

Adapting SHRM: Game Changer for Malaysian SMEs

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Abstract

Prior studies supported the theories regarding the relationship between human resource management practices and firm performance. However, a review of extant literature reveals lacking studies in the context of small and medium enterprises. More specifically, the available works of literature are considered still developing and insufficiently studied. Therefore, this paper investigates the relationship between strategic human resource management and SME performance in Sabah, Malaysia. This study adapted Ulrich's Business Partner Role model as the theoretical support to explain the integration of strategies in human resource management practices. By using the quantitative approach, 260 respondents participated in the study. Findings from the study revealed that regardless of the size of a company, adapting strategic human resource management helps improve firm performance.

Keywords: SHRM, Firm Performance, Enterprise, SMEs, HR Roles

Introduction

In theoretical studies, the concept of Strategic Human Resource Management (SHRM) started to gain importance as researcher began to focus more on the integration between HRM practices and firm performance (Francis and Baum, 2018; Wright and Ulrich, 2017; Nguyen *et al.*, 2019). The concept of SHRM view that the relationship between Human Resource Management (HRM) practices and firm performance are highly related to the ability of turning the HRM practices itself to carry competitive value of firms (Martinez-Del-Rio *et al.*, 2021). According to Para-Gonzalez *et al.* (2019), instead of performing traditional administrative-support tasks, SHRM focuses on how HRM practices is linked to the strategic management through multiple HR roles. In other words, the notion of SHRM is embodied on how firms are able to turn their HRM practices with strategic approaches (Wright *et al.*, 2018).

In the industrial context, although there seem to be increased interest of SHRM in SMEs, the empirical knowledge in this area is still developing and insufficiently studied especially among emerging markets and developing countries (Thierry *et al.*, 2018; Harney and Alkhalaf, 2020; Li *et al.*, 2019).

Malaysia is one of the emerging market countries. The SMEs in Malaysia generally dominate the economy by acting as the main contributors in providing job opportunities (Masnan *et al.*, 2018). Malaysian government view SMEs as the backbone of an economic and major employers in the country (Shahzad *et al.*, 2019). This can be justified through the government effort in the 12th Malaysia Plan (2021-2025) where Malaysian SMEs is placed as one of the keys focuses to improve the country's employment through HRM programme (MEA, 2019). Through the Ministry of Economic Affairs (MEA), the Malaysian government announced the importance of effective HRM strategy by highlighting the importance of managing human capital as a national strategy for economic growth (MEA, 2019).

Although there is apparent evidence of the importance in Malaysian SMEs to the economic growth, the study of SHRM in Malaysia has been within large organizations (Othman *et al.*, 2015; Choi *et al.*, 2016). In addition, the extent of the relationship between SHRM and firm performance is unclear, if not, uncertain. Accordingly, the gaps in the existing empirical evidence in relation to the Malaysian SMEs needs to be filled (Zakaria *et al.*, 2018; Lai *et al.*, 2017; Prikshat *et al.*, 2016). Moreover, given most SHRM studies in Malaysia have been conducted in Peninsular Malaysia (e.g.: Choi and Ismail, 2008; Shahnaei, 2017; Zakaria *et al.*, 2018; Othman and Mahmood, 2020), it is crucial to narrow the empirical gap in East Malaysia, especially in Sabah given the limited studies on SHRM in this region.

Literature Review

Firm Performance

It is widely accepted that HRM are positively associated with firm performance (Sabiou *et al.*, 2019; Lai, 2019; Garg, 2019). Firm performance is closely linked with organizational effectiveness (Manoharan and Singal, 2019). In this study, firm performance is categorized into three primary groups namely, financial performance, non-financial performance, and HR-related performance (Katou, 2017; Cristiani and Peiro, 2019; Gahlawat and Kundu, 2019).

This is supported by referring to previous studies. For example, Nam and Lee (2018) suggested that a study on HRM field should focus on HR outcomes such as employee turnover, attitude, behavior, and motivation. Other studies from Lai (2019), suggested that it is necessary to consider the SMEs' owners objectives to determine the firm performance, such as profitability for financial, and productivity for non-financial performance. In addition, Para-Gonzalez *et al.*, (2019) found that firm performance was regarded as the key determinants to SMEs' survival. Hence, it is necessary to include all three (i.e.: financial, non-financial, HR-related) performance in HRM studies. This is supported by other studies such as Kundu *et al* (2019); Garg (2019); Xiu *et al* (2017) where most of the HRM literatures and performance measure both financial and non-financial. Notwithstanding, Zakaria *et al* (2018) HRM study in Malaysia used firm performance as an indicator to success factors by looking into non-financial and financial performance of companies in Malaysia.

