



UNIVERSITI PUTRA MALAYSIA

**A STUDY ON HUMAN RESOURCE MANAGEMENT
PRACTICES IN SELECTED FINANCIAL INSTITUTIONS IN
MALAYSIA**

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**A STUDY ON HUMAN RESOURCE MANAGEMENT PRACTICES
IN SELECTED FINANCIAL INSTITUTIONS IN MALAYSIA**

By

ANITA BINTI ISMAIL

**Thesis Submitted in Fulfilment of the Requirements for the
Degree of Master of Science in the Faculty of
Economics and Management
Universiti Putra Malaysia.**

May 1999



*To my loving husband; Sharbani
To my loving mum; Maimunah
In memory Ismail and Halim*



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Human resource management (HRM) practices are part of the system and processes that are expected to be consistent with strategy. The logic connecting HRM practices and organisational is intuitively appealing, supported by theoretical arguments from a number of disciplines.

The future organisation demand is to recognise itself to become effective in responding to changing environment needs. The organisation must reorganise itself to match the changing needs of its employees. Organisation also must develop a new approach to manage human resources to be effective and better result oriented.



This study extends empirical research on the organisation-level impact of HRM practices. A unique national probability sample financial institutions to evaluate the association between a variety of HRM practices dimensions and perceptual measures of organisational performance, organisational climate, and quality of work life. The HRM practices focused on the twenty-five most commonly recognised area of HRM.

Some important methodological issues that merit better understanding the relationship between HRM practices and organisational performance was used. The organisation selected in this study were financial institutions around Selangor and Kuala Lumpur. A structured questionnaire was developed as an instrument in collecting data. The data collected was analysed using Statistical Package for Social Science (SPSS). Descriptive statistics such as frequencies, one way ANOVA, t-test, correlation, and multiple regression was used to analyse and conclude the relationship of HRM practices and organisational performance, organisational climate, and quality of work life.

This study was to examine whether the dimensions of HRM practices have relationship with organisational performance, organisational climate, and quality of work life. This was examined by comparing three levels of employees in industrial setting represented by financial institutions in Malaysia. The results showed that subgroup analyses of employees

indicated that there are no differences in the perception of HRM practices, organisational performance, and quality of work life, but there is a difference in the perception of organisational climate.

The HRM practices of the financial institutions are found to have positively correlated to organisational performance and quality of work life, but negatively correlated with organisational climate. In an analysis of sector-wise comparison, it was found that no inter-group differences in their perception of HRM practices, organisational performance, organisational climate, and quality of work life between the sector. The study has shown that identification of HRM practices promises to add significantly to understanding the relationship between HRM practices on organisational performance, organisational climate, and quality of work life.



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**KAJIAN AMALAN PENGURUSAN SUMBER MANUSIA
DI INSTITUSI KEWANGAN DI MALAYSIA**

Oleh

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Amalan pengurusan sumber manusia (PSM) adalah sebahagian daripada sistem dan proses yang seiring dengan strategi organisasi. Perhubungan di antara amalan PSM dan organisasi adalah merupakan intuisi yang didapati daripada berbagai-bagai disiplin yang mendorong kepada perbezaan teori-teori tersebut.

Keperluan masa hadapan organisasi adalah mendorong kepada keberkesanannya bertindakbalas terhadap perubahan persekitaran. Setiap organisasi perlu mengenalpasti matlamat dan pekerja perlu menyesuaikan diri dengan perubahan tersebut. Organisasi juga perlu membentuk pendekatan baru untuk mengurus sumber manusia yang sedia ada supaya lebih berkesan dan juga berorientasikan matlamat organisasi.



Kajian ini juga menyokong kepada kajian-kajian empirikal terdahulu iaitu kesan ke atas amalan PSM organisasi. Kajian ke atas institusi kewangan di Malaysia telah dipilih untuk mengkaji perhubungan di antara beberapa amalan PSM dan persepsi pekerja terhadap prestasi organisasi, iklim organisasi dan mutu kehidupan kerja. Amalan PSM yang digunakan adalah merujuk kepada 25 jenis amalan yang selalu dipraktikkan di dalam bidang sumber manusia.

