



UNIVERSITI PUTRA MALAYSIA

**THE NATURE OF HUMAN RESOURCE MANAGEMENT AND
ORGANIZATIONAL CHANGE IN MALAYSIAN SMALL AND
MEDIUM SIZED ENTERPRISES (SMES)**

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ORGANIZATIONAL CHANGE IN MALAYSIAN SMALL AND
MEDIUM SIZED ENTERPRISES (SMES)**

**By
NUR ANISAH ABDULLAH**

**Thesis Submitted in Fulfillment of the Requirements for the Degree of
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Mac 2000



ABSTRACT

Abstract of thesis submitted to the Senate of University Putra Malaysia in Fulfillment of the requirements for the degree of Master of Science in Management.

THE NATURE OF HUMAN RESOURCE MANAGEMENT PRACTICES AND ORGANIZATIONAL CHANGE OF MALAYSIAN SMALL AND MEDIUM SIZED ENTERPRISES (SMES)

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Faculty: Malaysian Graduate School Of Management

This study examined the broad nature of patterns and trends in the human resource management practices and organizational change in SMEs in Malaysia, by focusing on how organizational characteristics, such as, size, union status and corporate ideology, influence the use of those practices.

The data were obtained from a survey involving 219 small and medium-sized enterprises (SMEs). It is often argued that larger and older organizations have the strengths to perform better and that they have resources to implement most strategies. The discussions will clarify some general assumptions made on SMEs management practices.

The analysis of the data revealed that most of the SMEs were in the manufacturing sector/industry. A majority of them were non-unionized.

The findings of this study were divided into three sections. The first section discussed the analysis of human resource management (HRM) practices adopted by the SMEs. The second section touched on the analysis of organizational change implemented by SMEs and finally, the last section present the statistical analysis on the hypotheses testing to analyzed two models.

The first model, consisted of a group of three hypotheses, is to examine the relationship between the HRM practices and the firm's characteristics. The second model, also consisted of a group of three hypotheses, is to examine the relationship between the implementation of organizational change practices and the firm's characteristics.

Overall results suggest a high level of adoption of HRM practices. However, quite a number of SMEs did not hire personnel/HRM specialists. Those who have hired the specialists were the larger firms.

Eighty three percent of the respondents had altered their practices to achieve their goals. More changes had taken place in the past three years than in the last five years. This would indicate that there is significant degree of change being undertaken. The congruity of implementation levels of change in work practices across each firm size category has indicated that there is a need for flexible work patterns in the Malaysian SMEs. The analysis showed that SMEs of all categories implemented changes which include, for example, 'Improved in labor productivity', 'Increased competitiveness' and 'Employing new plant, equipment of technology'.

It was also found that the SMEs were market-driven and competitive. The results revealed that workforce reduction was not commonly practiced.

There was sufficient statistical evidence to support the first model. It was found that there is existence of some relationships between HRM and the firm's characteristics. Progressive Decision-Making Ideology (PDM), as one of the firm's characteristics, was found to be the most important determinant in the adoption of HRM practices. Firm size, as the second firm characteristic, was found to be positively related to the adoption of HRM practices but as a less important determinant.

Union status, the third and last firm characteristic, was found to be negatively related, and was the least important in influencing the adoption of HRM practices in the SMEs.

The second model, that is, to examine the relationship between implementation of organizational change practices and the firm's characteristics, which include, PDM, firm size and union status, was not supported statistically.

ABSTRAK

Abstrak tesis dikemukakan kepada Senat Universiti Putra Malaysia sebagai
memenuhi keperluan Ijazah Master Sains.

SIFAT DAN AMALAN PENGURUSAN SUMBER MANUSIA DAN PERUBAHAN ORGANISASI DI KALANGAN SYARIKAT-SYARIKAT KECIL DAN SEDERHANA (SKS) DI MALAYSIA.

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Kajian ini menyelidiki sifat-sifat umum dan corak dan arah aliran dalam amalan pengurusan sumber manusia dan perubahan organisasi syarikat-syarikat kecil dan sederhana (SKS) di Malaysia. Tumpuan diberi kepada bagaimana ciri-ciri organisasi seperti saiz, status kesatuan dan ideologi korporat mempengaruhi amalan tersebut.