Strategic Human Resource Management (SHRM)

Previous papers supported the relationship between SHRM and its contribution to firm success. Su *et al* (2018) contended SHRM as the coordination of individual HRM practices with strategies to promote performance. The studies by Roehl (2019); Iqbal (2019) discussed SHRM constitutes not only the traditional role of HRM, but it also reflects the flexible arrangement and utilization of HR to achieve organizational goals. Farndale and Paauwe (2018) added SHRM is about designing and implementing a comprehensive set of proactive HRM practices that assure the organization’s human assets and subsequently to firm performance. Teal (2019) supported the theories and suggested that SHRM can play a critical role in the delivery of HRM practices to achieve positive performance.

Given that SHRM is well documented in the literature (Roehl, 2019; Iqbal, 2019; Teal, 2019; Wright et al., 2018; Fahim, 2018; Farndale and Paauwe, 2018 Chaudhry and Joshi, 2017; Rees and Smith, 2017), this study suggested that SHRM plays an important role to support firm performance. This is supported by Wielemaker and Flint (2005), who explained how traditional HRM practices can be linked to SHRM. They justified SHRM as an organizational strategic formulation to justify firm performance through an attempt to link employees to strategic adaptation that encompasses HRM activities. Figure 1 illustrates that the HRM practices might not be directly linked in order to become strategic (arrow 1) but can instead act as a medium to carry the elements in HRM (arrow 2) to become SHRM (arrow 3). Almada and Borges (2018) explained that for HRM to become strategic, strategic roles are necessary to support the HRM practices.

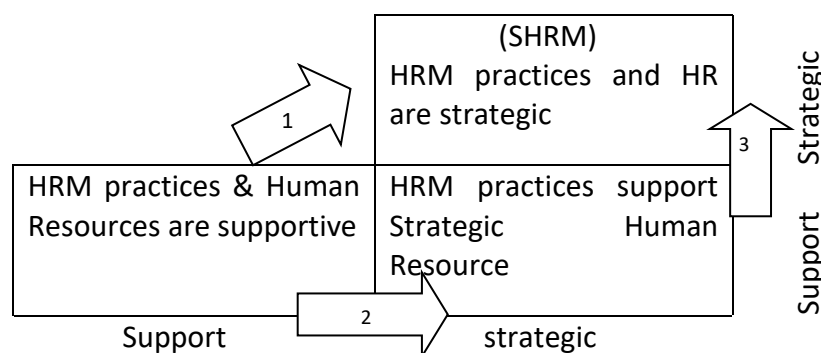


Figure 1: The Supportive and Strategic Role of HRM Practices (Wielemaker and Flint, 2005)

Accordingly, the critical focus of this study is to align HRM with a strategic purpose through specific HR roles. Mahadevan and Schmitz (2020) referred HR roles as a ‘game changer’ in the HRM field. HR roles are positioned as a core element that support strategic entity in the HRM activities (Mahadevan and Schmitz, 2020). This is in line with the study by Ulrich (1997) which stated that HRM should not replace traditional activities, but to develop a ‘deliverable focus’ that can complement the HRM activities into strategic outcomes.

Ulrich’s Business Partner Role Model

Whilst few HR roles models were presented and discussed in the span of 40 years, much of this work overlap using different names (i.e.: Tyson and Fell, 1986; Storey, 1992; Kossek and Block, 2000; Jackson and Schuler, 2000; Sullivan, 2003). Among the HR roles models, Ulrich business partner role model is one of the most discussed HR roles. Ulrich suggest HR roles

serves to support the need of SHRM to improve immediate contribution to organizational efficiency, empowerment for employees, and to align HR practices with the business objectives of the firm. Zheng *et al* (2009) argued that strategies in HRM is not necessarily making a direct impact on business performance. It is because SHRM is viewed as a contingency in making one step further to simultaneous the linkage between HRM, its intended direction, and how it supports the expected outcome. Ulrich HR roles in this study is viewed as a support system that carry strategic roles to improve firm performance.

Ulrich's business partner role model represents a new dimension of HRM on how it acts as delivering factor for organizational success (Choi and Ismail, 2008; Lemmergaard, 2009; McDermott and Keating, 2011). Ulrich and Brockbank (2005) stated that it is not what HR does, but how it delivers in any meaning to contribute organizational outcomes. HR roles act as the medium that integrate HRM activities into strategic management that deliver firm performance.

