

The Impact of Human Resource Management Practices on Financial Performance of Malaysian Industries

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Abstract: This article indicates a model to conduct an empirical study in Malaysian Industries in order to improve their financial performance. There are many factors which are effective factors in improving performance of Malaysian Industries namely, employee participation, training, job description, career planning system, compensation system, selection system, and performance appraisal system. The Job satisfaction plays a fundamental role in determining the performance in Malaysian industries. In this research, a model has been developed that includes Human Resource Management Practices and job satisfaction to study their influence on the performance of Malaysian industries. It is hoped that this paper can provide an academic source for both academicians and managers due to investigate the relationship between Human Resource Management Practices, Job Satisfaction, and Financial Performance in a systematic manner to increase successful rate of Human Resource Management.

Key words: Human Resource Management Practices, HRM, Job Satisfaction, Financial Performance, Malaysian Industries.

INTRODUCTION

Qureshi *et al.*, (2007) pointed out that the study of HRM (human resource management) practices has been a critical and significant area in management and organizational performance from last several years. Influence of human resource management practices on organizational performance has been a significant area of research in past 25 years indicating positive relationship between Human Resource Management practices and organizational performance (Qureshi *et al.*, 2007). In a study conducted by Randall S, Schuler, Susan E, Jackson (1992) HRM (Human Resource Management) practices are being increasingly treated as dependent rather than independent variables. In the olden days, management gurus and researchers were involved in exploring how HRM practices affected employee performance, and organizational performance. Nowadays, previous scholars such as Randall *et al.*, (1992), Qureshi *et al.*, (2007) and Quresh *et al.*, (2010) identified that how the practices of HRM (employee participation, training, job description, career planning system, compensation system, selection system, and performance appraisal system) impacts on financial performance of organizations. This study focuses on the impact of HRM practices on the financial performance. This sector performs momentous functions in the present-day world for overall economic development of countries. In this research, we will investigate job satisfaction as an intervening variable between human resource management practices and financial performance of Malaysian industries.

Literature Review:

Previous Research:

Quresh *et al.*, (2010) demonstrated that Success in today's competitive market depends on advantages associated with speed and adaptability, patents and access to capital and innovation, technology, and economies of scale. Organizational performance and Competitive advantages are largely derived from organizational human resources and high involvement of human resource management practices. Although in most of the developing countries, the main impediment of organizational growth and profitability is the lethargic use of professional HRM practices but struggle is going on to find out best ways to utilize these practices optimally. Malaysia is very much focused on industry growth for the last few decades. As a result, different industries are performing a momentous role in the economic development of the country. Despite their economic importance, different banks suffer from a variety of structural and institutional weaknesses, which has constrained their

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ability to take full advantage of the rapidly advancing process of globalization and HRM practices. This research is an attempt to explore the relationship of (HRM) practices and financial performance operating in Malaysia. In this research, different HRM practices will be discussed (Quresh *et al.*, 2010). Based on Beer *et al.*, (1984) the Human Resource Management practices comprises employee participation, training, job description, career planning system, compensation system, selection system, and performance appraisal system. This study is conducted based on universalistic perspective, indicating that fixed set of best practices can create surplus value in various business frameworks (Delery and Doty, 1996). This study also identified a positive relationship between HRM and performance by previous researchers namely Singh, (2004); Sels *et al.*, (2003); Deepak *et al.*, (2003).

