

Linking Human Resource Practices and Organisational Performance: Evidence from Small and Medium Organisations in Malaysia

*(Mengaitkan Amalan Sumber Manusia dengan Prestasi Organisasi:
Bukti daripada Organisasi Kecil dan Sederhana di Malaysia)*

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ABSTRACT

The present study attempts to provide empirical evidence on the relationship between the four main dimensions of human resource practices and organisational performance, in response to the call by previous scholars that the influence of specific human resource practices on organisational performance need to be further ascertained across different organisational contexts. The dimensions considered in the study are compensation, information sharing, job security and training and development. Toward this end, a survey among 84 small and medium organisations in the central region of Peninsular Malaysia was carried out. Self-reported measures were used to obtain data pertaining to human resource practice dimensions and organisational performance. Regression analyses were run to examine the proposed relationships and it was found that all dimensions except job security showed positive relationships to organisational performance, as hypothesized. Discussion on the findings is highlighted, so as the implications for practice and future research. Limitations of the study are also offered.

ABSTRAK

Kajian ini bertujuan untuk memberikan bukti empirikal tentang hubungan antara empat dimensi amalan pengurusan sumber manusia dan prestasi organisasi, sebagai respons kepada sarjana terdahulu yang mengesyorkan bahawa pengaruh amalan pengurusan sumber manusia yang khusus terhadap prestasi organisasi perlu dikaji dalam konteks organisasi yang berbeza. Dimensi yang diambil kira dalam kajian ini ialah pampasan, perkongsian maklumat, jaminan kerja, dan latihan dan pengembangan. Bagi mencapai tujuan kajian, satu tinjauan dalam kalangan 84 organisasi kecil dan sederhana di bahagian tengah Semenanjung Malaysia telah dijalankan. Ukuran laporan sendiri telah digunakan untuk mendapatkan data tentang dimensi pengurusan sumber manusia dan prestasi organisasi. Analisis regresi telah dilakukan untuk meneliti hubungan yang dicadangkan dan didapati bahawa semua dimensi pengurusan sumber manusia menunjukkan hubungan yang positif dengan prestasi organisasi, seperti yang dijangkakan, kecuali jaminan kerja. Perbincangan tentang dapatan kajian dipersembahkan, begitu juga implikasi terhadap praktis dan kajian akan datang. Limitasi kajian juga ada dibincangkan.

INTRODUCTION

The most valuable asset that an organisation can possess is its human resources (Pfeffer 1998; Wimbush 2005). This is because what each and every employee brings to the organisation is not easily imitated and is rather unique. Consequently, human resources in the organisation can vitally contribute to the success (or failure) of the organisation. The critical contribution of human resources to organisational performance has been recognized to the extent that it has become one of the key research areas in the field of human resource management (Becker & Gerhart 1996; Guest 1997).

Western based studies have revealed that human resource practices can enhance organisational performance (Delaney & Huselid 1996; Delery & Dot 1996; Huseli 1995; Ichniowski, Sha & Prennush 1997; MacDuffi 1995; Ramsay, Scholario & Harle 2000; Youndt, Snell, Dea & Lepa 1996). Although previous empirical examinations have indicated

that some human resource practices yield positive association with organisational performance, researchers in the field of human resource management suggest that more future empirical investigations need to be carried out to ascertain and validate these findings (Brewste 2004; Cardon & Steven 2004; Givord & Mauri 2004; Zhu 2004). This is important consideration as human resource practices are found to vary across countries (Bae, Che & Lawle 1998) and these variations are postulated to be attributed to cultural values a country possesses (Ngo, Turban, Lau & Lui 1998), and also to organisational size (Heneman, Tansk & Camp 2000). Despite the fact that the postulated contextual influence has ignited a large number of scientific inquiries on the impact of human resource practices on organisational performance in various non-Western settings such as Hong Kong (Ngo *et al.* 1998), Israel (Harel & Tzafirir 1999), Korea (Bae & Lawler 2000), Russia (Fey & Bjorkman 2001), Taiwan (Chang & Chen 2002), New Zealand (Guthrie, Spell & Nyamori 2002), and

