

# **Effects of Organizational Characteristics Factors on the Implementation of Strategic Human Resource Practices: Evidence from Malaysian Manufacturing Firms**

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## **ABSTRACT**

*The article investigates how organizational characteristics variables, such as firms' country of origin, firms' age and firms' size, influence the implementation of strategic human resource (SHRM) practices in organizations. The article contributes towards understanding whether there are similarities in the adoption of SHRM practices between firms according to the abovementioned characteristics. A total of one hundred and twenty-one (121) manufacturing firms in the electrical and electronic sector in Malaysia participated in this study. The study discovers that firms in this sector practices average to high level of SHRM practices. Finally, among the three organizational context variables, only firm size showed significant difference in firms' decision to adopt SHRM practices.*

**KEYWORDS:** *Strategic HRM practices, country of origin, firm age, firm size.*

**JEL CLASSIFICATION:** *M16, M50*

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## **INTRODUCTION**

Firms competing in the global environment face a multitude of new demands, in the forms of external and internal pressures, on their organization and people, often being pushed simultaneously into several contradictory directions. In response, the new global organizing paradigm is centered on complementarities and management process. Firms must be able to transform themselves into a global organization with a fluid and evolving dynamic network, which moves away from traditional and static structural solutions to global business challenges. Firms must embrace global integration and coordination to survive and prosper in the new global competition but at the same time must strive for local flexibility and speed. Firms have to nurture global organizational learning by stimulating creativity, innovation and free flow of ideas but also advocate a disciplined and methodical approach to continuous improvement. Succeeding in a global economy requires not only an open and empowered organizational climate, but also a tightly focused competitive culture (Pucik, 1996; Sieh, 2000; Shahid, 2001).

Naturally, the question that arises is how firms can face the competitive threats posed by globalization. The premise of this paper is that human resources are one of the most important factors providing flexibility and adaptability to organizations. According to Rundle (1997) people are the adaptive mechanism in determining how they will respond to

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competitive environment. Khatri (1999) opined that strategic human resource management has emerged mainly in the recognition of the fact that human resources need to be managed strategically for the firm to enjoy sustainable competitive advantage over competition. Therefore, the central theme of this paper is the strategic deployment of a highly skilled, knowledgeable and capable workforce to achieve competitive advantage and meet organizational goals.

Bae and Rowley (2001) noted that the impacts of globalization on HRM assert itself via the opening up and penetration of economies to external forces and influences. This may occur through exposure to other countries' HRM practices and direct importation of such practices by indigenous and foreign multinational corporations (MNC). Globalization's universalizing tendencies and implications implied "universal truths" that certain practices, including those of HRM, could be applied in any location. A central proposition is that because of political, economic, social and technological forces, brought about by globalization, there is a worldwide tendency for countries and within them HRM, to become similar as the copying and transfer of practices was encouraged. In other words, HRM practices would converge.

According to McKinley, Sanchez and Schick (1995) and Thompson and Heron (2005) practices are adopted because of three specific social forces; first, constraining forces, which shift as practices once viewed as negative become interpreted positively and gain legitimacy. Second, cloning forces which pressurize firms to mimic the actions of leading companies in the face of uncertainty and third, learning forces which are shaped through processes in educational institutions and professional associations.

Globalization has changed the dynamics of traditional HRM by stressing on the aspects of commitment, flexibility, quality and strategic alignment (Perkins, 2003). Therefore the challenges facing HRM are: the development of a global mindset inside the organizations' human resources, that is the understanding of the new global competitive environment and how it affects organizations; the alignment of human resource practices and processes with the strategic needs of the firm; and enhancement of competencies and capabilities within the human resources function (Pucik, 1996; Von Glinow, Drost & Teagarden, 2002). Therein lay the role of strategic human resource management, which is to extract the maximum value out of human resources and the key factor that allows firm to succeed in doing just that is the proper motivation of employees through perfectly designed organizational structure and a focused approach.

## **1. OBJECTIVE OF THE STUDY**

The main objective of the study is investigate whether the implementation of SHRM practices in the electrical and electronics manufacturing sector in Malaysia is influenced by internal organizational factors such as the firms' country of origin, firms' age and firm size. The rationale behind this investigation is that in order firms to compete and survive in a globalized economy, the firms must be able to develop and retain their human resource talent and the implementation of SHRM practices will provide the firms with such opportunity.

## **2. RATIONALE OF THE STUDY**

Past research had shown that HR practices stem from the organizational characteristics of a firm and these practices convey the firms' overall strategy. Furthermore, contrary to Ohmae's (1990) view of a borderless world and nationless corporations, it has been well established that a country's cultural and institutional context are seen to be as salient determinants of firms' HR practices. Within this context, multinational organizations need to balance between the need for global integration and local adaptation, while, local firms have to compete with the MNCs for the retention of their workforce. Smaller firms, compared to larger firms, may lack the means to develop and implement progressive HR systems with their internal resources. It is also believed that more matured firms are much more capable at implementing more advanced and complex HRM practices than newer ones. Thus, with the globalized nature of businesses where firms compete on a level playing field, it is relevant to investigate the effect of organizational characteristics in the implementation of strategic HRM practices.