According to Ulrich and Brockbank (2005), to achieve key role in delivering a strategic approach within the firm, the HR should perform four different aspects of HR roles. First, to become a strategic partner by improving the efficiency of organizational systems and process, acting as change agent, and ensuring employees' involvement. This requires the HR to focus on strategic development and change management according to the needs of the company. The second role, which is a functional role, is viewed as a deliverable role that makes things happen since the increased focus is on managing change and being strategic. The third role, the employee advocate, emphasizes the need for HRM to use effective communication and acting as a medium to support the relationship between employers and employees. And finally, the fourth role, the human capital developer is about planning today's HRM to create future intangible assets as part of the firm's competitive advantage.

Based on the discussion above, the Ulrich's business partner role model is regarded as a suitable SHRM model as it covers all aspects of HRM activities from organizational operations, strategic, people, and process of a firm. Figure 2 illustrate Ulrich's business partner role model which covers four different aspects of HRM activities. First, as a strategic partner focusing on processes and HR strategic activities. Second, as a functional expert focusing on processes and operations. Third, as employee advocate which focusing on the needs of employees and expectation of employers. Lastly, fourth, as human capital developer which focuses on employee development and human assets.



Figure 2: The Ulrich Business Partner Role Model (Ulrich and Brockbank, 2005)

To complement the model, Wright (2008) proposed that HR roles can be a medium to support performance. Parallel to Wright (2008); Bahuguna *et al* (2009) suggested that HRM activities has turned strategic to fully utilize HRM ability to support firm performance. Notwithstanding, as functional expert is a role that represents how HRM activities are carried out in an organization, it acts as a medium that transmit the process and operations of HRM activities to employees (Bhatnagar and Sharma, 2005; Amarakoon *et al.*,2019; Bamber *et al.*, 2017). Hence, functional expert is omitted, given it is a deliverable that acts as a medium for HRM activities and not related to the strategic role context. From this discussion, the hypothesis for strategic HR roles and firm performance is developed:

H1: Strategic human resource management (strategic partner, employee advocate, and human capital developer) is significantly related to firm performance.

Methodology

This study applied the quantitative method where it determines the association between variables through hypotheses testing. A questionnaire survey was used to gather primary data by using a 5-Likert scale ranging from (1) strongly disagree to (5) strongly agree. The respondents of the study consisted of 260 SMEs in Malaysia. Research instruments were adapted from various past research. For strategic partner, the research instrument was adapted from (Conner and Ulrich, 1996). For employee relations and communication, the research instrument was adopted from (Triguero *et al.*, 2013; Vanhala and Ahteela, 2011). For firm performance, the research instrument was adopted from (Bhatnagar and Sharma, 2003; Choi, 2011).

IBM Statistical Package for Social Science (SPSS) version 24 and SmartPLS version 3.2.9 was used for importing data and to explain the descriptive statistic and correlational analysis. To ensure the accuracy of the study, a pilot study was undertaken as a small-scale experiment to reduce errors in data analysis. This is supported by In (2017) that research errors can be reduced by conducting a pilot test.

Data Analysis and Findings

In this study, 400 sets of questionnaires were distributed amongst SMEs in Sabah based on the systematic random sampling method. The study population was derived from a list of registered SMEs in Sabah published by SMECorp.com, a website overseen by the Ministry of Entrepreneur Development (MED) Malaysia which is responsible to the implementation of SME development programs in Malaysia.

The initial data collection using electronic survey (e-mail) over a period of three months showed a low response with a total of four responses, giving a response rate of 1%. In dealing with non-responses, this study opted to apply the physical walk-in approach. Based on the physical walk-in approach, this study learnt that the low response rate from electronic mailing approach is due to several reasons. These included the lack of cooperation and interest from respondents, reluctance to reveal certain different method, and untrusted sources of e-mail. Accordingly, a total of 260 responses were collected within four-and-a-half-month period, giving a response rate of 65% from the initial target of 400 responses.

Next, data screening was implemented to ensure that the data collected were compiled correctly and accounted for in this study. Based on the data screening, seven questionnaires with more than 10% incomplete or unanswered items and 26 questionnaires with the same responses were omitted based on Byrne's (2010) suggestion. As summarized in Table 1, the finalized total response rate for this study is 56.75%.