Beberapa kaedah metodologi digunakan untuk mengkaji beberapa perhubungan di antara amalan PSM dengan prestasi organisasi, iklim organisasi dan mutu kehidupan kerja. Organisasi yang dipilih adalah institusi kewangan di sekitar Selangor dan Kuala Lumpur. Pembentukan soal selidik digunakan sebagai alat pengumpulan data. Data yang dikumpul telah di analisa dengan menggunakan **Statistical Package for Social Science (SPSS)**. Statistik deskriptif seperti kekerapan, ANOVA satu hala, ujian t, korelasi dan regrasi berbagai digunakan untuk menganalisa dan memberi kesimpulan terhadap perhubungan amalan PSM tersebut.

Kajian ini adalah untuk menentukan sama ada dimensi amalan PSM mempunyai perhubungan dengan prestasi organisasi, iklim organisasi, dan mutu kehidupan kerja. Kajian ini juga membandingkan tiga peringkat pekerja organisasi di institusi kewangan di Malaysia. Analisa keputusan kajian ke atas sub-kumpulan pekerja menunjukkan bahawa tiada perbezaan



persepsi terhadap amalan PSM, prestasi organisasi dan mutu kehidupan kerja di antara mereka, tetapi menunjukkan perbezaan persepsi ke atas iklim organisasi.

Amalan PSM di institusi kewangan juga menunjukkan perhubungan yang positif dengan prestasi organisasi dan mutu kehidupan kerja, tetapi perhubungan yang negatif kepada perhubungan dengan iklim organisasi. Di dalam analisa perbandingan antara sektor di institusi kewangan, didapati bahawa tiada perbezaan persepsi terhadap amalan PSM, prestasi organisasi, iklim organisasi dan mutu kehidupan kerja. Kajian ini merumuskan bahawa amalan PSM menghasilkan beberapa perhubungan yang penting dengan prestasi organisasi, iklim organisasi dan mutu kehidupan kerja.

CHAPTER I

INTRODUCTION

Human resource management (HRM) is the utilisation of human resources to achieve organisational objectives. The human resource manager is responsible for co-ordinating the management of human resources to assist the organisation to achieve its goals (Drum, 1994).

The field of HRM has changed dramatically during the 1980s and early 1990s, created a greatly expanded role for the human resource manager. The 1980s saw the introduction of various concepts in the management of human resource. With the increased competition in both national and global arenas, it has forced managers to consider all resources within the organisation, paying specific attention to the effective management of human resource. This has led to declarations such as 'People are Our Most Valued Asset' (Fair, 1992), and 'Our People Our Business' (Hendry, 1995). The reappraisals of the way people are managed has led to the development of various practices towards HRM (Harrison, 1993).



Among such strategies are the instrumental approaches where human resource is viewed as rationally as any other economic factor and the humanistic approach emphasising the softer aspects of HRM such as organisational culture and employee commitment.

There remains a gap between the rhetoric and the reality in many companies in the matching of the human resource strategies with the organisation strategies. It is extremely difficult for companies to change the way people are managed. This is the main cause for the constant development in the HRM field. However, as noted by Walker (1992), policies and programmes are not always current with changing business priorities. Many of the practices keep and help the companies up or at par with their competitors and do not provide any competitive advantage. Consequently the full utilisation of the human resource in the organisation is not achieved.

The rapidity of change in the business environment has engendered variety of responses within and among industrial organisations (Peters, 1990; and Ohmae, 1990). Durable competitive advantages have dissipated in the face of strong challenge both domestically and internationally (Pfeffer, 1994). As the economy becomes increasingly service and knowledge-based, the human resources become the repository of the organisation's core competence and source of competitive advantage. Consequently,

HRM is increasingly viewed as a strategic function and integrated in the management of the business (Pfeffer, 1994).

Storey (1992) claimed that one of the developments emerging in the HRM literature in the late 1980s was what he termed as the 'dilemma' in the management of human resource. Storey explained that the dilemma is reflected in the shift from the tendency to prescribe the how to in managing employees to an approach which takes a more contingent view of the form of employee management practices considered suitable for organisations.