According to Qureshi *et al.*, (2007) HRM is connected with all the managerial functions engaged in planning for rewarding, utilizing, developing, selecting, recruiting, and maximizing the potential of the human resources in an organization. HRM (human resources management) is defined as the practices and policies required to carry out the "people" or human resource aspect of a management position, including career planning, compensation, performance appraisal, training, job definition, selection, and encouraging employee participation in decision making. In another perspective, human resource management is identified as a process for the attitude of the individuals and the development of abilities, leading to personal growth and self actualization which enables the individual to contribute towards organizational objectives. Some definitions interchange HRM with personnel management. Personnel management characteristically focused on a range of activities centered to the supply and development of labor to meet the immediate and short term needs of the organization. Under personnel management, the activities of compensation, training, development, rewards, selection, recruitment, and the others are viewed as separate individual functions. Human Resource Management purposes to integrate all of the personnel functions into a cohesive strategy. Personnel management is largely something that managers do to the subordinates, whereas HRM takes the entire organization as a focal point for analysis. Pierce, L.L., Hazel, C.M. and Mion, L.C. (1996) pointed out that job satisfaction is in regard to one's feelings or state-of-mind regarding the nature of their work. Job satisfaction can be influenced by a variety of factors, for instance quality of the physical environment, quality of one's relationship with their supervisor, pay practice in which they work whereby turnover refers to the characteristic of a given company or industry, relative to rate at which an employer gains and losses staff. For example, if an employer is said to have a high turnover, it means that employees of that company have a shorter tenure than those of other companies in that same industry. Job satisfaction and performance are basically related by which job satisfaction has directly effect on the performance. There are many literatures about the relationships between two variables as mentioned. These authors also identified the effect of a professional practice model (PPM) on nurses' job satisfaction and performance. Pierce *et al.*, (1996) employ the implementation of a PPM as the characteristics of rewards linked to clinical proficiency, open, multilevel communication, collegial relationships, organizational supportiveness, control over work practices, participative decision making, and organizational supportiveness. The results of their study affirm the significantly correlated with increased job satisfaction and performance among staff nurse in rehabilitation hospital. In fact, as a result of their study give an idea about the existent relationship between job satisfaction and performance (Mudor and Tooksoon, (2011). In a study conducted by Bradley, Petrescu and Simmons (2004) incentive plans based on performance appraisal reports, salaries enhancement, bonuses, and rewards could be useful strategies to be reconsidered in the surveyed. This article used Human Resource Management practices in specific internal fit as an ideal set of practices which identify three exogenous; pay practices, job training, and supervision believed to influence job satisfaction and toward turnover of the employees, as some of the practices of high the performance working system practices. Liao, S.Y. (2005) believed that human capital has long been held to be a critical resource in most firms. HRM (Human resource management) is one of the principal mechanisms by which managers integrate the actions of individuals to keep their behavior congruent with the interests of the firm. According to this study, business leaders now recognize that the human resource function has a direct effect on bottom line results and must be aligned with corporate goals. Both practitioners and academics agree that as the dynamics of competition accelerate, people are perhaps the only truly sustainable source of competitive advantage (Stewart, 2000). Therefore, effective management of human capital may be the ultimate determinant of organizational performance.

Stavrou- Costes, (2005) believed that the effective HRM (human resource management) can be the main factor for the success of a firm. In the same way, Lee and Lee (2007) examined the relationships between Human Resource Management practices, Leadership style, competitive strategy and business performance in Taiwanese steel industry. According to this study, Human Resource Management practices such as employee security, performance appraisal, HR planning, compensation/incentive, and training and development help organizations to in improve their business performance including firm's flexibility, product quality, and employee's productivity. In a study administrated by Ruwan (2007) six Human Resource Management factors namely, supervisor support, compensation, career development, work family balance, job analysis, information, realistic job had direct influence on Performance. This study also used regression analysis to identify the impact

of HRM practices on job analysis and strong predictors of Marketing Executive Turnover of the in Sri Lanka industries. In the same way, Zaini, Nilufar and Syed (2009) identified four important factors of Human Resource Management namely, performance appraisal, HR planning, team work, training and development. According to this study, these four factors had positive impact on performance of this industry. In addition, Abang, May-Chiun and Maw (2009) examined the relationship between Human Resource Practices and Organizational Performance. Based on this study, the factors of HRM (information technology and training) had positive influence on performance.

Research Questions:

The main research questions of this study are as below:

- What is the effect of Human Resource Management on Job satisfaction and performance in Malaysian Industry?
- What is the relation between seven factors of HRM and Job satisfaction in Malaysian Industry?
- What is the relation between Job satisfaction and performance in Malaysian Industry?
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Research Objectives:

The general objective of this research is to describe the influence of Human Resource Management practices on Job satisfaction and performance in Malaysian Industry. The specific objectives of this research study are as below:

To evaluate the effect of Human Resource Management on Job satisfaction and performance in Malaysian Industry

To discover the relationship between seven factors of HRM and Job satisfaction in Malaysian Industry

To find out the relationship between Job satisfaction and performance in Malaysian Industry.

What is the Gap in Terms of Research?

