



UNIVERSITI PUTRA MALAYSIA

**RELATIONSHIP BETWEEN MANUFACTURING STRATEGY,
STRATEGIC HUMAN RESOURCE MANAGEMENT PRACTICES
ORGANIZATIONAL PERFORMANCE**

HAZRIL IZWAR HAJI IBRAHIM.

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PRACTICES AND ORGANIZATIONAL PERFORMANCE**

By

HAZRIL IZWAR B. HAJI IBRAHIM

**Thesis Submitted to the Graduate School of Management,
Universiti Putra Malaysia, in Fulfillment of the
Requirement for the Degree of Doctor of Philosophy**

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This thesis is dedicated to my parents, Hj. Ibrahim Mohd. Noor and Hjh. Khatijah Hassan; my wife, Emilia Contesa Ginting and my two sons, Luqman Haniff and Danish Aidan.

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment
of the requirement for the degree of Doctor of Philosophy

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This study examines the relationship between manufacturing strategy, strategic human resource management (SHRM) practices and organizational performance. This research attempts to investigate the significance of SHRM practices in a mediating role between manufacturing strategies such as cost, quality, flexibility and speed and organizational performance. The study also investigates the interaction between SHRM practices and organizational context variables and its' effect on organizational performance. The study employs multiple regression, structural equation modeling (SEM) and path analysis to measure the relationship between manufacturing strategy, SHRM practices and organizational performance in the first sequence of the conceptual framework. The study utilizes two-way ANOVA to test the effect of the interaction between SHRM practices and organizational context variables such as country of origin, firm size, firm age and union, on organizational performance. A total of one hundred and twenty-one (121) manufacturing firms in the electrical and electronic sector in Malaysia have participated in this study. The

analysis of the findings indicates significant relationship between SHRM practices and organizational performance. The study also finds that quality and flexibility are significantly related to SHRM practices. The result indicates that only cost strategy significantly predicts organizational performance. The study has proven SHRM practices as significant in a mediating role in the relationship between cost, quality and speed and organizational performance. Finally, the result indicates that none of the interaction between SHRM practices and organizational context variables such as country of origin, firm size, firm age and union, have any significant effect on organizational performance.

In conclusion, the study discovers that the implementation of SHRM practices is important in order for firms to achieve their operational objective. The study also finds that SHRM practices mediate the relationship between manufacturing strategies such as cost, quality and speed and organizational performance and the interaction between SHRM practices and organizational context variables have no significant effect on organizational performance.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PERHUBUNGAN DI ANTARA STRATEGI PEMBUATAN, AMALAN STRATEGIK PENGURUSAN SUMBER MANUSIA DAN PRESTASI ORGANISASI

Oleh

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Kajian ini menyelidiki perhubungan di antara strategi pembuatan, amalan strategik pengurusan sumber manusia dan prestasi organisasi. Kajian ini juga menyelidiki kepentingan amalan strategik pengurusan sumber manusia di dalam mengimbangi perhubungan di antara strategi pembuatan seperti kos, kualiti, fleksibiliti dan kecepatan dengan prestasi organisasi. Kajian ini turut menganalisa kesan interaksi di antara amalan strategik pengurusan sumber manusia dan ciri-ciri organisasi seperti negara asal, saiz, umur dan kesatuan pekerja ke atas prestasi organisasi. Kaedah statistik seperti “multiple regression”, “structural equation modeling” (SEM) dan analisa arah (path analysis) digunakan untuk menganalisa perhubungan di antara strategi pembuatan, amalan strategik pengurusan sumber manusia dan prestasi organisasi. Kaedah “two-way ANOVA” digunakan untuk menganalisa kesan interaksi di antara amalan strategik pengurusan sumber manusia dan ciri-ciri organisasi ke atas prestasi organisasi. Data untuk kajian ini diperolehi dengan

penyertaan 121 buah syarikat perkilangan di dalam sektor eletrikal dan elektronik di Malaysia. Hasil kajian menunjukkan wujudnya perhubungan yang penting di antara amalan strategik pengurusan sumber manusia dan prestasi organisasi. Keputusan statistik juga menunjukkan perhubungan di antara strategi kualiti dan fleksibiliti dengan amalan strategik pengurusan sumber manusia. Strategi kos didapati penting dalam mempengaruhi prestasi organisasi. Amalan strategik pengurusan sumber manusia juga dibuktikan penting di dalam mengimbangi hubungan di antara kos, kualiti dan kecepatan dengan prestasi organisasi. Akhir sekali, kajian ini menemui bahawa interaksi di antara amalan strategik pengurusan sumber manusia dan ciri-ciri organisasi tidak memberi sebarang kesan ke atas prestasi organisasi.