Table 1

Questionnaire Distribution and Response Rate

	Email Method	Hand-in Method	Total
Questionnaire Distributed	400		400
Responses	4	254	260
Usable Responses	4	223	227
% of usable response	1%	55.75%	56.75%

The first aspect investigated was the demographic profile of respondents to understand the general background of the participants. The information collected included SME sector types, company types, years of establishment, yearly sales, and the number of employees. Table 2 summarized information using frequencies and percentage.

Table 2

Respondents' Profile

SME Sectors	Number	Percentage
Manufacturing	60	26.4
Service	94	41.4
Trading	55	24.2
Others	18	8.0
Company Types	Number	Percentage
Sole proprietor	110	48.5
Partnership	26	11.5
Private limited	91	40.1
Years of Establishment	Number	Percentage
Between 2 to 5 years	40	17.6

6 to 10 years	147	64.8
11 to 15 years	17	7.5
More than 16 years	23	10.1
Yearly Sales	Number	Percentage
Less than RM300000	37	16.3
RM300001 to RM1500000	181	79.7
More than RM1500000	8	4.0
Number of Employees	Number	Percentage
Less than 5	51	22.5
5 to 75	153	67.4
76 to 200	23	10.1

Using SmartPLS software, the first stage of PLS-SEM analysis was used to analyze the reliability, internal consistency reliability, as well as convergent and discriminant validity. The convergent validity was performed to measure the correlation between each construct. To establish convergent validity, outer loadings of the indicators were examined as well as the average variance extracted (AVE) for each of the items. Hair *et al.*, (2014) suggested that outer loading should be greater than 0.70 and the AVE value should be above 0.50. Based on the result in Table 3 and Table 4, all constructs had fulfilled the requirements of AVE and outer loadings.

Table 3
Convergent Validity for Firm Performance

Indicators		Outer Loading	Cronbach Alpha	Composite Reliability	AVE
Financial Performance	f1	0.851	0.936	0.937	0.682
	f2	0.846			
Non-Financial Performance	f3	0.749			
	f4	0.749			
HR-Related Performance	f5	0.748			
	f6	0.830			
	f7	0.873			

Table 4
Convergent Validity for HR roles

Latent Variable	Indicators	Outer Loading	Cronbach Alpha	Composite Reliability	AVE
Strategic Partner	hrrole1	0.787	0.947	0.947	0.666
	hrrole4	0.844			
	hrrole7	0.806			
	hrrole10	0.828			
	hrrole13	0.836			
	hrrole16	0.804			
	hrrole19	0.803			
	hrrole22	0.861			
	hrrole25	0.775			

Employee Advocate	hrrole2	0.743	0.933	0.933	0.609
	hrrole5	0.800			
	hrrole8	0.776			
	hrrole11	0.788			
	hrrole14	0.783			
	hrrole17	0.736			
	hrrole20	0.746			
	hrrole23	0.785			
hrrole26	0.842				
Human Capital Developer	hrrole3	0.765	0.937	0.937	0.624
	hrrole6	0.769			
	hrrole9	0.826			
	hrrole12	0.866			
	hrrole15	0.825			
	hrrole18	0.707			
	hrrole21	0.804			
	hrrole24	0.768			
hrrole27	0.769				

Other than convergent validity, the study also performed discriminant validity. Discriminant validity is an assessment to ensure that the construct has the strongest relationship with its own indicators in comparison with other constructs (Hair *et al.*, 2017). By using SmartPLS software, this study examines discriminant validity by using Fornell and Larcker (1981) criterion and HTMT analysis as suggested by (Henseler *et al.*, 2015).

Based on the Fornell-Larcker criterion analysis, the findings shows that all constructs had established overall discriminant validity with the square root of AVE value between two constructs should be greater than the correlation between the other constructs (Table 5). Other than that, as shown in Table 6, discriminant validity through HTMT ratio has been established with each construct showing values below 0.90 as suggested by Hair *et al.*, (2017) and Henseler *et al.*, (2015).

