

EMPLOYMENT RELATIONS PRACTICES AND PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES

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ABSTRACT

Employment relations as a discipline and practice is widely known in the western business society. However, in the Malaysian context, the literature reveals limited research has examined employment relations practices, particularly among small and medium-sized enterprises (SMEs). This study attempts to examine the relationships between employment relations practices and performance of SMEs. The data was collected from 186 SMEs operating in the manufacturing sector in Malaysia by using structured questionnaire. The results of the study indicate significant relationships between employment relations practices and performance of the SMEs as measured in terms of financial, workplace performance and workplace harmony.

INTRODUCTION

The business environment is becoming more complex, dynamic and uncertain due to factors such as globalization, increasing competition, new technologies, and changing customer demands. These factors are affecting the business operations of organizations and also forcing them to seek for a more effective and efficient way to manage. With regard to this, organizations are turning to employment relations not only as a way to strengthen their operations but also as a source of competitive advantage that can help them to sustain their organizational performance as well as competitiveness (Aminuddin, 2009; Arthur, 1992)

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Employment relations and employment relations practices have gained much acceptance and have been emphasized in the literature. The emphasis on employment relations have resulted from increasing evidence that suggest companies that practice employment relations effectively are able to not only perform better financially but also enrich the workplace performance as well as sustain workplace harmony (Macduffie, 1995; Huselid, 1995; Guest et al., 2003; Cho et al., 2006).

Apart from being able to help improve organizational performance, the literature and findings of past studies indicate organizations that adopt effective employment relations practices can also enhance the performance of their employees in many other different ways. For instance, findings from more recent studies suggest that organizations that have the ability to practice employment relations effectively were able to encourage the involvement, commitment, and increase the competencies of their employees as well as improve their overall performance (Messersmith & Wales, 2011; Razouk, 2011; Sheehan, 2013).

Furthermore, as an important area of management, employment relations is also known to play a key role in preserving industrial harmony, particularly in maintaining the relationships between employers and employees at the workplace. Employment relations assist to sustain industrial harmony by emphasizing on the rights as well as the obligations of employers and employees in organisations. By focusing on the rights and obligations of both the employers and employees, employment relations help to avoid distrusts, conflicts and miscommunication, industrial actions and also prevent high turnover, low productivity, low morale and lack of job satisfaction among employees (Aminuddin, 2007).

More recently, studies have also shown that organizations that adopt effective employment relations practices have the abilities to motivate competent employees and also attract talented employees. Employment relations practices that emphasize on motivating and retaining competent as well as talented employees will improve not only their organizational commitment but also allow them to make the right decisions in order to achieve their organizational objectives (Nadarajah, Kadiresan, Kumar, Kamil, & Yusoff, 2012).

Although the literature and past studies have provided useful insights into the various benefits of employment relations, there is still little information as well as limited research that focused on employment relations practices adopted by small and medium-sized enterprises (SMEs) in the Malaysian context. In this study, an attempt is made to investigate the relationships between employment relations practices and the performance of SMEs in the manufacturing sector in Malaysia.

LITERATURE REVIEW

The literature indicates that conceptual and empirical contributions in the area of employment relations have been increasing over the years. The emphasis on employment relations practices primarily resulted from increasing evidence that indicate their positive impact on organizational performance. Findings of past studies have provided the evidence that suggest organizations that practiced employment relations experienced better performance (Sheehan, 2013; Anyim et al., 2012; Hashim, 2011a; Patel & Cardon, 2010; Paauwe, 2009; Harney & Dundon, 2007; Sels, Winne, Delmotte, et al., 2006; Huselid, 1995; Arthur, 1994).

According to the literature, past research began to investigate the relationships between employment relations and organizational performance in the early 1990s. Nonetheless, the scope and research focus of the earlier studies appear to be very fragmented in nature. Most of the earlier studies tend to confine to only limited number of employment relations practices such as compensation, training and development as well as selection. Due to this limitation, these studies were not able to capture the nature of the relationships between the various employment relations practices and organizational performance (Delaney & Huselid, 1996; Gerhart, Wright, Mahan & Snell, 2000; Ichniowski, Shaw & Prensushi, 1997; Rogers & Wright, 1998).

In one of the earlier study, Macduffie (1995) noted that organizations need to implement various employment relations practices in order to motivate their skilled and adaptable employees in their workplace in order to improve their performance. According to the study, the implementation of employment relations practices will improve productivity and enhance quality. By adopting various employment relations practices such as good compensation package, training and

development, safety and health and other employment relations practices, organizations will not only be able to increase employee performance but also the overall organizational performance.