With the creation of the term HRM inevitably it meant that the definitions, scope, coverage and themes of HRM have evolved considerably (Baron, 1991). The HRM concept is viewed as a more integrated approach in the management of the workforce than traditional personnel management (Harrison, 1993; Baron, 1991). HRM proponents postulate that central to the idea of HRM is the emphasis on a more progressive practice in managing employees. With the adoption of the progressive HRM practices, it will enable organisation to gain competitive advantage in the industry (Walker, 1992). As noted by many researchers (Prahalad, 1983; Pfeffer, 1994), it has become a widely held premise that people provide organisation with an important source of gaining and sustaining competitive advantage and that the effective management of human capital may be the ultimate determinant of organisational performance.

In recent years, American companies have been urged to adopt a variety of performance-enhancing or progressive HRM practices to improve their competitiveness in the global marketplace (US Department of Labour, 1993). Such recommendations are unsurprising given that professionals and academics have long asserted that the way in which an organisation manages people can influence its performance. Spurred by Peters and Waterman's (1982) description and assessment of "excellent" organisations, the past decade has produced many testimonials to the value of progressive HRM practices and systems of such practices. In particular, employee participation and empowerment and job redesign, including team-based production systems, extensive employee training, and performance contingent incentive compensation, are widely believed to improve the performance of organisations (Pfeffer, 1994).

Moreover, a developing body of research has reported positive associations between firm-level measures of HRM systems and organisational performance (Arthur, 1994; Cutcher-Gershenfeld, 1991; Huselid and Becker, 1994; Ichniowski, Shaw, and Prennushi, 1994; MacDuffie, 1995). Substantial uncertainty remains, however, as to how HRM practices affect organisational outcomes, whether some practices have stronger effects than others, and whether complementarities or synergies among such practices can further enhance organisational performance (Baird and Meshoulam, 1988; Jackson and Schuler, 1995;

Lado and Wilson, 1994; Milgrom and Roberts, 1995; Wright and McMahan, 1992).

Human Resource Management in Malaysia

Since the late 1980s, Malaysian managers have increasingly used the term HRM in place of the tradition term, i.e. personnel management. It is also in 1990 that the former the name of the Ministry of Labour, in Malaysia was discarded and replaced with Human Resource Ministry in keeping with the international trend and the need to reorganise people as a key resource for national development.

It has been thought that if human resource can influence the economic success of a company, it can strategically contribute to the success of a nation (Pieper, 1990). In this regard, in order to achieve the nation's main goal of becoming a developed country by the year 2020, Malaysia has given great emphasis to revamp the educational system, realign the economy and, most importantly, develop human resource. Whilst there is a master plan for the development of the economy, there should also be a master plan for the cohesive and parallel development of this vast pool of human capital in the public and private sectors through planned education and motivation.

The adoption of the term HRM and its development have progressed at a very cautious pace. While some do prefer the term HRM to connote a plurality of activities, others referred the term on going at people in the organisation holistically. As technical competence and exposure among local practising managers rose, this general competence level in the local field also rose correspondingly. Elsewhere, multinational organisations operating here have received the benefit of human resource policies and plans developed at distant head offices. Such imported policies and plans that were meant for implementation here, do have the technical advantage over many local plans because of the developmental lead time. However, whether such foreign human resource policies and plans had to undergo whatever degree of modification for local adaptation, taking into consideration the externalities of culture, politics, education and legislations, in order to succeed, and that too, to what extent, may form the interesting basis for future local research.

HRM is currently a rapidly growing field in Malaysia. Also aided by researchers and practitioners, the area of training and development has grown significantly in recent years in the country. The term human resource development is increasingly being used in place of training and development. The amount of development in this area will benefit the development of people at work which will sharpen the competitive edge of participating organisations. As technological demands and work systems change, the HRM challenge intensifies. An effort to have reactive work

habits is based on obsolete ideas in trying to equip and upgrade organisational performance (Chew, Heng, Sugiyama, and Leong, 1993). Reactive work habits and old ideas would probably maintain the status quo. In this situation where the economy has raced far ahead of skill supply, it is imperative that appropriate skill formation be given urgent consideration. The restructuring and retooling of the workforce should be a number one organisational and national priority wherein employees now become a long-term investment and not a short-term expense.