Vietnam (Thang & Quang 2005), many of these previous works were conducted in large organisations; scant attention has been given to examine the effects of HR practices on small and medium organisations (Heneman *et al.* 2000). Similarly in the local scenario numerous studies have focused on the impact of human resource practices on organisational performance (Rowley & Abdul-Rahman 2007; Tan 2008; Wan 2008). However the focus was on larger organisations. In other instances, Malaysian studies conducted on small and medium organisations did not focus on the impact of human resource practices (Aziz & Yassin 2010; Chelliah, Sulaiman & Yusoff 2010; Rahman & Tannock 2005). Heneman *et al.* (2000) argue further that lack of information on small and medium organisations can hinder the development of a critical sound theory that takes into account circumstances such as organisational size and structure. Furthermore, given that many theories in HR are developed with large organisations in mind, to what extent these theories can be applied to small and medium organisations remain elusive. Indeed, in reviewing

the literature on human resource management practices in small and medium organisations, Cardon and Stevens (2004) revealed that our understanding of the HR issues important to small and emerging firms is limited.

Taking into consideration the observed differences in human resource practices between employers of varying size (e.g. Deshpande & Golhar 1994), and given the gaps identified in the literature, a study to examine the relationship of the specific dimensions of human resource practices on organisational performance in small and medium organisations was carried out. By doing so, the present study hopes to contribute to understanding of human resource practices in small and medium business organisations and contribute to the emerging non-Western literature on the organisational level impact of human resource practices. In addition, it attempted to test the usefulness of resource-based theory, as the underlying theory, in explaining human resource practices in this context. The conceptual framework for the research is presented in Figure 1.



FIGURE 1. Conceptual framework of the study

THEORETICAL BACKGROUND AND HYPOTHESIS

At the theoretical level, resource-based view of the organisation postulates that superior organisational performance is the result of the characteristic mix of human resource practices (Barney 1991; Wright, Dunford & Snell 2001; Voss, Tsikriktsis, Funk, Yarrow & Owen 2005). In a similar vein, some scholars view human resource practices as a system where a set of interrelated practices used in combination can contribute to organisational performance (e.g. Lado & Wilson 1994; Wright *et al.* 2001). Previous attempts adopting this systemic view have shown a positive relationship between systems of human resource practices and various indicators of organisational performance (Huselid 1995; MacDuffie 1995). Under the systemic view, studies have either examined predetermined combinations of human resource practices or developed and empirically verified key dimensions of human resource practices by factor analysis (Becker & Huselid 1998). According to Thang and Quang (2005), the latter approach is more appropriate as it examines the variations in human resource practice dimensions due to contextual influences. The present examination has identified the human resource practice dimensions from the literature and conducted an exploratory factor analysis to validate the dimensions in small and medium organisations in Malaysia.

DIMENSIONS OF HUMAN RESOURCE PRACTICES AND ORGANIZATIONAL PERFORMANCE

Numerous empirical examinations have been carried out to understand the effect of human resource practices on organisational performance. Although there is a long list of human resource practices that can influence either directly or indirectly organisational performance, results are hard to interpret. A growing number of empirical examinations have confirmed that not every human resource practice can impact on organisational performance or organisational sustainability (Ahmad & Schroede 2003; Barringer, Jones & Neubaum 2005; Cardon & Stevens 2004; Givord & Maurin 2004; Guest 1997). Therefore, later researches began to isolate a few human resource practices. Thus, for the purpose of examining the influence of human resource practices on organisational performance in the Malaysian context, the researchers have chosen to examine human resource practices proposed by Pfeffer (1998) and adapted by Vlachos (2008), which, are expected to influence organisational performance. The six HRM practices are (1) compensation policy; (2) decentralisation and self-managed teams; (3) information sharing; (4) selective hiring; (5) training and development; and (6) job security.