Daripada kajian ini, dapatlah dirumuskan bahawa penerapan amalan strategik pengurusan sumber manusia amat penting di dalam usaha firma-firma mencapai objektif pengeluaran mereka. Kajian ini juga menemukan bahawa hubungan di antara strategi-strategi seperti kos, kualiti dan kecepatan dengan prestasi organisasi diimbangi oleh amalan strategik pengurusan sumber manusia. Interaksi di antara amalan strategik pengurusan sumber manusia dan ciri-ciri organisasi tidak menunjukkan sebarang kesan penting ke atas prestasi organisasi.

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LIST OF ABBREVIATIONS

HRM	Human resource management
SHRM	Strategic human resource management
FMM	Federation of Malaysian Manufacturers
NEAC	National Economic Action Council



Chapter 1

Introduction

1.1 Introduction

The forces of globalization are fast sweeping across the world and the major outcome of this phenomenon is that it has greatly intensified competition. In the global era, companies must be able to compete with other companies located in other parts of the world. This requires the firms to be supple and adaptable to meet the competitive challenges (Khatri, 1999; Kidger, 2002). Creating competitive advantage has become essential for the survival and success of the organization as traditional sources of competitive advantage such as patents, economies of scale, access to capital and market regulation have become less important in the current global economic environment than they have in the past (Paul & Anantharaman, 2002).

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).

As a result of economic, political, social and technological changes ushered by globalization, have led to new demands on organizations in order to acquire or maintain competitive advantage, there has been increased emphasis on human resource management (HRM) in the last decade as firms begin to realize the benefit from the utilization of employees towards achieving organizational goals (Syren, 1998; Tham, 2004). Human resource management is a distinctive approach to employment management, which considers the human resources as the organizations most important asset. Therefore, HRM is developed as a possible tool for organizations to achieve competitive advantage, efficiency and survival in the constantly changing world of business today (Nur, 2003; Tham, 2004).

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. As noted by Rundle (1997) people are the adaptive mechanism in determining how they will respond to 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 thesis is the strategic deployment of a highly skilled, knowledgeable and capable workforce to achieve competitive advantage and meet organizational goals.

1.2 Background of Study

The move towards market liberalization, preceded or forced by globalization, in many countries has been reflected in deregulatory policies by governments, including reduction of tariff barriers, facilitating the flows of capital and investment, and privatization of State owned enterprises. The phenomenon of globalization has been facilitated by the significant growth in world trade and foreign direct investment and by information technology which have facilitated rapid financial transactions and changes in production and service locations around the world (MacDonald, 1997; Chirathivat & Mansoob, 2001). Firms of varying sizes, both domestic and multinational, are part of the dynamic, global environment, where business strategies, organizational structures and HRM policies have to be continually re- appraised to provide flexibility and innovation required for ongoing competitiveness (Evans, Pucik & Barsoux, 2002).

The process of globalization has brought with it the need for increased competitiveness at the level of the individual enterprise. A number of consequences

have resulted from the restructuring of the economy including relocation of factories to cheaper locations, unemployment and retrenchment in the manufacturing sector, re-training and disturbances in traditional industrial relations arrangements (Warner, 2001; MacDonald, 1997). According to De Cieri (2003) the impact of such volatile business environment has led to varying outcomes across different countries and industries in Asia-Pacific. Among them are reengineering, restructuring, retrenchment, recruitment and retention of employees. All the above factors require a different breed of organizational form and employee type in order to exploit available opportunities and succeed against fierce global competition (Perkins, 2003; Novicevic & Harvey, 2001). One of the key challenges for organizations is to attract, retain and develop the right type of employees (Ashraff, 2002). According to Mendenhall, Black, Jensen and Gregersen (2002) people are the key to effective globalization and failure to identify the “people problems” results in faltering globalization efforts.

Sheehan (2005) stated that in the increasing international competition, organizations need to invest more in human resources as to turn the employees into knowledge workers, who are involved in the acquisition, creation, packaging and application of knowledge. Drucker (1993) posited that in many organizations these knowledge workers actually own the organization’s means of production.

Bhattacharya and Wright (2005) defined the situation involving human resources and volatile environment as the “uncertainties of returns”, which may stem from

skill obsolescence or inability to learn new skills; where, in a globalized economy, the pervasiveness of complex technology in all spheres of business and the rapid change in technology created great risks that an employee is unable to keep up with these changes or unable to learn new skills. Therefore the performance of an employee may not remain the same and the return on human investment may be affected. If employees fail to adapt their skill and knowledge, obsolescence of skills becomes a major risk to the firm (Bhattacharya & Wright, 2005; Wright, Snell & Dyer, 2005).

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.

Whatever the reasons provided by the literature, 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 lie 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 work system and a focused approach.

A major difference between human assets and other forms of real assets is that firms never 'possess' human assets in the true sense. Employees may leave the organization taking critical skills with them resulting in human capital loss. Voluntary turnover has become a major risk for organizations; research on turnover has found that individual factors, like overall job dissatisfaction with issues like