parts. Section 1 required the respondents to rate a total of 20 items on the four components of HRM namely, training, incentives, information technology, and performance appraisal which were extracted from past researches such as Snell and Lau (1994), Kuratko, Hornsby, and Naffziger (1997), and Zahra, Neubaum, and Huse (2000). Section 2 contained 5 items of questions pertaining to firm performance based on the research of Daily and Johnson (1997). Finally Section 3 contains items regarding the demographic of the respondents such as gender, age, education background, working experiences, monthly gross salary, etc. The respondents were asked to describe on a 7-point Likert scale with: 7 = *strongly agree*, 6 = *agree*, 5 = *slightly agree*, 4 = *neutral*, 3 = *slightly disagree*, 2 = *disagree*, and 1 = *strongly disagree*.

4. Findings

The Cronbach's coefficients alphas for HRM factors ranged from .75 to .80, respectively. The firm performance retained all the 5 items which accounted for its Cronbach's coefficients alpha of .83. Generally, the values indicated good internal consistency estimate of reliability of the grouped items for both factors. The findings of the reliability analysis are summarized in Table 2.

Table 3 illustrated the intercorrelations among the subscales were obtained from the Pearson Correlations Matrix to determine whether the subscales were independent measure of the same concept. Generally, the values indicating intercorrelations among the predictors variables were low, ranging from .29 to .46 ($p < .01$), thus indicating the independence of the scales used for measuring the predictors. In addition to that, a number of the predictor variables were noted to be significantly correlated to the criterion variables ranging from .35 to .52, which were considered as low intercorrelation values.

Multiple regression analysis was carried out to test the hypotheses that comprised the direct effects of HRM on firm performance. Table 4 presents the results of the analyses.

In analyzing firm performance, the main effect of the predictors explained a total of 40.4% of the variability in firm performance. Two dimensions in HRM, namely incentives and information technology were found to be significantly predictive of the firm performance at .35 ($p < .01$) and .23 ($p < .05$), respectively.

A confirmatory factor analysis (CFA) with AMOS 6.0 was conducted to test the four-dimensional structure of HRM-firm performance. As shown in table 5, the results has clearly indicated that only two dimensions of HRM were found to have significant impact on firm performance.

5. Discussion and Conclusion

A number of researchers have revealed that there is significant relationship develops between HRM and firm performance (Huselid, 1995; Li, Zhao, & Liu, 2007; Schuler & Jackson, 1987) and this is also confirmed by resource-base theory. In this particular study, the outcomes of the analysis indicated that two dimensions of HRM have significant relationship with firm performance based on the data sample covering manufacturing companies in Sarawak.

As hypothesized, incentives were found to have a statistical significant relationship with firm performance. The result is not surprising in view of the fact that incentives are a vital part of remuneration which practically influenced a firm's performance.. This is also consistent with the research findings by Ian et al. (2004) and Nelson (1994) that it is inevitable that incentive rewards is a technique which must be applied in forming organizational strategy if companies strive to achieve better performances.

On the other hand, information technology is also found to be instrumental in achieving better firm performance. As commented by Dave and Wayne (2005), information technology was not taken lightly by global firms nowadays. In the same vein, Sorge et al. (1995) had discovered unbreakable link between information technology and firm performance. They concluded that the advent of technology has indeed helping many of the firm to turnaround in the aspect of performance. As stated by Preece (2000) and concurred by other researchers (e.g., Abernathy & Utterback, 1978; foster, 1986; Hill & Rothaermel, 2003) information technology increases effectiveness and outputs by cutting short transaction time for tasks.

Interestingly, the findings have demonstrated that employee training and performance appraisal did not correlate with better firm performance. The results contradicted with the study by Mullin (2002) that training is the key element in influencing the performance of a firm. This could probably due to the fact that manufacturing companies do not pay much attention on employees trainings and appraisal as much as the high-technology firms which need broader expertise and knowledge in technology innovation (Mumford, 2000).

The study has proven where the strong positive correlation values for HRM determinants such as incentives and information technology with firm performance. This denotes that, employees value incentives and technology information more importantly than trainings or appraisals given by the companies. These findings were consistent with previous research results that allowance of self-growth and independence in the workplace can enhance performances of companies (Dudeck & Hall, 1991; Gruber, 1996; Mumford, 2000).

6. Limitation and Implication

The major limitations of this study revolve around sampling issues as the small sample size reported here may have affected the current results. However, the small sample size coupled with the significant results reported does suggest that the current findings are found to be reliable. Secondly, it could be conceivable that issues related to organizational climate might have affected some of the relations studied. Clearly, a longitudinal approach would have placed researcher in a better position to draw causal conclusions. Therefore, only conclusions or discussions of the general relationships between the variables of interest could be drawn.