Small and medium enterprises (SMEs) are a good research context to replicate Pfeffer and Vlachos's model for various reasons. Firstly, because of organisational size, SMEs are generally said not to have sophisticated people

management approaches (Kamam, McCarthy, Gulbro & Tucker 2001; Kotey & Slade 2005). As a result, it raises pertinent issues of whether Pfeffer's model can be "fully" applied to such context. For example, because in SMEs, the owner tends to be the general manager, it is likely that decentralisation of decision making is not widely practiced; major decisions tend to be located at the hands of the owner/manager him/herself (e.g. Yusuff, Chek & Hashmi 2005). With regards to reduced status distinctions and barriers, such practice may not also be likely to happen in SMEs because there is an obvious and clear hierarchical difference between the owner and the employees in that the former tends to primarily oversee the whole business operations whereas the employees tend to take a more complementary role. Secondly, limited studies that attempt to examine human resource management practices are scarce, and many of these empirical studies were carried out within the western context. Relatively little is known about the impact of human resource practices in Asian countries (e.g. Bae *et al.* 1998; Bae & Lawler 2000; Thang & Quang 2005), and this is especially so in relation to Malaysia (e.g. Rowden & Ahmad 2000). Thirdly, given the significance of SMEs in the development of a country, understanding of how human resource practices can facilitate SMEs' effectiveness in the global economy becomes imperative (Heneman *et al.* 2000).

As mentioned earlier, the present study attempts to replicate Pfeffer's (1998) and Vlachos's (2008) model in the context of SMEs. But because SMEs are said to have simple people management approaches, the present study only concentrates on four human resource practices: (1) compensation policy, (2) information sharing, (3) job security and (4) training and development because these are basic human resource management practices that are generally given more consideration by the SMEs. For example, job security is an important issue in SMEs because, according to Teo and Poon (1994), many people perceive that SMEs tends to offer little job security and therefore they use these organisations as a stepping stone to enhance their career development. Compensation also seems to be an issue because SMEs are claimed to often lag behind in offering attractive compensation packages (Moy & Lee 2002; Teo & Poon 1994). Because the four dimensions of human resource management practices seem to be characteristic of SMEs, to what extent they are able to affect the organisational performance needs to be examined. The following sections will develop hypotheses concerning the stated dimensions.

COMPENSATION POLICY

Compensation is one of the dominant human resource practices that organisations use to reward employee positive behaviour (Collins & Clark 2003). Reviews by Brown, Sturman and Simmering (2003) and Cardon and Stevens (2004) indicate support for the notion that compensation has an impact on both employee and organisational performance. Expectancy theory posits that

compensation influences employee performance because when employees expect to receive favourable reward after accomplishing their job well (Ngo *et al.* 1998). Studies that empirically examine the relationship between compensation and organisational performance have found positive relationships. For example, Barringer *et al.* (2005) conducted a study among 50 rapid-growth organisations and compared them with a group of 50 slow-growth organisations. Results of the study indicate that the introduction of employee incentives in terms of financial incentives and stock option differentiated the rapid growth from the slow-growth organisations. Organisations eager to achieve rapid-growth provided their employees with these incentives and in doing so managed to elicit high levels of performance from employees. This is because the employees felt that they have an ownership interest in the organisation. Similarly, in another study by Fey, Bjorkman and Pavlovskaya (2000) among foreign organisations operating in Russia, it was revealed that salary level was significantly associated with organisational performance. On the same note, Ngo *et al.* (1998) in their study supported that retention-oriented compensation was related to various measures of organisational performance. Relevant to the sample of the study, the study by Cardon and Stevens (2004) emphasized that compensation is particularly important for small organisations because it would affect recruiting and retention activities. This was further supported by Cho, Woods, Jang and Erdem (2006) who found that incentive plans effectively decreased staff turnover rates. In addition, Banker, Lee, Potter, and Srinivasan (2001) through a longitudinal study on the effectiveness of incentive plans in the hotel industry found incentive plans to be related to performance (increased revenues, increased profits and decreased cost). In a similar vein, in a study by Paul and Anantharaman (2003) it was found that compensation and incentives directly influence operational performance.

In the context of SMEs, compensation is a particularly important topic because often compensation significantly affects recruiting and retention efforts of small firms; if they cannot pay applicants enough, then they cannot recruit or retain critical skills or knowledge they need to operate effectively (Cardon & Stevens 2004). Therefore, based on the above discussion, this study proposes the following hypothesis:

Hypothesis 1: Compensation policy is positively related to organisational performance in small and medium business organisations.