## **3. LITERATURE REVIEW**

A thorough review of the literature is conducted for the concept of strategic HRM practices and the relationship between country of origin, firms' age, firm size and SHRM practices.

### **3.1 Defining Strategic HRM**

There are disparities in the literature regarding the common definition of SHRM. Beer Spector, Mills & Walton (1985, p. 5) defined it as "the development of all aspects of an organizational context so that they will encourage and direct managerial behavior with regard to people, to enable them to achieve organizational goals". De Bejar and Milkovich (1984) considered SHRM as a stream of HR related decisions that occur at various levels in the organizations. While, Delery and Doty (1996, p. 803) defined it as "SHRM practices are those that are theoretically or empirically related to overall organizational performance". Redman and Wilkinson (2001) approached SHRM as entailing strategic integration and a positive management of employees, with emphasis on employees as resources rather than cost.

Despite the different definitions, the broad agreement is SHRM involves designing and implementing a set of internally consistent policies and practices that ensure the firm's workforce contributes to the achievement of the firm's business objectives. This article adopts Delery and Doty's (1996) definition: SHRM practices are human resource practices that have been theoretically or empirically proven to result in positive organizational outcomes, whether on their own or as a set of best practices which is contingent on the firm's strategic positions.

Widening use of the term "strategic human resource management" appears to reflect recognition of the interdependencies among strategy, organization and human resource in the functioning of a firm, at times appearing to undermine the contributions of strategic HRM to the bottom line, in this case, the firms' performance. A strategic view of human resources has a dual focus on both inventory and utilization of human resources; the HR task is not only to ensure that the organization is not only supplied with adequate number of qualified people at the right time, but also finding solutions to the problem of achieving

satisfactory levels of performance from the human resources inventory (Sivasubramaniam & Kroeck, 1995).

Strategic HRM practices can be defined from two approaches: first, the universal approach, where a set of HR “best practices” on its own can influence the outcome of the organizational performance and these “best practice” policies may be embodied in a variety of HR techniques and practices, such as information sharing within the organization; and second, the contingency approach, that argues in order to be effective human resource policies and practices must be consistent with the firm’s strategy. Firm performance will be improved when the right fit between firm strategy and HRM is achieved (Michie & Sheehan, 2003). Considerable research has observed the relationships between HRM practices and various operationalizations of firm performance, whether as separate practices (Terpstra & Rozell, 1993; Gomez- Mejia & Balkin, 1992) or as best practices/ strategic HRM (Delaney & Huselid, 1996; Huselid, 1995; E Cunha, E Cunha, Mergado & Brewster, 2003; Bayo- Moriones & De Cerio, 2002). The basic assumption driving contingency approach is that Strategic HRM can only be considered strategic once a “fit” is achieved between a firm’s strategy and HRM practices as a means of generating maximum organizational performance (Rodriguez & Ventura, 2003). However, studies have also shown that potential benefit from strategic HRM may depend on the type of strategies being employed by the firm. Empirical supports for the contingency theory are based on previous studies by Youndt, Snell, Dean and Lepak (1996) and Wan, Ong and Kok (2000); the findings from these studies indicate HRM is contingent upon a wider organizational strategy to achieve desirable organizational outcomes.

Universalistic arguments are the simplest form of theoretical statement in the SHRM literature because they imply that the relationship between an independent variable and dependent variable is universal across the population. Developing universalistic predictions requires two steps. First, important strategic HR practices must be identified. Second, arguments that relate these practices to organizational performance must be presented. The universal or “best practices” perspective implies a direct relationship between particular approaches to human resources and performance, and the contingency approach posits that an organization’s strategic posture either augments or diminish the impact of HR practices on firm performance (Delery & Doty, 1996; Youndt, Snell, Dean & Lepak, 1996).

At this juncture one might question how exactly the implementation of SHRM practices leads to better performance? Guest (1997) suggested in detail that the commitment and flexibility provided by highly involving actions lead to behavior changes among employees, because employees show high levels of motivation, co-operation and citizenship, they adopt better performing behaviors, leading to lower absenteeism and turnover rates, to better productivity and quality. These behaviors are associated with social results (turnover, conflicts, absenteeism) and organizational results (productivity, quality of goods and services, customer complaints). Consequently, these types of performance were supposed to affect financial performance (Guerrero & Barraud –Didier, 2004).