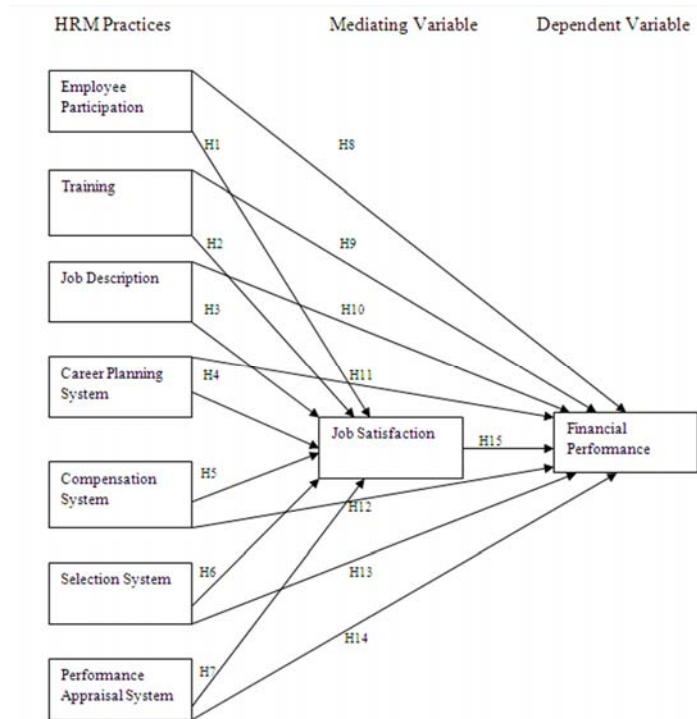
Quresh *et al.*, (2010) examined the impact of Human Resource Management practices on financial performance. This study also identified the factors of HRM practices including employee participation, training, job description, career planning system, compensation system, selection system, and performance appraisal system. According to this research, all of these factors had positive impact on performance. On the other side, Mudor *et al.*, (2011) examine the relationship between human resource management practices, job satisfaction, and performance. Based on this research, job satisfaction is an intervening variable between HRM practices and performance. This study has modified the developed framework by Quresh *et al.*, (2010) and Mudor *et al.*, (2011). Then, the combining of two previous studies can bring new contribution for this study. This model has not examined by any study. Therefore, the contribution of this study is the combination of HRM factors on performance and also would want to consider job satisfaction as a mediating variable between HRM and performance for continuous survival of the Malaysian industry.

Research Methodology:

This research is going to use quantitative survey in the Malaysian Industry. Unit of analysis of this study is employees working in Malaysian industries. The population size of this study is around 10000 employees working in Malaysian industries. The Respondents of this survey research employees working in this industry. Structural equation modeling (SEM) will be used to determine the causal relationship between the different constructs of the suggested model of the study. SPSS and AMOS software will be used to analyze the data. According to statistic for SEM, the sample size should be 250 to 400. The sample size of this study is around 300. The items on the questionnaire will be measured with a 5.0 Likert scale very low (1) to very high (5); (Quresh *et al.*, 2010; Mudor *et al.*, 2011).

Theoretical Model:

This model was shaped from three comprehensive variables including HRM practices, Job satisfaction, and Financial performance. The HRM is represented by the seven factors including employee participation, training, job description, career planning system, compensation system, selection system, and performance appraisal system. Financial Performance is dependent variable for this study. Ultimately, Job satisfaction is not determined by any variable and this factor is represented as a single variable and will be measured using a set of question. These variables extracted from review of academic literatures. Furthermore, the linkages between variables are developed based on the theoretical framework. The Figure 1 portrayed the theoretical model of the current study.



Hypotheses Development:

The hypotheses of this study are developed as following:

- H1: Employee Participation is positively related to job satisfaction.
- H2: Training is positively related to job satisfaction.
- H3: Job Description is positively related to job satisfaction.
- H4: Career Planning System is positively related to job satisfaction.
- H5: Compensation System is certainly connected to job satisfaction.
- H6: Selection System is certainly connected to job satisfaction.
- H7: Performance Appraisal System is positively related to job satisfaction.
- H8: Employee Participation is positively related to job satisfaction.
- H9: Training is positively related to financial performance.
- H10: Job Description is positively related to financial performance.
- H11: Career Planning System is positively connected to financial performance.
- H12: Compensation System is directly connected to financial performance.
- H13: Selection System is positively and directly connected to financial performance.
- H14: Performance Appraisal System is positively related to financial performance.
- H15: Job satisfaction is positively related to financial performance.

Conclusion:

The aim of this paper was to carry out a theoretical study on the impact of Human Resource Management practices on financial performance of Malaysian industries. The main contribution of this paper was to persuade managers to take a serious attention on the relationship among HRM practices, job satisfaction, and financial performance in the Malaysian industries. Investigating the relationship led us to lucrative outcomes. Future studies could look into the possible inclusion of few other Human Resource Management factors such as supervision, and pay practices (Mudor *et al.*, 2011) as an important factor in relation to job satisfaction and performance.

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