INFORMATION SHARING

Information sharing affects organisational performance in two ways: firstly it conveys the element of trust the organisation has on employees, and secondly it allows them to have access to information required in crucial decision making situations. According to Chow, Harrison, McKinnon, and Wu (1999), employees perceive that they are good at their work when no feedback is received

(information sharing) when in actual fact they may not be performing well. It is also noticed that information sharing leads to organisational transparency, which results in reduced turnover (Ahmad & Schroeder 2003). In addition, information sharing is also argued to forge synergistic working relationship among employees (Nonaka 1994). In these two instances reduced turnover and synergistic working relationship lead to organisational performance. Studies that empirically examine the relationship between information sharing and organisational performance have found positive relationships. For instance, Morishima (1991) conducted a study among Japanese consultation committees and found a positive relationship between information sharing and organisational performance in terms of productivity and profitability. Similarly in an effort to understand how human resource strategy affects profit, Roberts (1995) found that sharing of information was associated with increased profitability.

In their theoretical paper, Ngah and Jusoff (2009) argue that information sharing activities or knowledge sharing activities in SMEs are important because they will help SMEs to be creative and innovative thus enhancing their performance. Therefore, in this study it is proposed that:

Hypothesis 2: Information sharing is positively related to organisational performance in small and medium business organisations.

JOB SECURITY

Job security instils a climate of confidence among employees and this is manifested through higher organisational commitment. It requires a certain degree of reciprocity where company must clearly indicate to employees that their employment is safe. According to Pfeffer (1998), when organisations learn that job security contributes to its performance, investments in job security continue. Empirical studies have proven that companies that provide job security to their employees perform better. For example, Ahmad and Schroeder (2003), and Pfeffer (1998) found that job security had an impact on operational performance; however the effect was indirect through organisational commitment. Meanwhile in another study in the US banking sector, Delery and Doty (1996) found some support for a positive relationship between job security and organisational performance. Similarly, Fey *et al.* (2000) investigated the influence of job security on organisational performance foreign organisations operating in Russia. The study revealed that there was a positive relationship between job security and organisational performance. In addition job security was the most important predictor of organisational performance as perceived by non-managerial employees.

Studies that looked at career choice of graduates found that many graduates seemed to prefer to work with large corporations to SMEs because the latter are perceived to have financial constraints and hence not able offer job security (Moy & Lee 2002). However, many scholars have also indicated that SMEs have their own strengths such as

they can allow employees to take up more job responsibilities and participate in decision making process (e.g. Ahmadi & Helms 1997; Teoh & Poon 1994). Studies have found that employees who are given opportunities to participate in their work perform better towards organisational goals (e.g. Rotenberry & Moberg 2007). Hence, it is therefore proposed that:

Hypothesis 3: Job security is positively related to organisational performance in small and medium business organisations.

TRAINING AND DEVELOPMENT

Organisational performance may benefit from training and development in several ways. For example, according to Huselid (1995), training increases employee knowledge, skills and abilities, and this in turn increases productivity as well as reduce turnover. Secondly, training compensates the cost and risk of external recruitment and selection which would result in increased productivity and reduced turnover. Similar to job security, training and development requires a certain degree of reciprocity. An organisation that systematically trains and develops its employees conveys a signal to the employees that they are worthy resources to the organisation. Consequently, they will be more inclined to increase their productivity, commitment and decrease their likelihood to leave the organisation. Studies that empirically examined the relationship between training and development and organisational performance have found positive results. For instance, Huselid (1995) demonstrated that education and development of employees has a significant effect on organisational performance. Ngo *et al.* (1998) conducted a study to investigate the effects of country origins on human resource practices of organisations from the United States, Great Britain, Hong Kong and Japan operating in Hong Kong. They found that training and development is related to various measures of organisational performance. On a similar note, Barringer *et al.* (2005) revealed that organisational growth depends on the abilities and efforts of their employees. In addition, the usage of training programs helps achieve organisational objectives. In a study among middle-sized companies in UK, Storey (2002) proposed that it is necessary to include the element of education, training and development in order to enhance the organisational performance.

In the context of SMEs, training and development of employees are generally conducted in an on-going basis because of the lack of resources they possess (for further reading, see Cardon & Stevens 2004). Nonetheless, studies that have been carried out in examining training activities in SMEs suggest that training is important because of its impact on individual worker productivity (e.g. Guzzo, Jette & Katzell 1985), and hence organisational performance. Thus, based on the above arguments, the following hypothesis is offered:

Hypothesis 4: Training and development will be positively related to organisational performance in small and medium business organisations.