A survey of 97 manufacturing plants in the US by Youndt, Snell, Dean and Lepak (1996) found significant relationship between enhanced HR systems and manufacturing performance of the plants and the findings provide support for HR system that focused on enhancing human capital is a valuable approach for strengthening operational performance in manufacturing. Arthur (1994) conducted a study of 30 US steel minimills where the

result of the study showed that the mills with commitment systems had higher productivity, lower scrap rates and lower employee turnover than those with control system. In another study, Delaney and Huselid (1996) found that practices consistent with a high- involvement HRM strategy, such as highly selective staffing, incentive compensation and training were positively linked to organizational performance. However their result did not support that complementarities among HR practices enhanced firm performance. They contended that the lack of support could be due to the lack of development of reliable and valid measures of progressive HRM practices.

Huselid, Jackson and Schuler (1997) in their survey of 293 US firms made a distinction between technical HRM and strategic HRM perspective by technical HRM; they referred to the alignment of HR practices to the interest of the company's stakeholders. These stakeholders include the government and various professional organizations that regulate a wide range of employment practices. Strategic HRM practices refer to a set of internally consistent policies and practices that ensure a firm's human capital contributes to the achievement of its business objective. They found that large firms in the U.S. are more proficient in their technical HRM than their strategic HRM practices. In addition to this finding, they noted significant correlation between strategic HRM effectiveness and employee productivity, cash flow and market value.

Bae and Lawler (2000) in their study of 138 firms in Korea found that firms that place high value on their HRM and consider their employees as source of competitive advantage were more likely to have high involvement HRM practices and in addition, these high-involvement practices result in better firm performances. Bayo- Moriones and de Cerio (2002), in their survey of 965 factories in Spain provided evidence of the presence of a positive, statistically significant correlation between the adoption of high commitment HR practices and operational performance and the study further confirmed that the result is universal and not dependent on the strategy used by firms. Richard and Johnson (2001) discovered that SHRM effectiveness is unrelated to productivity but is correlated to lower turnover. Numerous other studies have similarly shown positive relationships between strategic HRM practices and firm performance (for example Chadwick & Capelli, 1998; Delery & Doty, 1996).

Michie and Sheehan (2005) in their survey of 362 firms from both manufacturing and service sector in the UK found that Strategic HR practices are significantly correlated with all the firms' performance measures. Rodriguez and Ventura (2003), in their study of 120 manufacturing firms in Spain, found that the implementation of a "make" HR system has a significant and positive effect on the organization's overall performance and this leads to the enhancement of the employees' commitment to the firm.

Khatri (2000) in a survey of 222 firms in Singapore, found that the hypothesis where high performance HR practices are positively associated with firm performance receives only modest support as it was found that it only has marginal direct effect on sales and non-financial performance. Wan, Ong and Kok (2000) in a study consisting of 191 firms in Singapore, found that high performance work practices to be positively related to firm performance. Chang and Huang (2005) in their survey of 380 Taiwanese manufacturing firms, found no support for the universal approach, contributing this result to the very different cultural and institutional environment of the country itself.

Datta, Guthrie and Wright (2003) found in their study of 132 manufacturing firms in United States that the use of high performance work practices indicated is positively associated with firm productivity. Guerrero and Barraud-Didier (2004), in their study on 180 firms in France, found that high-involvement practices as a bundle or system is significantly and positively related to social and organizational performance, lending further support for the universal approach.

The adoption of the universal model is not completely without its critics. First, organizations that do not adopt best practices can also generate favorable outcomes for the firms (Wan, Ong, & Kok, 2000). Huselid (1995) pointed out that organizations might not be able to sustain a competitive advantage through the adoption of the best practices because of the likeliness of these practices being easily imitable. Therefore, it is possible that these strategic practices will only result in short-term competitive advantage and temporary superior performance. Second, Delery and Doty (1996) pointed out that there is a more complex relationship between strategic HRM practices and organizational performance, where, some HR practices are more suitable under certain strategic conditions and less suitable under others. Despite the criticism, the universal approach has been empirically proven in previous studies (for example Huselid, 1995; Delaney & Huselid, 1996).

In accordance with the contingency approach, the link between HRM practices and organizational performance is contingent on other aspects of the organization. The organization's strategy is considered to be the primary contingency factor in the strategic human resource management literature (Delery & Doty, 1996). The presupposition implicitly implied is that the alignment of strategy and HRM practices allows organizations to achieve superior performance (Youndt, Snell, Dean & Lepak, 1996). Contingency predictions are more complex than universalistic approach because contingency predictions imply interactions rather than the simple linear relationships incorporated in universalistic theories, where the organization's strategy is considered to be the prime contingency factor (Delery & Doty, 1996).