Data-data telah diperolehi daripada tinjauan yang melibatkan 219 syarikat kecil dan sederhana (SKS). Kerap kali telah diperbahaskan bahawa organisasi yang besar dan lama lebih berpotensi dan mempunyai sumber yang mencukupi bagi melaksanakan strategi-strategi mereka. Perbincangan ini akan menjelaskan beberapa tanggapan umum tentang amalan SKS.

Hasil kajian data-data menunjukkan bahawa kebanyakan SKS adalah didalam sektor/industri pembuatan. Majoriti tidak mempunyai kesatuan pekerja.

Hasil kajian ini terbahagi kepada tiga bahagian. Bahagian pertama membincangkan tentang analisa amalan pengurusan sumber manusia yang dilaksanakan oleh SKS. Bahagian kedua pula menyentuh mengenai analisa perubahan organisasi yang dilaksanakan oleh SKS. Bahagian terakhir pula memberikan analisa statistik bagi ujian hipotesis keatas 2 model.

Model pertama merupakan satu kumpulan yang mempunyai 3 hipotesis yang berlainan. Model ini digunakan untuk menentukan perhubungan antara amalan pengurusan sumber manusia (HRM) dengan ciri-ciri syarikat.

Model kedua juga mempunyai satu kumpulan 3 hypotesis untuk menentukan hubungan antara perlaksanaan perubahan organisasi dan ciri-ciri syarikat.

Hasil keseluruhan kajian memperlihatkan tahap penggunaan amalan HRM yang tinggi. Walau bagaimana, sebilangan kecil daripada mereka tidak mengaji pengurus/pakar HRM. Hanya syarikat-syarikat yang lebih besar mempunyai pakar dalam HRM.

Didapati bahawa lapan puluh tiga peratus daripada responden telah mengubah amalan mereka demi mencapai objektif syarikat. Lebih banyak perubahan telah berlaku didalam syarikat-syarikat tersebut disepanjang 3 tahun lepas, berbanding 5 tahun lepas. Ini menggambarkan perubahan penting yang telah berlaku.

Perlaksanaan perubahan dalam amalan kerja yang konsisten dikalangan setiap kategori firma menandakan bahawa SKS dipengaruhi oleh keadaan pasaran dan mempunyai daya saing. Hasil kajian juga menunjukkan bahawa amalan pengurangan tenaga pekerja bukanlah satu kebiasaan di kalangan SKS di Malaysia.

Terdapat cukup bukti untuk menyokong Model pertama, yakni wujudnya hubungan antara HRM dan ciri-ciri syarikat. PDM, sebagai salah satu daripada ciri syarikat adalah faktor terpenting didalam perlaksanaan amalan HRM. Saiz firma mempunyai hubungan positif dengan perlaksanaan HRM, akan tetapi kepentingannya agak kurang berbanding dengan PDM. Status kesatuan didapati berkuat secara negatif dan paling tidak penting dalam menentukan perlaksanaan amalan HRM dalam SKS.

Model kedua, iaitu perhubungan antara pelaksanaan perubahan organisasi dan ciri-ciri syarikat tidak disokong oleh bukti-bukti statistik.

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I came into the teaching profession with the intention of pursuing higher academic achievements and of course, to find a living. It never occurred to me the level of commitment and discipline entailed with this Master program which I started in about three years ago. Probably, then, I only had Naimi, my eldest daughter. In the midst of the program, I conceived Mohammad Imran in 1996, and Abdul Jabbar in 1998. I take these challenges as a learning process. And in the process, there are many people whom I owe great gratitude to.

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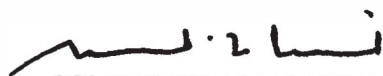
Last but not the least, Allah has been kind to me and my family. Alhamdudillah I have finally completed my Master program.

I certify that an Examination Committee has met on 2nd March 2000 to conduct the final examination on Nur Anisah Abdullah on her Master of Science thesis entitled " The Nature of Human Resource Management Practices and Organizational Change in Malaysian Small and Medium Sized Enterprises (SMEs)" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommended that the candidate be awarded the relevant degree. The Committee members for the candidate are as follows:

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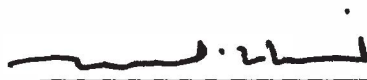
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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.