The earlier study by Huselid (1995) attempted to investigate the relationship between employment relations practices and organizational performance based on the data collected from a sample of 1,000 firms in the United States of America (USA). The results of the study showed that the employment relations practices adopted by the American companies have statistically significant effect on their employee outcomes as measured in terms of turnover and productivity as well as their corporate financial performance.

Subsequently, the study by Delaney and Huselid (1996) also indicated that employment relations practices such as selectivity in staffing, training and incentive compensation are significantly related to organizational performance. However, the findings of this study do not support that the notion that complementarities or synergies (bundle of employment relations practices) among employment relations practices can help to enhance organizational performance.

The study by Harel and Tzafrir (1999) attempted to examine the relationships between employment relations practices and organizational performance. In the study, the researchers used perceived organizational performance measures. According to the findings of the study, the two employment relations practices that involved training activities and employee selection were found to have significant impact on perceived market performance.

In another study, Guest et al., (2003) examined the relationships between employment relations practices and performance of 366 companies in the United Kingdom. The employment relations practices examined in the study included; recruitment and selection, training and development, appraisal, financial flexibility, job design, two way communication, employment security, internal labour market, single status, harmonization and quality. In addition, the study used objective and subjective measurements of performance. Analyses of the data collected from the study revealed two significant findings. First, the study found significantly positive relationships between the employment relations practices and performance as measured in terms of lower labour turnover and higher profit per employee. Second, the finding of the study indicated a

strong association between employment relations practices, productivity and financial performance.

The study by Tzafirir (2006) showed that several specific employment relations practices contributed to improving organizational performance. These practices included; training and development, employee participation, compensation, internal labour market and selection. The study also emphasized on the need for organizations to recognize their employees' contributions since they are considered as valuable assets. In addition, the study found that employees in general are motivated to enhance organizational performance when they are given the opportunities to improve their skills knowledge and ability, offered to participate in the decision making process as well as being considered for new employment opportunities in the organizations.

In another study, Cho et al., (2006) uncovered that several employment relations practices have positive impact on turnover rate of non-managerial employees in the hospitality firms in the United States of America. The findings of this study show that the firms that specifically focused on practices such as quality of work life, participation programs, incentive plans and pre-employment tests experienced lower turnover rate among non-managerial employees.

Fey et al., (2011) in a more recent study investigated the effect of employment relations practices on performance of companies in Russia. In the study, human resource management outcome was used as a mediating variable between the employment relations practices and organizational performance relationships. By using two groups of samples (managers and non-managerial employees), the findings of this study reveal that salary level of both managers and non-managerial employees are positively associated to organizational performance. However, the findings indicate that only the promotions based on merit for managers are related to performance and job security for non-managerial employees was found to have a positive relationship with organizational performance.

RESEARCH METHODOLOGY

Sampling Frame and Procedure

The firms involved in this study consisted of selected SMEs that operated in the manufacturing sector in Malaysia. In the study, SMEs was defined as those firms that employed 10 to 300 employees. Based on this definition, 1,867 firms were identified and selected from the 2014 Federation of Malaysian Manufacturers (FFM) Directory of Malaysian Manufacturers. The data for the study were collected by using structured questionnaire. The structured questionnaires were mailed to the senior managers of the 1,867 selected firms. Out of the total number of 1,867 questionnaires mailed, 186 usable questionnaires were returned, yielding a response rate of 9.96%.

Questionnaire

The structured questionnaire adopted in this study consisted of four sections. The first and second sections of the questionnaire, which consisted of 34 items, were used to obtain the general information concerning the background of the respondents (12 items) and the characteristics of the SMEs (22 items).

The 59 items in section three of the questionnaire that were adapted from the earlier studies served as a basis for querying the six employment relations practices adopted by the firms. The six practices include; compensation (14 items), training and development (13 items), employee participation (8 items), employment security (4 items), work life balance (12 items) and safety and health (8 items). The respondents were asked to rate the importance of the practices based on a five-point scale as follows: (1) Totally disagree; (2) Disagree; (3) Slightly agree; (4) Agree; and (5) Totally agreed.

In section four, nine items were adopted to measure the financial and non financial performance of the SMEs. The financial performance include sales, gross profit, assets and equity. The non financial performance was measured in terms of workplace performance and workplace harmony. The measures of workplace performance include; productivity, employee turnover and employee absenteeism. In addition, the workplace harmony is measured by using number of disciplinary actions and number of grievances. The questionnaire was tested before posting to the

respondents. Table 1 presents the coefficient alpha scores of the items used to measure the six employment relations practices investigated in the study.