According to Youndt, Snell, Dean and Lepak (1996) each strategy implies something different about the potential role of human resources in improving firm performance, suggesting that the best HRM practices is contingent on the manufacturing strategy of a firm. The concept of "fit" refers mainly to the close linkage of HRM and the firm's strategies in ways that will help retain and motivate employees. Moreover, the application of the strategic fit concept help firms to manage their resources more efficiently, so they can reduce operational costs and respond effectively to environmental restraints and new opportunities (Tung, 2001). Wright and Snell (1998) pointed out that the notion of "fit" in SHRM implies a static, stationary contextual template to which practices and people can be "fitted". Datta, Guthrie and Wright (2003) argued that in reality, the task environment faced by firms vary according to the competitive environment, where firms facing more dynamic environments may find greater value in investing in high performance work practices promoting acquisition, development and motivation of individuals who are able and willing to adapt to the needs of the environment.

Thus, the contingency approach which was based on the behavioural theory requires that a firm select a strategy and then aligns the HR practices with the firm's strategy to improve organizational performance (Delery & Doty, 1996). Similarly control theory, which bears similarities with behavioural theory, contended that effective performance depends on

matching appropriate HRM practices with the administrative practices established by a given strategy. Although the behavioral perspective and control theory tend to focus attention on managing a firm's current employees' behavior in an effort to maximize performance, firms also focus on competency management through acquiring, developing and utilizing employees with particular knowledge, skills and abilities (Wright, Smart & McMahan, 1995).

However, a firm that chooses to adopt a differentiation (flexible) strategy must be flexible enough to adapt in order to meet the various demands of their clients (Arthur, 1994). In this scenario, the employees will be required to carry out a variety of activities and they are likely to be able to make their own decisions (Youndt, Snell, Dean & Lepak, 1996). Therefore extensive training is essential and they must also be sufficiently motivated to make the choices that will serve the best interest of the firm. This can only be achieved by implementing a high- commitment, high- performance HRM practices rather than through traditional practices (Bayo- Moriones & de Cerio, 2002). Youndt, Snell, Dean and Lepak (1996) and Hoque (1999) found that human- capital enhancing systems or high- commitment management practices have stronger effects on performance when coupled with a quality strategy.

Wright, Smart & McMahan (1995) found that organizations exhibited higher performance when they recruited and acquired employees possessing competencies consistent with the organizations' current strategies. Reversing the causal arrow, they also found that organizations exhibited higher performance when they sought out a strategy that matched their current employees' competencies. It was further established that employee performance in firms that successfully adopted the strategic fit concept was significantly better than in firms that did not do so. However the difference was not significant. This approach implies an interaction effect involving organizational and HRM practices, but to date the evidence in favor of such a contingency perspective has been mixed at best (Bae & Lawler, 2000). Delery and Doty (1996) also found modest support for the contingency approach. Similarly, no evidence was found to suggest that a fit between appropriate HRM practices and mass production was able to compete with specific production methods (Tung, 2001). Fey and Bjorkman (2001) in a survey of 101 multinational corporations in Russia found that HRM practices – strategy alignment to be significantly related to organizational performance. Richard and Johnson (2001) in their study on the American banking industry found that SHRM alignment with capital intensity as the firm's strategy increase both firm productivity and ROE.

Khatri (2000) in a survey on 222 firms in Singapore found strong support for the hypothesis that the relationship between HR practices and firms performance is contingent upon the organizational strategy of the firms. The interactions of HR practices and strategy showed highly significant effects across all the performance measures. Michie and Sheehan (2005) in their survey of 362 manufacturing and service firms in the UK found that in quality enhancing firms, there is a strong positive and significant relationship between the HR practices and all the performance measures. However, in cost reducer firms it was found that the statistical significance of this relationship disappears for labor productivity and financial performance and becomes negative for sales growth. These results give support to the hypothesis that the effectiveness of HR is strongly dependent upon the business strategy pursued.

Bayo-Moriones and de Cerio (2002) in their survey of 965 factories in Spain found no support for the contingency approach as strategic HRM practices on its' own were capable in influencing the organizational outcomes. The relatively weak support for the effects of HRM practices – strategy alignment on organizational outcomes should come as no surprise as it is difficult to specify what constitutes good alignment across firms and industries. Barney (1991) suggested that the appropriate configuration and strategic alignment of HRM practices may be idiosyncratic and complex. Furthermore, Hiltrop (1996) contended that the whole idea of fit within a certain strategy seems inappropriate for a world in which there are high levels of dynamic and unpredictable change. Despite the debates regarding the contingency approach, Wright and Gardner (2000) stated that infusing the strategy construct into a research can aid in understanding HRM practices and also how an alignment of these practices with the strategy can provide a significant incremental effect on performance.

### **3.2 Country of origin**

A number of studies have noted the influence of national differences on SHRM choice and practices of multinational companies (MNC) in overseas subsidiaries. Zhang and Edwards (2003) in their study on Chinese MNCs in UK, found that SHRM choice and practice exhibits obvious characteristics of country of origins and despite arguments that HRM in MNCs is moving toward globalization or convergence, the fact there is evidence that the country of origin effects suggest that there may be limit to adoption of certain HR strategy and practice.