When Malaysia began its industrialisation drive more than twenty years ago, its main goal was job-creation. The country formulated and successfully implemented a policy to attract foreign investment and build upon the domestic industrial base. As a result, thousands of school-leavers and unemployed and under-employed rural youths found jobs in the urban-industrial sector. Despite the complexities of its multi-ethnic society and the vulnerability of its open economy, Malaysia has successfully diversified its commodity-base and entered the 1990s with one of the world's highest economic growth rates and close to full employment. In 1993, there Malaysian experienced a tight labour market, shortage of skilled and unskilled labour in urban-industrial areas, and the presence of approximately 1.2 million foreign workers in the low-wage agricultural and service sectors (Chew, Heng, Sugiyama, and Leong, 1993).

Malaysia has reached a critical turning point in its development. Despite a growing labour force, its comparative advantage in labour costs has weakened over the first decade, and Malaysia cannot compete on investments with heavily populated low-wage countries in the region on the basis of labour costs alone. However, investors continued to be attracted to Malaysia because it offered the most balanced business advantages in terms of its natural resources, political stability, infrastructure, incentives and the quality of human resources.

This new factor-mix signals the need for industrial restructuring - a carefully planned and implemented set of policies to encourage upgrading from labour-intensive, low-tech, low-skill, low-wage industries to high-tech, high-skill industries where high productivity will justify higher wages. Such a transition is urgent given the fact that the average Malaysian's expectations for a higher standard of living have been raised by education, a growing consumer culture, rural-urban migration, the promises of the New Economic Policy (NEP) and its successor, the New Development Policy (NDP), and the widely embraced plan for a developed-country-status by year 2020 (Chew, Heng, Sugiyama, and Leong, 1993).

It is now accepted that such a transition cannot be left purely to market forces; the state must pursue relevant macro-economic, fiscal, financial, regulatory, trade, technology, and human resource policies to precipitate and buttress such change.

Appropriate human resource, skill development, and labour policies are a strategic component of such a shift. They are especially important in Malaysia's case where its open economy is vulnerable to rapid global market and technological changes, and there are income and regional disparities further complicated by ethnicity. In such a context, a human-resource-centred strategy not only serves as the means to an end, i.e., economic growth, but is an end in itself in that it can contribute to improving flexibility, productivity, and wages and at the same time reducing income, regional and ethnic disparities.

Education and skills development constitute the biggest challenge to Malaysia's aspirations to achieving developed nation status by the year 2020. As industry moves towards more capital, skills and knowledge-based production processes and as more sophisticated technology finds its way into Malaysia, the demand for skilled manpower will be on the rise. HRM policies must be able to generate a pool of educated and highly skilled workers to facilitate the growth and transition process.

Malaysia has a relatively small population base (21.66 million in 1997). It is inevitable that sustained high growth (of 2.6 p.a.) would result in manpower constraints, both in terms of quantity and quality. By and large, production structure is still dominated by labour-intensive production technology, though of late there have been efforts to move towards higher technology and capital and skill-intensive production processes.

Malaysia's labour market developments have reached a stage where industrial transformation is unavoidable. The country is poised to move to a higher level of productivity - a level that can support a higher wage structure and yet be able to maintain a competitive edge in the global market. This interim adjustment period is not an easy one and demands concerted actions from both the public and private sectors (Chew, Heng, Sugiyama, and Leong, 1993)

Problem Statement

The future organisation demand is to recognise itself to become effective in responding to the changing environment needs. Therefore organisation must improve performance, productivity results, in order to support its growth and development. The organisation must reorganise itself to match the changing needs of its employees. Organisation also must develop a new approach to manage human resources in order to be effective and better result oriented (Pfeffer, 1994)

In many organisations, HRM is yet to become inter and intra-functionally integrated (Garavan, Barnicle and Heraty, 1993). Greater functional integration and very feasible approaches in seeking to become sensitive to needs of the business. In the long run, effective inter and intra-functional integration will enhance the stature of HRM in the organisation facilitating organisational integration (Ropo, 1993)