Table 1: Measures and Reliability Scores

Variable	No. of item	Alpha (α)
Employment Relations Practices		
Compensation	14	.893
Training and development	13	.891
Employee participation	8	.795
Employment Security	4	.742
Work life balance	12	.773
Safety and health	8	.867

THE RESULTS

Profile of the Respondents

The profile of the respondents that participated in this study is presented in Table 2. Of the 186 respondents involved in the study, 94 respondents (50.5%) were managers, 60 respondents (32.2%) were ownerscum managers, another 18 respondents (9.7%) were owners as well as Chief Executive Officers (CEO), six (3.2%) were owners but not managers and the remaining eight respondents (4.3%) were executives.

As far as the race of the respondents are concerned, Chinese made up of 77.4% of the total respondents. This is followed by Malays (15.1%), Indians (3.8%) and the other races such as Eurasian and Japanese (3.8 %). Most of the respondents were male and married. The age of the respondents ranged from 26 years old to more than 40 years old.

In terms of education, 155 (83.3%) of the respondents had a bachelor degree, five (2.7%) had a master's degree, one (5%) had a PhD degree, 18 (9.7%) had a diploma, and seven (3.8%) had

only a secondary school certificate. Most of the respondents had been with their companies for more than a year. As for prior work experience, majority of the respondents (87.1%) have less than 10 years of experience.

Table 2 The Profile of the Respondents

	Frequency	Percentage
Position		
Owner and CEO (Managing Director)	18	9.7
Owner and a manager	60	32.3
Manager, but not an owner	94	50.5
Owner, but not a manager	6	3.2
Others	8	4.3
Ethnic		
Malay	28	15.1
Chinese	144	77.4
Indian	7	3.8
Other	7	3.8
Gender		
Male	153	82.3
Female	32	17.7
Marital Status		
Married	122	65.6
Remarried	5	2.7
Never married or single	51	27.4
Divorced or separated	5	2.7
Widowed	3	1.6

Level of Education		
School certificate	7	3.8
Diploma	18	9.7
Bachelor's Degree	155	83.3
Master's Degree	5	2.7
PhD Degree	1	.5
Year of Experience		
1-5years	84	45.2
6-10 years	78	41.9
11-15 years	12	6.5
16-20 years	9	4.8
More than 30 years	3	1.6

Characteristics of the Sample Firms

Table 3 displays the characteristics of the manufacturing firms that participated in the study. Out of the total number of 186 companies, 46 were private limited companies, 67 companies were partnerships, and the remaining 73 companies were sole proprietors. In terms of employment, 73 companies (39.0%) employed between 10 to 50 employees, 57 companies (30.5%) employed between 51 to 100 employees, 25 companies (13.4%) employed between 151 to 200 employees, 10 companies employed (5.3%) and the remaining 4 companies (2.1%) employed between 251 to 300 employees.

The 186 firms operated in different industries. Of the 186 firms, 30 companies (16.1%) were involved in metal products industry, 22 companies (11.8%) operated in the plastic product industries, 19 companies (10.2%) represented the food and beverage industry, 19 companies (10.2%) were involved in motor vehicles industries, 16 companies (8.6%) operated in the chemical industry, 15 companies involved in electrical industries and the remaining 65 companies represented the other industries such as ceramic, concrete, customer products, fertilizer, furniture and fixtures, hardware and machinery, textile, motor vehicles, non-metal

products, paper products, printing, pharmaceuticals, wood, vegetable and animal oils and fat products, and rubber products. Of the 186 firms, 98 firms (52.9%) had been in operations for more than 10 years. The remaining 88 firms (47.1%) had been in business for more than 20 years.

Table 3: The Characteristics of the Sample Firm

	Frequency	Percentage
Legal Form of Business		
Sole proprietorship	73	39.2
Partnership	67	36.0
Private limited company	46	24.8
Number of employees		
10 to 50 employees	73	39.0
51 to 100 employees	57	30.5
101 to 150 employees	25	13.4
151 to 200 employees	18	9.6
201 to 250 employees	10	5.3
251 to 300 employees	4	2.1
Industry		
Ceramic	2	1.1
Chemicals	16	8.6
Concrete	1	.5
Customer Product	1	.5
Electrical	15	8.1
Fertilizer	2	1.1
Food and Beverage	19	10.2
Furniture	4	2.2
Machinery	10	5.4
Pharmaceuticals	5	2.7
Metal Product	30	16.1
Motor Vehicles	19	10.2

Non Metal Products	6	3.2
Paper Products	5	2.7
Plastic Products	22	11.8
Printing	11	5.9
Rubber	7	3.8
Textile	2	1.1
Communication Product	3	1.6
Vegetable and Animal Oil and Fats	4	2.2
Wood	2	1.1
Age of firms		
3 to 5 years	2	1.1
6 to 10 years	5	2.7
11 to 15 years	41	21.9
16 to 20 years	51	27.3
More than 20 years	88	47.1