Porter's (1985) notion of the "competitive advantage of nations" implies that the success of international companies springs from the characteristics of their national resource bases. Ruigrok and van Tulder (1995) argued that on several dimensions MNCs exhibit national characteristics, even when the home base does not account for the bulk of sales, operations and employment, the home nation is almost always the primary locus of ownership and control, in other words, strategic decisions and innovative activities are still disproportionately located in the home country.

Dissemination by MNCs of practices in areas such as HRM has been described by Streeck (1991) as "regime competition", his concern has been primarily whether weakly regulated systems would attract potential capital way from those with better employee protection. However such notions by have been dispelled by Ferner(1997) who questioned whether MNCs from strong regulatory systems actually adopt and export the practices of their parent country and whether this gives them a competitive advantage in the host country where they operate. If so, they may actually form a conduit for the export of elements of a more highly regulated HR regime with more permissive systems.

There is a relatively small body of research pointing to the systematic differences in the ways which MNCs of different nationalities manage their human resources. A number of generalizations emerge from such studies and they provide substantive support for the notion that nationality is a significant determinant of MNC behavior. A series of studies has found U.S. MNCs to be relatively centralized and formalized in their HRM; their headquarters set or influence policy in wage systems, collective bargaining, union recognition, welfare and training policies (for example; Hamill, 1984; Negandhi, 1986; Bartlett & Goshal, 1989; Yuen & Hui, 1993). Enderwick (1985) suggested that US firms

have been consistent innovators in industrial relations, by introducing productivity bargaining into Britain in 1960s along with fixed- term agreements.

U.S. styles of multinational HRM have typically been contrasted with Japanese and European style. Yuen and Hui (1993), in their comparison of U.S. and Japan MNCs in Singapore focused on the differences in the personnel function of the two home- country business cultures. In the American model, Yuen and Hui (1993) found that the labour management in US firms is posited on an “economic-contractual” model of hiring and firing, market determined wages, high labor mobility and they have been found to be antagonistic towards unions (Edwards & Ferner, 2002). Indicating that HRM has largely evolved into bureaucracies applying formalized and standardized personnel policies. In contrast, the Japanese model of HRM is a “human capital” model, based on “multidimensional employment relations” with focus on social and economic aspects, the predominance of internal labor markets and a consequent concern with recruitment, selection, training and development. These characteristics have been reflected in the behavior of Japanese MNCs in Singapore (Ferner, 1997). According to Brewster (1995) citing Thurley and Wirdenius (1991) stated that European model has the following characteristics: reflects key values such as pluralism and tolerance especially towards union and workers’ representation and is associated with balanced stakeholder philosophy and the concept of social partners.

Tregaskis (1998) in her study of MNCs operating in UK, found that the implementation of HRM practices in the subsidiaries depend very much on the country of origin of the firms. Thereby confirming the earlier findings by Brewster and Bournois (1991) and Rosenzweig and Nohria (1994) where significant differences between nations in their HRM practices were found and this factor even influenced how their multinational corporations implement their HRM in host countries.

The implications for the research presented by the arguments above clarifies that one can expect that MNCs will strongly exhibit the impact of their country of origins and this will affect in the implementation of a strategic human resource management.

Thus based on the above review this hypothesis is generated:

H1: There is significant difference in the implementation of SHRM practices according to the firms’ country of origin.

### **3.3 Firm age**

Scholars have argued that as firms move through various stages of development, differing problems must be addressed, resulting in the need for different management skills, priorities and structural configurations (Kimberly & Miles, 1980; Kazanjian, 1988; Smith , Mitchell & Summer, 1985). Commitment HR systems may be more important in the early stages of business development and as the business grows, more employees need to be recruited and control or traditional HR systems becomes more important. Since younger firms tend to be in an earlier stage of development than older firms, firm age may be of an influence on the orientation and implementation of commitment HR systems (Verheul, 2004). Organizational life cycle theory assumes that firms go through a sequence of growth and change, with the process driven by organizational learning and increases in size which is related to a firm aging, which also applies to HRM practices. New firms must work with

the resources available and to succeed they must be able to react and mobilize whatever resources available depending on the various personal, organizational and environmental conditions (Aldrich & Langton, 1997).

Welbourne (1998) in her survey of public listed firms found that firms implementing administrative or traditional HRM tend to be older and unionized. Fields, Chan and Akhtar (2000) stated that older firms were more likely to nurture and retain managers whose organizational knowledge accounts for growth. Verheul (2004) found that firm's age does not influence the orientation of the type of HRM practices implemented in a firm.

Based on the abovementioned review, this hypothesis is generated:

H2: There is significant difference in the implementation of SHRM practices according to the firms' age.