NUR ANISAH ABDULLAH

Date:

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LIST OF ABBREVIATIONS

Abbreviation		Meanings
1	SMEs	Small and Medium-sized Enterprises
2	SMIDEC	Small and Medium Industry Development Corporation.
3	APEC	Asia Pacific Economic Cooperation
4	HRM	Human Resource Management
5	ER	Employee Relation
6	PDM	Progressive Decision Making Ideology
7	ANOVA	Analysis of Variance
8	GDP	Gross Domestic Product

CHAPTER ONE

INTRODUCTION

This paper presents the results of a survey on Human Resource Management (HRM) and Organizational Change Management Practices in Malaysian Small and Medium Sized Enterprises (SMEs). The paper focuses on the prevailing HRM Practices in SMEs, and the extent of change engaged by these categories of firms. Some comparative assessment on the nature of HRM practices between Malaysia and Australia are also made.

This study is based on the earlier work of Jim McDonald and Retha Wiesner. They have been actively involved in research, specifically in HR practices, industrial relations and organizational change on SMEs in Australia.

SMEs are defined in many ways (Johns et al, 1989; Von Potosky, 1992; Storey, 1994; Cutcher-Gershenfeld et al. 1996; Osteryoung et al.1995), with variations across countries and industry sectors (Atkins and Lowe, 1996). There is no firm consensus on the size range for defining SMEs between countries and within the same country there may be variations in the literature for determining the size of an SME. Generally, the criteria for the definition of SME have included the number of employees (size), type of ownership, degree of independence, nature of managerial processes, use of business planning, turnover rates and value of assets (Atkins and Lowe, 1996; Bacon et al., 1996; Duberly and Walley, 1995; Hornsby and Kuratko, 1990; Joyce et al. 1990; Osteryoung, 1995).

Atkins and Lowe (1996) review of the basis for defining an SME in 50 empirical studies found that 34 used employee numbers as the criterion for determining size. For example, in the USA upper limits as high as 500 and as low as 100 have been applied to small business (Hornsby and Kuratko,1990; Osteryoung,et al 1995). In the UK, numbers as high as 500 have also been applied (Duberly and Walley,1995) and , more frequently, an upper limit of 200 (Atkins and Lowe, 1996; Bacon et al., 1996; Joyce et al. 1990). McDonald and Wiesner (1998) following Baron (1995), adopted the size range of 20-200 on the basis that firms smaller than 20 employees in size would be unlikely to have HRM and organizational change issues to the degree that firms in the range would. They adopted the Australian Bureau of Statistics definition of small manufacturing businesses as having between 20-100 employees, with medium sized businesses ranging from 100-199 employees.

Notwithstanding that the Ministry of International Trade and Industry of Malaysia defines SMEs as firms with not more than 150 employees, we have adopted McDonald and Wiesner's definition. Since their sample was determined according to size and as well as other characteristics, they proceeded to include cases of less than 20 employees and in excess of 200 employees in their data on the assumption that firms downsize and re-size and that it was not likely that they would lie substantially outside the range. This assumption is also applied to this study. Specifically, in this study 25% of the respondents had more than 200 employees.

In both this study and the Australian study by McDonald and Wiesner most of the categories of the workforce remained unchanged in majority of SMEs with the largest increases in the number of women and casual workers employed. Growth in permanent full-time employment, the number of women in the firm and in junior employees or trainees was significantly higher in this study than in the Australian survey.

Background

Much literature has been written for Small and Medium sized Industries (SMIs) or Small and Medium-sized Enterprises (SMEs) in Malaysia, which focused on, international marketing and export management (Zaili, 1998), industrialization: problems and prospects, (Ismail, 1990), strategies and promotion for small scale industries (Chee, 1990), quality awareness (Salleh, 1999), and others on development and finance.

There were papers written on human resource management (HRM) practices concentrating mainly on large organization (Storey, 1992), while all organizations regardless of size have to compete within these changing environments (Bonvillian, 1997; Collins, 1993; and Limerick, 1992). It however, should not be an excuse to assume that practices used by large firms are necessary beneficial or practical for smaller businesses.