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Table 1. Demographic Profile of the Respondents

Demographic Characteristics		Frequency	Percentage
Age	<20	3	3.5
	21-30	20	23.5
	31-40	39	45.9
	41-50	14	16.5
	Above 50	9	10.6
Gender	Male	40	47.1
	Female	45	52.9
Race	Malay	20	23.5
	Chinese	49	57.6
	Indian	0	0
	Others	16	18.8
Supervisor Gender	Male	50	58.8
	Female	35	41.2
Year with present organization	<10	36	42.4
	11 to 20	27	31.8
	21 to 30	15	17.6
	31 to 40	7	8.2
Position in the company	Clerical	28	32.9
	Lower level of management	20	23.5
	Middle level of management	26	30.6
	Top level of management	5	5.9
	Others	6	7.1
Sector	Consumer products	17	20
	Industrial products	21	24.7
	Construction	9	10.6
	Trading or services	29	34.1
	Others	9	10.6

Table 2. Results of Reliability Analysis

Variables	Cronbach's alpha
HRM factors	
Employee training	.75
Incentives	.78
Information technology	.86
Performance appraisal	.92
Firm performance	
	.83

Note. $N = 85$

Table 3. Pearson Correlations for HRM and Firm Performance Measures

Variables	1	2	3	4	5
Incentive	1.00				
Information technology	.31**	1.00			
Training	.44**	.34**	1.00		
Performance appraisal	.20*	.46**	.29**	1.00	
Firm performance	.52**	.45**	.44**	.35**	1.00

Note. $N = 85$ * $p < .05$, ** $p < .01$.

Table 4. Regression Results: The Relationship between HRM Factors and Firm Performance

Independent Variable	Std Beta
Model Variables	
Incentives	.350**
Information Technology	.225*
Employee Training	.172
Performance Appraisal	.127
R ²	.404
Adj R ²	.380
R ² Change	.404
F Value	17.09**

* $p < 0.05$, ** $p < 0.01$

Table 5. Results of the testing of the Hypotheses

			Estimate	S.E.	C.R.	P
H1	firmPer	<--- training	.166	.084	1.970	.049
H2	firmPer	<--- Incentive	.507	.124	4.099	***
H3	firmPer	<--- info	.233	.092	2.525	.012
H4	firmPer	<--- appraisal	.104	.070	1.474	.141

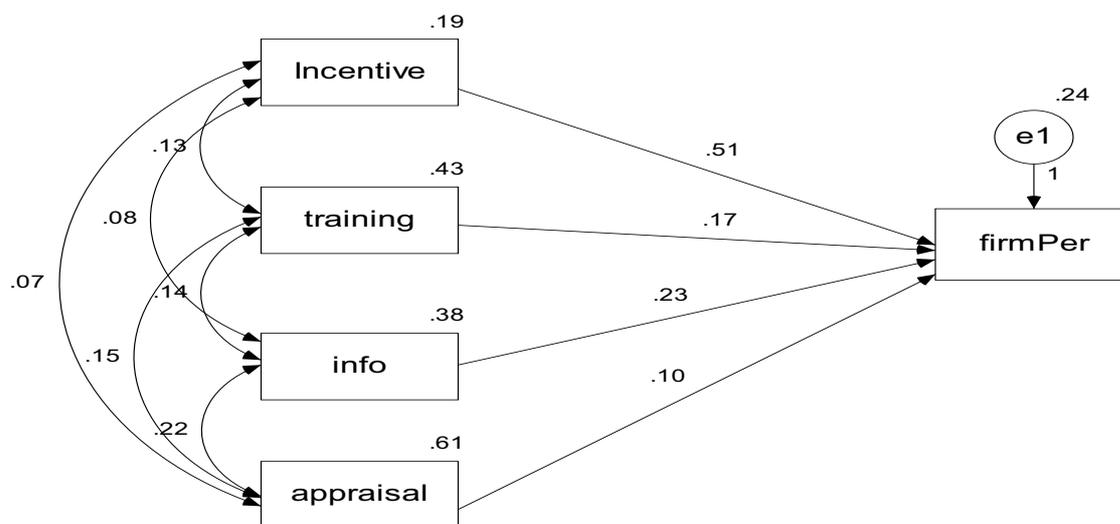


Figure 1. Hypothesized model of HRM and Firm Performance