### **3.4 Firm size**

The influence of firm size on HR practices is well documented in theoretical and empirical studies. For example, institutional theory suggests that larger organizations should adopt more sophisticated and socially responsive HR practices because they are more visible and are under more pressure to gain legitimacy. However, economic considerations suggest that because of the costs associated with many aspects of HRM, acceptable economies of scale must be reached before sophisticated HRM systems can be implemented (Bawa, 2001). Jackson and Schuler (1995) in their review of HR literatures, presented evidence to show HR practices varies systematically with firm size. Ng and Maki (1993) in a study conducted in Canada found that larger firms are more likely to have the resources to employ human resources professionals, who may be more aware of the latest trend in managing human resources. Wagar (1998) examined 10 HR practices and found that firm size is a major determinant of the extent of adopting a number of formal appraisal systems and the presence of an HR Industrial Relations department.

However, studies by Golhar and Deshpande (1997) in Canada did not find any differences between small and large firms in terms of the HR practices that they adopt. Similarly, Dessler and Turner (1991) found that large and small firms in Canada are equally committed to employee growth career growth and development. Golhar and Deshpande (1997) reasoned that the adoption of new production philosophies such just- in- time (JIT) and total quality management (TQM) may have forced small manufacturing firm to address HRM issues. According to Fields, Chan and Akhtar (2000) size is related to the type of HRM strategy implemented as they found that larger firms in Hong Kong have more complete and sophisticated human resource systems as they have more workers to control, therefore the firms were able to spread the costs over more employees and have to be more image conscious due to their higher visibility.

Based on the abovementioned review, this hypothesis is generated:

H3: There is significant difference in the implementation of SHRM practices according to the firm size.

#### **4. METHODOLOGY**

This study's research methodology comprises the information on the research design, sampling, and measurement of research variables.

##### **4.1 Research design**

According to Cutcher-Gershenfeld (1991) SHRM practices should be measured as a combination of practices in a bundle, rather than individual practices. Furthermore a research that focuses on the impact of individual HR practices may produce misleading results, with a single practice capturing the effect of the entire HR system (Wan, Ong & Kok, 2000). According to Barnard and Rodgers (2000) some of the most prominent theoretical and empirical literature published in recent years suggested that the organization need to bundle together the appropriate combinations of HRM practices to realize the synergistic effects that follow from the interactions among complementary practices.

Thus, the study utilized SHRM practices scales that will be measured as a single set of combined practices. SHRM practices are measured from items derived from Delery and Doty (1996), Bae and Lawler (2000) and Huselid, Jackson and Schuler (1997). The variable of SHRM practices was designed to tap into the employee involvement/ empowerment construct as recommended by Lawler's (1986) and Pfeffer's (1998) conceptualization of SHRM, where, the practices are considered to be strategic because the variable contains these elements: power sharing, shared communications, enhancement of knowledge and rewards. This measure examines the extent of SHRM practices are implemented in the manufacturing firms. The SHRM practices items include: team-based work, workforce flexibility, internal career opportunities, employment security, employee participation, training and development, performance- based pay, empowerment, profit sharing, performance appraisal and employee relations.

Internal career opportunities, training and development, employment security, performance appraisal, employee participation and profit sharing were derived from Delery and Doty (1996). Performance- based pay and empowerment were derived from Bae and Lawler (2000). Workforce flexibility and employee relations were derived from Huselid, Jackson and Schuler (1997). This measure requires the HR manager to state the extent these HR practices were being implemented in the particular firms. Responses is measured on a five point Likert scale ranging from 1= never to 5= always.

The questionnaire also contains five items to indicate demographic information of the firms, which includes home country origin of the firm, the duration the company has been established and number of employees.

A number of studies have found that the implementation of HR practices in firms depends very much on the country of origin of the firms (Zhang & Edwards, 2003; Yuen & Hui, 1993; Tregaskis, 1998). In this section firms were required to indicate their country of origin, the countries were coded as a= United States, b= European Union, c= Japan, d= South Korea, e= Taiwan and f= Malaysia. The categorization was adapted from Bae, Chen and Lawler (1998) and Wan, Ong and Kok. (2002) with Malaysia added as the host country.

Consistent with previous studies in this area, the respondents were required to indicate their total workforce based on five items coded as, a= 100 or less, b= 101 to 300, c= 301 to 500, d= 501 to 1000 and e= more than 1000. The categorization of this variable was adopted from Rozhan (1998).

Respondents were required to indicate the number of years their firms have been in operation, the scale ranged from a= less than 1 year, b= more than 1 year less than 5 years, c= more than 5 years less than 10 years, d= more than 10 years less than 15 years and e= more than 15 years.