METHODOLOGY

PARTICIPANTS AND RESEARCH PROCEDURE

To achieve the research objective, a survey was carried out amongst small and medium organisations in the central region of Malaysia only because this is economic heart of the country. According to Chelliah, Sulaiman, and Yusoff (2010), small and medium enterprises (SMEs) are usually defined by socioeconomic development of each country. For example, in the US, Cavusgil, Knight and Riesenberger (2008) defined SMEs as a company with 500 or fewer employees while in Taiwan SMEs it is 650 employees or less (Lin & Chane 2007). However, in Malaysia the criteria used to define SMEs are determined by government agencies related to SMEs in Malaysia. For example, a firm with less than 50 full-time employees and with an annual turnover of not more than RM10 million is known as small enterprise, while, a firm with 51 to 150 employees and with an annual turnover of between RM10 million and RM25 million is known as a medium sized enterprise. In an effort to standardize these definitions, Hashim and Abdullah (2000) listed four main criteria: firstly, the firm needs to be actively managed by its owners, or in another words, "owner-managed and family business;" secondly, the management style is highly personalized (i.e. with an owner's preferred management style); it is largely local in its area of operation, and finally the organisation is largely dependent on internal sources of capital to finance its growth. According to Hashim and Abdullah (2000), these qualitative characteristics help to establish the entrepreneurial orientation that reflects the general ownership profile of SMEs in Malaysia. In the present study the SMEs included have met the above criteria to be included as the sample.

Before the present study was carried out, prior permission from the respective organisations randomly identified was asked. In the end, only 200 organisations were willing to participate in the study. Subsequently, structured questionnaires were sent out to these organisations namely to human resource managers and, in some instances, the owner or proprietor of the organisation. The questionnaire was pilot tested with randomly selected organisations first before final distribution and several changes were incorporated based on the feedback received. The participants were given two weeks to respond to the questionnaire and a follow-up call was made to remind them about completing the questionnaire and returning it to the researchers. After two weeks were over, only 84 questionnaires were returned and used for analysis, representing 42% response rate.

Because a full response rate was not achieved, it is important at this point to ascertain whether there is any significant difference between those who responded and those who did not respond to the questionnaires. Nonresponse bias, which arises when the characteristics of the respondents are systematically different from the characteristics of non-respondents, is a primary concern when mail surveys are utilised as a data collection technique (Hudson, Seah, Hite & Haab 2004). To ensure that the respondents were comparable to non-respondents, analyses of variances were conducted between these groups. The non-response bias was examined by comparing the early respondents with the late respondents, as recommended by Armstrong and Overton (1977). The present study found no significant differences between number of employees, type of industry, and ownership.

Table 1 provides the information about the number of employees, type of industries, ownership, and age of the organisation in the small and medium organisations. Table 1 show that almost half of the surveyed SMEs employ more than 100 but less than 150 employees. Slightly more than half of them (58%) are involved in services. The majority of them are not a family business enterprise and

TABLE 1. Description of responding organisations

	N	Percentage
<i>Number of Employees</i>		
Less than 50	22	26
51-100	24	29
101-150	38	45
<i>Type of Industry</i>		
Manufacturing	6	7
Service	49	58
Others	29	35
<i>Ownership</i>		
Family Business	10	12
Non Family Business	74	88
<i>Age of Organisation</i>		
Less than 5 years	7	8
5-10 years	18	21
More than 10 years	59	71

have been established more than 10 years, reflecting the resilience of the business operations over the years.

MEASURES

The items used to measure human resource practices were adapted from Vlachos (2008) and pilot tested with companies operating in the central region of Malaysia for content validity. As in Vlachos (2008), the use of human resource practices was measured on a five-point Likert scale to indicate their agreement or disagreement with several statements from 1 = strongly disagree to 5 = strongly agree. The four human resource practices are measured by four items, totalling 16 items altogether. The measures were slightly modified based on consultations with Malaysian SMEs and human resource management experts.