Table 5
Fornell-Larcker Criterion Analysis for Discriminant Validity

Construct	EA	HCD	SP
EA	0.808		
HCD	0.744	0.816	
SP	0.665	0.758	0.839
FINP	0.955		
NONFINP	0.748	0.910	
HRRP	0.838	0.780	0.895

Note: EA: Employee Advocate; HCD: Human Capital Developer; SP: Strategic Partner; FINP: Financial Performance; NONFINP: Non-financial Performance; HRRP: HR-Related Performance

Table 6

HTMT Ratio for Discriminant Validity

Construct	EA	HCD	SP
EA			
HCD	0.792		
SP	0.706	0.801	
FINP			
NONFINP	0.877		
HRRP	0.837	0.829	

Note: EA: Employee Advocate; HCD: Human Capital Developer; SP: Strategic Partner; FINP: Financial Performance; NONFINP: Non-financial Performance; HRRP: HR-Related Performance

When the measurement model assessment is satisfactory, the next step is to assess the hypothesis testing. This study follows Hair *et al* (2014) suggestion to use 5000 subsamples bootstrapping given that PLS-SEM analysis relies on a non-parametric procedure. The result from the bootstrapping analysis demonstrates p-value of hypothesis path. Analysis for path coefficient between individual HR roles and firm performance showed that strategic partner resulted in the highest coefficient of 0.501 with t-value 8.997, followed by employee advocate at 0.304 with t-value 5.665, and human capital developer path coefficient at 0.124 with t-value 2.018. Hence, Hypothesis 1 is accepted.

Discussion

In this study, the research questions examined that there is significant relationship between SHRM (strategic partner, employee advocate, human capital developer) and firm performance. The linkage between HR roles and firm performance was developed based on the literature review supporting SHRM and significant impact of HR roles to firm performance involving strategic orientation, advocating employee, and human capital development in the firm. Findings from the research analysis supported the hypothesis. Specifically, it was found that the path of coefficients for the relationship between SHRM and firm performance was significant at 0.340 and t-statistics value of 5.176, was higher than 1.96 at 95% confidence level. Table 7 summarizes the finding.

Table 7

Path Coefficient for the Relationship between HR Roles and Firm Performance

Hypothesis	Path	Path Coefficient (β)	T-statistics	Result
H3	HRR-FP	0.340	5.176	Supported

The result based on the analysis indicated that there is a significant relationship between HR roles and firm performance. Wright (2008) reported that HR roles act as a medium that delivers results in organisational performance. This is in line with the study from Bahuguna *et al* (2009) that highlighted the nature of HRM practices has changed from being solely limited to administrative tasks to a broader role in supporting firm performance. Kuipers and Giurge (2016) noted that HR roles add value and contribute to performance. This is also supported by Ulrich's (2016) study on HR roles, in that HR roles are about delivering business value by being strategic and flexible to business conditions from change. Moreover, HR roles should involve both content and process. Here, content emphasises where HR roles will add the most

value to the organisation, whereas process, refers to aligning those roles with organisational goals. Taken together, content and process in HR roles deliver significant value to support firm performance.

Consequently, the findings of this study found that HR roles, namely strategic partner, employee advocate and human capital developer have a significant impact on firm performance. The finding shows that SME owners and managers in Sabah believe that as a strategic partner, it will improve overall firm performance. Also, aligning strategies, business planning, and goals will improve sales and profits. Notwithstanding, it will also improve the productivity rate, lower employee turnover, and improve personal growth amongst employees. The SME owners in Sabah also regard employee advocacy planning a key role in firm performance (Bashawir *et al.*, 2019). Likewise, building personal trust, taking care of employee's personal needs, listening, and responding to employees, lowering employee turnover will consequently improve overall individual performance in SMEs.

The development of human capital is also viewed as playing an important role in firm performance (Marescaux *et al.*, 2013). For instance, shaping innovative culture, encouraging employee's willingness to invest efforts for the company, accepting goals and values, ability to create positive morale and loyalty of employees are perceived to contribute towards firm performance (Garg, 2017). Therefore, being able to apply and deliver HR roles not only supports the well-being of employees but also create positive working value in the organisation. Accordingly, the productivity of the firm will increase, reducing costs, and the willingness of employees to maintain their identity as a member of the firm will help improve sales and profits for the organisation.

Conclusion

This study has shown positive results in the relationship between SHRM and firm performance. It is evident that Malaysian SMEs can be benefited by adapting to SHRM to improve their firm performance. Moreover, it is found that HR roles is responsible as a strategic agent to support the HRM activities. The current study contributes to the literatures by examining SHRM and to prove the effect of HR roles as a strategic feature by answering "what makes HRM improve performance". In this study, HR roles acted as the deliverable or 'key' that promotes performance. This is in line with other SHRM literatures where SHRM is about bringing value-added to the HRM activities to be strategic and to support performance. In addition, previous researchers in this field have mainly focused on large firms, banking sectors, or specific industries, whereas this study investigated various industries under SMEs in the state of Sabah, Malaysia. Thus, this study provides comprehensive research to support that SHRM is necessary to improve firm performance regardless of company sizes.

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