#### **4.2 Sampling and data collection**

A structured questionnaire was the method used in which the data for the study was gathered. The questionnaire was used as it would be easier in terms of understanding and getting the cooperation of the respondents. HR managers were selected as the key respondents as they were deemed to be knowledgeable of the HR practices in their organizations and would be able to obtain information on the organizational characteristics easily. The survey was collected by using mail survey to all 700 companies. The respondents were requested to return the completed questionnaires as soon as possible using self-addressed stamped envelope. The mail survey was used as it is more economical and efficient method of data collection and it reaches all the firms involved nationwide within a shorter period of time.

In order to meet the representativeness criteria of a good sample collection, the questionnaires for the study were posted to all 700 companies in the electrical and electronics manufacturing sector. The database for the population was derived from the Federation of Malaysian Manufacturers-MATRADE (Malaysia External Trade Development Corporation) Electrical and Electronics Industry Directory. This study is conducted in a single industry and the database is based on the MATRADE directory, specifically because it has the most comprehensive industry coverage and an updated list. The survey required the responses of the HR managers. From the 700 questionnaires distributed to electrical and electronics manufacturing firms in Malaysia, 121 completed questionnaires were returned representing a response of 17.2 %. This response rate was no different from several other surveys conducted in Malaysia, which tend to obtain a response rate of 15- 25 per cent (for example Sarachek & Aziz, 1983; Rozhan, 1991; Hazman, 1998; Kanapathy & Jabnoun, 1998; Rozhan, Rohayu & Rasidah, 2001).

### **5. FINDINGS**

There are two parts in the data analysis. First part is descriptive analysis which is based on demography information of the respondents; the second part is the analysis of the effects between the organizational context variables and SHRM using one-way ANOVA.

#### **5.1 Validation and Reliability**

Proving content validity involves (1) the judgment of the researchers who construct the instrument or other experts familiar with the subject area; (2) detailed definition or conceptualization and operationalization of the behavioral domain of interest; and (3) indirect way-high internal consistency reliability (Walsh and Betz, 1995; and Sekaran,

2003). These three requirements were satisfactorily met, and therefore content validity is assured. The dimensions and elements of SHRM were carefully delineated based on established past research and adopted from reliable sources and there are 40 questions that tap all the 12 dimensions of SHRM. In order to test the internal consistency or reliability of the variables, Cronbach's alpha was used. The Cronbach's alpha for country of origin, firms' age, firms' size and SHRM are 0.71, 0.81, 0.88 and 0.87 respectively. This indicates that the measures are reliable and stable according to the guidelines by Nunnally(1978).

## 5.2 Descriptive analysis

Table 1 summarizes the information pertaining to the profile of the firms that responded. A total of 51.2 % are Malaysian firms, 23.1% are Japanese firms, 10.7% are firms from the European Union, 8.3% firms are from the United States of America, 5% of the firms are from Taiwan and 1.2 % of the firms are South Korean firms. As for firm's age distribution, the majority of the firms (31.4%) have been operating more than 5 years and less than 10 years, while 13.2 % have been established more than 1 year and less than 5 years. With regards to firm size, 28.9% of the firms have less than 100 employees in their employment and 17.4 % of the firms have both between 501-100 employees or more than 1000 employees.

**Table 1. Demographic of Firms**

		<b>Frequencies</b>	<b>%</b>
Country of origin	United States	10	8.3
	European Union	13	10.7
	Japan	28	23.1
	South Korea	2	1.7
	Taiwan	6	5.0
	Malaysia	62	51.2
Firm's Age	More than 1 less than 5 years	16	13.2
	More than 5 less than 10 years	38	31.4
	More than 10 less than 15 years	35	28.9
	More than 15 years	32	26.4
Firms' size	100 or less	35	28.9
	101 to 300	21	17.4
	301 to 500	18	14.9
	501 to 1000	26	21.5
	More than 1000	21	17.4

Source: authors

The composite score were categorized into three class intervals of low, moderate and high with equal width based on the formulation by Bryman and Cramer (1996), as stated below:

$$WCI = \frac{(HPCS) - (LPCS)}{3}$$

WCI: Width of composite index

HPCS: Highest possible composite score

LPCS: Lowest possible composite score

**Table 2. Level of SHRM**

Level of SHRM	Frequency	Percent
Low (92 & less)	-	-
Moderate(93- 145)	87	71.9
High (146- 200)	34	28.1
Total	121	100

Source: authors

In accordance with the ratings of below 3 as low, 3- 4 as moderate and 5 as high, to indicate the level SHRM practices implemented in the firms. The result table II indicates that the levels of SHRM practices implemented in the firms is moderate (71.9 %) and high (28.1%). This indicates that SHRM practices are implemented in the electrical and electronics manufacturing firms operating in Malaysia.