Organisational performance was measured using Vlachos's (2008) instrument, which tapped the self-reported measures on three categories of perceived performance namely (1) organisation-specific: perceived product quality, perceived production cost, (2) market-related: perceived market share, perceived sales, and (3) overall organisational performance. Many studies used financial variables as an indicator of organisational performance. This is in line with the argument of Colakoglu, Lepak and Hong (2006) that there is no hard and fast rule in the way of measuring organisational performance when investigating human resource practices. In addition previous scholars (e.g. Claver, Molina & Tari 2002; Arthur & Cook 2003; Caloghirou, Protogerou, Spano & Papagiannaki 2004) pointed out that financial indicators have their own disadvantages. Even though they are often easily and freely available to researchers they are very

much being influenced by vast number of organisational and industry factors. Meanwhile, Podsakoff and Organ (1986) indicated that in some instances self-reported measures may be more accurate than objective measures. Relying on these arguments the present study replicated the approach used by Vlachos (2008) in measuring organisational performance using the reported perceptions of managers instead of the actual performance indicators such as financial indicators.

Organisational performance was measured by five items. Similar to the measures of human resource practices, the organisational performance measures were slightly modified based on consultations with Malaysian SMEs and human resource management experts. Similar to the study by Vlachos (2008), organisational performance was measured on a five-point Likert scale to indicate their agreement or disagreement with several statements from 1 = strongly disagree to 5 = strongly agree.

FACTOR ANALYSIS

A factor analysis with principle component analysis employing an orthogonal varimax rotation was carried out to ascertain the validity of the measures of both human resource management practices and organisational performance. The criteria used by Igbaria, Iivari, and Maragahh (1995) to identify and interpret factors were that each item should load .50 or greater on one factor and .35 or lower on the other factor.

With respect to human resource management practices, the factor analysis yielded a four factor solution explaining 62.44% variance, as shown in Table 2. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was 0.793 whereas the Bartlett's test of sphericity was

TABLE 2. Rotated factor loadings of human resource practices

Human Resource Practices Items	Components			
	1	2	3	4
Factor 1: Compensation policy				
1. We reward personnel to reduce turnover	.533	.072	.092	-.065
2. We use incentives to boost individual performance	.513	.210	.015	.233
3. We select and pay employees based on their contribution	.704	.031	.013	.290
4. Employees that care about firm's objectives are rewarded	.553	-.010	-.202	.042
Factor 2: Information Sharing				
1. Our employees know well our objectives and strategies	.042	.600	.209	-.032
2. We inform personnel about their performance	.159	.788	.126	.000
Factor 3: Job Security				
1. We focus on job security	.165	.093	.765	-.111
2. Employees that perform modestly do not get fired	-.033	.015	.733	.002
Factor 4: Training and Development				
1. Training is a motive for employees to achieve more	-.144	-.022	.091	.765
2. We systematically train and develop our personnel	.216	.036	-.101	.756
3. We provide training in one key skill	.089	-.012	.010	.816
4. We train personnel to gain many skills and abilities	.076	.067	-.045	.693
Eigenvalue	3.22	1.81	1.63	1.28
Percentage of variance explained = 62.44%	34.37	11.10	8.90	8.07
Kaiser-Meyer-Olkin = .793				
Bartlett's test of sphericity approx. chi square = 441.827; df = 105; Sig = .000				

significant ($\chi^2 = 441.83, p < .01$), indicating sufficient intercorrelations for the factor analysis. The compensation explained 34.37% variance, information sharing 11.10%, job security 8.90%, and training and development 8.07%.

Factor analysis with varimax rotation was also run to validate whether the unidimensionality of organisational performance. As shown in Table 3, the factor analysis yielded a single factor solution explaining 45.14% variance

with extracted factors eigenvalue of more than 1. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was .735 whereas the Bartlett’s test of sphericity was significant ($\chi^2 = 61.609, p < .01$), indicating sufficient intercorrelations for the factor analysis. The result confirms that the entire item used to measure organisational performance loaded on a single factor.