Employment Relations Practices and Performance of SMEs

The results of the correlations between the six employment relations practices adopted by the SMEs and their performance are presented in Table 1, Table 2 and Table 3. As indicated in Table 1, the results show significant positive relationships between three of the employment relations practices (employee participation, employment security, safety and health) and the financial performance of the SMEs as measured in terms of sales, gross profit, assets and equity. The results however indicate that compensation, training and development and work life balance were found to be not related to the financial performance of the SMEs

Table 1: Correlations between Employment Relations Practices and Financial Performance

Employment Relations Practices/Performance	Sales	Gross Profit	Assets	Equity
Compensation	.068	.022	.019	.009
Training and Development	.009	.016	.036	.022

Employee Participation	.223**	.293**	.260**	.304**
Employment Security	.275**	.321**	.215*	.213**
Work Life Balance	.052	-.047	-.043	.008
Safety and Health	.274**	.379**	.445**	.372**

Table 2 shows the results of the relationships between the employment relations practices and workplace performance as measured in terms of productivity, employee turnover and employee absenteeism. As presented in Table 2, the results indicate significant positive relationships between three employment relations practices (employee participation, employment security, safety and health) and productivity, employee turnover and employee absenteeism. Similarly, the results reveal that there is no significant relationships between compensation, training and development, work life balance and the workplace performance.

Table 2: Correlations between Employment Relations Practices and Workplace Performance

Employment Relations Practices/Workplace Performance	Productivity	Turnover	Absenteeism
Compensation	.117	.003	.027
Training and Development	-.109	.006	-.025
Employee Participation	.334**	.220**	.310**
Employment Security	.208**	.424**	.211**
Work Life Balance	.076	-.014	.056
Safety and Health	.388**	.255**	.398**

Table 3 presents the results of the relationships between the employment relations practices and performance of the SMEs as measured in terms of workplace harmony. As showed in Table 3, the results suggest significant positive relationships between three employment relations practices (employee participation, employment security, safety and health) and workplace harmony. The results indicate no relationship between compensation, training and development, work life balance and the workplace harmony.

Table 3: Correlations between Employment Relations Practices and Workplace Harmony

Employment Relations Practices/Harmony	Disciplinary	Grievances
Compensation	.125	.086
Training and Development	-.074	-.082
Employee Participation	.217**	.260**
Employment Security	.411**	.175*
Work Life Balance	-.030	.119
Safety and Health	.054	.303**

DISCUSSION AND CONCLUSION

The results of the correlation analyses of the data collected from the 186 SMEs indicate some statistically significant relationships between employment relations practices and performance of the firms in the study. The results of the study add support to previous studies that indicate the relationships that existed between employment relations practices and organizational performance (Sheehan 2013; Messersmith & Wales, 2011; Chiang & Birtch, 2010; Vlachos, 2009; Baptiste, 2008; Stajkovic & Luthans, 2001; Pfeffer, 1998; Delaney & Huselid, 1996; Bryson et al., 2006; Rotenberry & Moberg, 2007; Hashim, 2011; Wilkinson & Fay, 2011).

Several findings can be summarized based the results of this study, First, the empirical evidence from this study suggest that employment relations practices are positively related to performance of SMEs, particularly in terms of financial as well as nonfinancial performance as measured in terms of workplace performance and workplace harmony. Second, in terms of the employment relations practices adopted by the SMEs, the results of the study suggest that the 186 firms in the study followed the practices as highlighted in the literature. Third, at the general level, the findings of the study indicate that the 186 firms that participated in the study practiced employment relations that promote performance.

In addition, the findings of the study offer some managerial implications for SMEs in Malaysia. The findings of this study indicate the association between employment relations practices and organizational performance of SMEs. The positive relationships between employment relations

practices and the performance of the SMEs suggest that these practices are important for SMEs attempting to sustain their performance. As such, in order to ensure that their firms would continue to perform, owners and managers of SMEs need to be concerned with promoting the employment relations practices that can enhance their performance.

Last but not least, this study appears to support the notion that employment relations practices are related positively to the performance of SMEs. In view of this, it is worthwhile for SMEs to make every attempt to adopt employment relations practices that are effective. Effective employment relations practices can be developed through training and development in SMEs. In particular, the owner and managers of the SMEs need to intensify their training and development efforts that will help them to identify as well as develop effective employment relations practices in their organizations. By increasing their commitment and efforts in strengthening their employment relations practices, SMEs would be able to sustain their performance as well as cope with the rapid changes in their business environment.

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