### 5.3 Data analysis

**Table 3. One-way ANOVA for Country of Origin, Firms' Age & Firms' Size**

Variables	P Value		
	Country of Origin	Firms' Age	Firms' size
Strategic HRM	0.530	0.205	0.018*

Source: authors

Table 3 shows that only firms' size is significantly different in the implementation of SHRM practices in the firms at P value (0.018), thus H3 is accepted meaning that there is significant difference in the deployment of SHRM practices according to firms' size. By referring to the multiple comparison output, Tukey's statistic indicates that the significance (0.001) occurs at the group of 101 to 300 employees. Meanwhile H1 and H2 are rejected as the results show that for both variable of country of origin and firms' age, there are no significant differences in the deployment of SHRM practices in the firms.

## 6. LIMITATION, RECOMMENDATION FOR FUTURE RESEARCH AND IMPLICATION OF STUDY

Due mainly to the fact that the data were gathered from only 121 manufacturing firms in the electrical and electronic manufacturing sector, any attempt to generalize the findings to other manufacturing sectors or other industry, such as the service industry, would pose a significant challenge. Hence, future research should also look into different manufacturing sectors and industries. Additionally, future research should also consider other organizational characteristics, such as organizational structure, design and strategy to determine their impact on the firms' decision to adopt and implement strategic HRM practices.

The study provides evidence of the adoption of SHRM practices among manufacturing firms in the electrical and electronic sector in Malaysia. Di Maggio and Powell (1983) rationalized that as firms try to change their practices and policies to be more competitive, they grow increasingly more similar and this is known as the homogenization of firms through isomorphism where one unit in a population is forced to resemble other units that

face the same set of environmental conditions. Thus, the non-significance of country of origin and firms' age could be attributed to homogenization of firms whereby firms regardless of nationalities or age, experiment and adopt practices to remain competitive and to retain their skilled workforce. However, the significance of firms' size indicates that the adoption of SHRM practices varies by the size of the firm. For practitioners or managers, this proves that size plays a role in the adoption of SHRM practices. It also indicates that SHRM is a recent trend and only larger firms are capable of implementing practices which are more complex and advanced. The findings of the study could be used by managers to analyze which HR practices are suitable for their firms based on the firm size.

## **CONCLUSION**

One possible explanation for the result is perhaps that firms both local and foreign have realized the effectiveness of having HR practices that will increase knowledge, skill and ability of employees, in an uncertain market environment brought about by globalization. The result, while inconsistent with a majority of prior studies, such as Bartlett & Goshal (1989), Yuen & Hui (1993), Edwards & Ferner (2002), Tregaskis (1998) and Rosenzweig & Nohria (1994); may provide an indication that due to the adoption and implementation of progressive HR practices by foreign firms, local firms were pressured into adopting such practices in order to remain competitive. Bae and Rowley (2001) defined this scenario as convergence of HRM practices, where, due to political, economic, social and technological forces brought about by globalization there is a tendency for HRM practices to become similar due to copying and transfer of practices. DiMaggio and Powell (1983) used institutional theory to explain this phenomenon and suggested three mechanisms of isomorphic change that could have encouraged this convergence: first, coercive isomorphism or constraining forces, which shift as practices once viewed negatively become interpreted positively and gain legitimacy. Secondly, mimetic isomorphism or cloning forces, which pressurize firms to mimic the action of leading companies in the face of uncertainty. Thirdly, normative isomorphism or learning forces, which are shaped through processes in educational institutions and professional associations. Together these forces push firms to adopt certain HRM practices. Geary and Roche (2001) termed this HRM convergence as the "spill-over" effect, where the introduction of progressive HRM practices by foreign firms encouraged local firms to experiment with and implement such progressive practices in order to survive the uncertainty in the market environment.

The influence of firm age in implementing SHRM practices was not significant. This finding implies that firm age or life cycles stage does not constrain or inhibit the implementation of SHRM practices; in other words firms regardless of their age, whether at growth stage or mature stage have the capabilities to implement SHRM practices. While life-cycle theory indicated that firms at different stages will implement different types of practices to address different problems (Aldrich & Langton, 1997; Verheul, 2004); Eggers, Leahy and Churchill (as cited in Aldrich & Langton, 1994) stated that age alone does not indicate the firms' ability to bring about organizational changes if the firms are not able to utilize their resources efficiently. This is supported by Huang and Cullen (2001) where it was found that the firms' age was not related to the deployment of HRM practices to influence the organizational performance. Therefore, the reason for the non-significant result of this hypothesis could be attributed to firms, at the different stages of their organizational life cycle, have to implement SHRM practices in order to compete against each other and survive in a volatile and uncertain business environment.

The significance of firm size influence on the adoption of SHRM practices implies that the implementation of SHRM practices differs between firms with different sizes. The result is complimentary to the previous findings by Ng and Maki (1993) and Wagar (1998). Possibly, firms of different sizes differs in the implementation of SHRM practices as larger firms could have more complete and sophisticated human resource systems compared to small firms, as large firms need to spread out their cost, higher level of control and image consciousness due to their higher visibility in society.

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