TABLE 3. Rotated factor loadings of organisational performance

Organisational Performance Items	Factor Loading 1
1. Perceived organisational product/service quality as compared to your competitors	.696
2. Perceived organisational product/service cost as compared to your competitors	.565
3. Perceived organisational market share as compared to your competitors	.735
4. Perceived organisational sales as compared to your competitors	.731
5. Perceived organisation’s overall performance compared to your competitors	.615
Percentage of variance explained (%)	45.14
Kaiser-Meyer-Olkin	.735
Bartlett’s test of sphericity approx. chi square	61.609
df	10
Significance level	.000

Table 4 presents the means, internal reliability value (Cronbach α), and the correlations of the variables. The Cronbach alpha obtained for the measures were .70 for compensation, .75 for information sharing, .76 for job security, .73 for training and development, and .82 for organisational performance, as indicated in Table 4. Based on the table, it appears that most organisations agreed

that human resource practices are important as indicated by the high mean values. The correlations show low to moderate correlation between the main variables thus eliminating the possibility of multicollinearity, a situation where the independent variables are found to have high correlation between them (more than .75) which can be a serious issue in the multiple regression analysis.

TABLE 4. Mean, correlation, and Cronbach’s alpha of human resource practices and organisational performance variables

Variables	Mean	1	2	3	4	5	Cronbach α
Compensation	3.04	-					.70
Information sharing	2.88	.44**	-				.75
Job security	2.96	.52**	.46**	-			.76
Training and development	3.01	.49**	.29**	.60**	-		.73
Organisational performance	2.99	.41**	.35*	.15	.38**	-	.82

* $p < .05$, ** $p < .01$

As mentioned earlier four hypotheses were generated for this study. These hypotheses were tested using multiple regression analysis. Multiple regression analysis is used to determine what proportion of the variance in the dependent variable is explained by the independent variables when these variables are entered into the regression analysis (Cramer 2003). As shown in Table 5, the four human resource management practices managed to explain significantly 49.1% of the variance in organisational performance. Out of the four human resource practices, compensation policy ($\beta = .484, p < .01$), information sharing ($\beta = 0.177, p < .05$), and training and development ($\beta = .285, p < .01$) were significant

in influencing positively organisational performance, thus supporting hypothesis 1, 2, and 4. Job security, on the other hand, did not appear to significantly influence organisational performance. Hypothesis 3 therefore is not supported.

DISCUSSION AND CONCLUSION

The main purpose of this study is to examine the relationship of the specific dimensions of human resource practices on organisational performance among small and medium organisations operating in the central region of

TABLE 5. Results of multiple regression analysis

	Dependent variable Organisational Performance
<i>Independent variables</i>	
Compensation policy	.484**
Information sharing	.177*
Job security	-.105
Training and development	.285**
F value	19.056**
R ²	.491
Adjusted R ²	.465

Note: **p < .01, *p < .05

Malaysia. The study found overall support for the influence of human resource management practices namely compensation, training and development and information sharing but job security on organisational performance.

Generally speaking, the findings of the present study are consistent with previous attempts (e.g. Brown *et al.* 2003; Collins & Clark 2003; Cardon & Stevens 2004) that highlighted compensation as a predictor of organisational performance. The role of compensation in influencing employee performance and subsequent organisational performance has generally been acknowledged. For employees, compensation plays an important role in maintaining their employment and enhancing work commitment (Chew & Chan 2008) to the organisation, *regardless of the size* of the organisation. The present study has shown that the current compensation policy practiced by the SMEs in Malaysia has an impact on organisational performance and this finding is consistent with the study by King-Kauanui, Ngoc and Ashley-Cotleur (2006) among SMEs in Vietnam. This clearly indicates that compensation not only plays an integral role in boosting organisational performance among large industry but also among small and medium size enterprises. More studies, however, should be conducted to further validate such claims.

For organisations, compensation can be used as a motivator (Lawler, Mohrman & Ledford 1995) and a communicator (Zingheim & Schuster 1997). It is strongly believed that employees will be more likely to repeat the good behaviours if they were rewarded by their employer. Besides, compensation is also a symbol of how organisation values its employees. It tells that employees are valuable asset and they deserve to be treated with respect in the organisation. Furthermore, Bergman and Scarpello (2002) also mentioned that a good compensation system can be used for hiring, keeping, motivating good employees and enhancing loyalty to the organisation.

The present study has also demonstrated that information sharing improves organisational performance. In small and medium organisations it could be viewed that trust is important among the small the workforce, which enables the organisation to gather pertinent and relevant input for critical decision making for the success of the

organisation. The small workforce also means that it is easier for the organisation to share information about the day-to-day running of the organisation. When this happens, employees may feel that they are actively engaged and trusted with the important information, and consequently they will be more motivated to search for more information to enhance the quality of decisions made (Mesmer-Magnus & DeChurch 2009). This will contribute toward the organisational performance. This could a possible explanation as to why information sharing is related to organisational performance in the context of SMEs.

The present study has also revealed that training and development could influence significantly organisational performance. Training and development reflects an active commitment of the organisation to enhancing employee skills, knowledge and abilities so that they remain current and updated. Necessary skills and knowledge can enhance work performance of employees and subsequently organisational performance. Training and developing human resources can also help organisations compensate the cost and risk of external recruitment and selection. By implementing the training and developing human resources programs efficiently, organisations may prefer to recruit internally. This is because internally trained employees are more familiar with the organisation's culture and structure and are more reliable than external resources (Tanova & Nadiri 2005).

Contrary to the hypothesis developed, job security is not related to organisational performance. One explanation could be that for small and medium organisations providing job security may not be a viable strategy since employees tend to consider this kind of organisations as a stepping stone for a bigger employment and career opportunity, and hence higher wages (Kammeyer-Mueller, Liao & Arvey 2001; Teo & Poon 1994).

Practically speaking, the findings of the present study have shed some insight on the importance of SMEs in implementing specific dimensions of human resource management practices in facilitating organisational growth and performance. In particular, SMEs should give due consideration to compensation, training and development and information activities as these have been shown to significantly affect organisational effectiveness.

LIMITATIONS OF THE STUDY AND DIRECTIONS FOR FUTURE RESEARCH

The findings of the present study should be interpreted by taking into account a number limitations identified. Firstly the data represented small and medium organisations only without taking into consideration the sectors they are in. It is possible that there could be different patterns of relationship emerging in different sectors. Secondly, the study gathered only 84 usable responses; a larger usable response (more than 150 respondents) would have given the power to generalize.

For the purpose of this paper the analysis was limited to multiple regressions with the intention to understand the relationship between human resource practices dimensions and organisational performance. Conducting a hierarchical multiple regression analysis with the incorporation of mediating or moderating variables will identify how the relationship between the independent and dependent variables will be moderated or mediated. By doing so, the variation in the relationship between human resource practice predictors and organisational performance among small medium organisations can be better explained. Despite these limitations, this study has provided evidence on the effects of human resource practices on organisational performance and suggested that compensation, information sharing, and training and development are important predictors.

Whilst studies such as the one here are plentiful, it does not mean that scientific investigations should stop here. Future studies could be directed at understanding this relationship in a different sector or among big or foreign organisations operating in Malaysia. This is because big companies may have more comprehensive human resource management system and practices, and this will allow some kind of indirect comparisons to be made. Currently there are debates whether human resource management practices have direct or indirect effects on organisational performance (Fey & Bjorkma 2001; Wright, Gardner & Moynihan 2003). For instance, because job security was found to be insignificant in influencing organisational performance in this study, it is possible that the effect of job security on organisational performance may not be that direct, suggesting that some mediators may help explain the relationship. The studies could also include objective performance indicators or use a combination of objective and subjective indicators to give a wider perspective on the nature of the relationship.

CONCLUSION

In conclusion, the study has provided additional insight into the effects of specific human resource management practices especially amongst small and medium organisations in Malaysia. Despite the insignificant result of job security, all in all the findings of the present study have managed to provide empirical evidence that some human resource management practices can affect organisational performance, as postulated by resource-based view of the organisation (Barney 1991; Voss *et al.* 2005; Wright *et al.* 2001), in the context of SMEs. The findings suggest that SMEs are also concerned about people's issues despite the "lack of sophistication" of people management practices, as indicated by some scholars (e.g. Kamam *et al.* 2001; Kotey & Slad 2005). This is because such practices have important bearings on the success of the business organisations (Bacon, Ackers, Store & Coates 1996; Kerr & McDougal 1999; Kamam *et al.* 2001; Kotey & Slad 2005).

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