

## The Effectiveness of Strategic Human Resource Management Practices on Firm Performance in the Malaysian Insurance Industry

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### Abstract

This study sought to investigate the relationship between SHRM practices and firm performance. A descriptive survey research design was used to gather primary data using self-administered questionnaire. The study population (n=312) was comprised of non-executives, executives, managers, and top management from seven major insurance firms at headquarter in the Klang Valley. The study found that performance appraisal, internal communication, SHRM alignment in the organization, and career planning were the best predictors of firm performance.

**Keywords:** Strategic Human Resource Management, Competitive Advantage, Firm Performance.

### Introduction

The perceived level of productivity and customer service provided by the insurance industry in Malaysia has deteriorated due to lack of skilled and competent workforce. Organization today, specifically insurance industry is aware of the importance of strategic human resource management (SHRM) as the leading indicator in achieving improved sales growth and the creation of innovative insurance products. Therefore, local insurance firms have to be more efficient, productive and innovative on its SHRM practices implementation that is closely aligned to the firm's objective, business needs as well the culture to sustain competitive advantage in the market. The contribution of this paper to the literature is twofold. First, the conceptual model of the study tested the relationship between SHRM practices and firm

performance at the organizational level. The second contribution is to demonstrate the impact of the strength of the SHRM practices on firm performance.

### **Background of the Study**

The impact of globalisation, market force and highly competitive markets has forced the insurance industry to be competitive (Kundu & Malhan, 2009) in order to sustain in the market, locally and internationally. A high level of skilled and competent workforce can contribute to the firm's success by developing a comprehensive and internally cohesive human resource management (HRM) system that is embedded in the organization's structure and culture (Liu et al., 2007). A synergistic HRM system is a pathway through which the firm's human capital has the potential to become an important source of competitive advantage and to enhance firm performance (Boxall & Purcell, 2003) by shifting their focus to making service quality, productivity, product innovation and sales growth a priority in gaining a competitive advantage.

SHRM generally focus on human resource strategy, integration and adds to the key notions of strategies (strategic intent, resourced-based strategy, competitive advantage, strategic capability and strategic fit) (Armstrong, 2007). Literature review shows that organizations engaging or adopting SHRM will outperform organizations that do not. Given the rapid growth and development in Malaysia industries, specifically insurance industry, human resources are considered a firm's key internal resource and are increasingly deployed as the source of competitiveness in an organization. A great number of empirical studies show that the practice of SHRM has positive relationship on firm performance and also can be the source of sustainable competitive advantage to the organization (Schuler & MacMillan, 1984; Ulrich, 1991, Wright & McMahan, 1992; Huselid, 1995; Jackson & Schuler, 1995; Bjorkman & Fan, 2002; Collins & Clark, 2003; Guest et al., 2003; Panayotopoulou et al., 2003; Wright et al., 2005; Hiltrop, 2005; Gooderham et al., 2006; Othman, 2009).

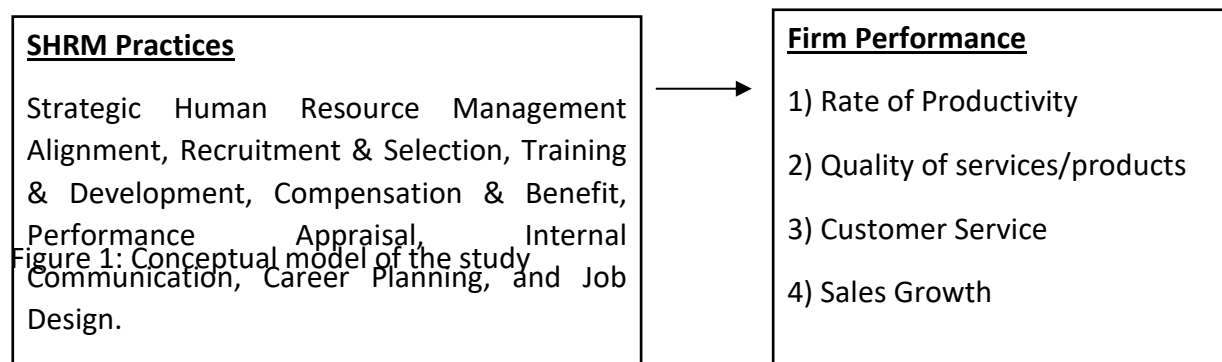
### **Literature Review**

There is little agreement as to which SHRM practices can be considered as strategic in an organization (Paauwe, 2004; Marchington & Grugulis, 2004). However, there is a broad consensus that there is a positive link between SHRM and firm performance (Tessema & Soeters, 2006; Wright et al., 2005; Bjorkman & Fan, 2002; Singh, 2003a; Bae & Lawler, 2000; Huselid et al., 1997; Harel & Tzafrir, 1999; Huselid & Becker, 1996; Huselid, 1995; Arthur, 1992). Huselid's (1995) groundbreaking study established that a set of human resource practices, also known as high performance work systems (HPWS) were strongly related to turnover, accounting profits and firm market value. Since then, many studies have shown similar positive relationship between SHRM practices and various measures of firm performance such as productivity and quality in the auto assembly plants (MacDuffie, 1995), accounting profits in the bank sector (Delery & Doty, 1996), employee productivity, machine efficiency, and customer alignment and its link with quality manufacturing strategy (Youndt et al., 1996), and profitability (Guthrie, 2001). The literature review in this study includes only those studies covering multiple SHRM practices, because the focus is on the HRM system as a whole that promotes overall organizational performance. The review on measurement of organizational outcomes (productivity, quality, and service) and capital market outcome (sales growth) is based on Dyer & Reeves's (1995) and Delaney & Huselid's (1996) studies.

Review of literatures indicate that essential SHRM practices such as workforce planning (Mathis & Jackson, 2004; Chang & Chen, 2002), training and development (Khan, 2010; Katuo & Budhwar, 2006; Ahmad & Schroeder, 2003; Kundu, 2003; Chang & Chen, 2002; Lam & White, 1998; Ngo et al., 1998), recruitment and selection (Khan, 2010; Katuo & Budhwar, 2006; Kulik, 2004; Ahmad & Schroeder, 2003; Chiu et al., 2002; Lam & White, 1998), performance appraisal (Khan, 2010; Chang & Chen, 2002; Bernardin & Russel, 1993), career planning management (Schein, 1996), compensation (Ahmad & Schroeder, 2003; Chiu et al., 2002; Lam & White, 1998; Ngo et al., 1998), internal communication (Ulrich, 1997; Richard & Johnson, 2001; Geringer et al., 2002; Oladipo & Abdulkadir, 2011; Osman et al., 2011), and job design (Champion, 1988 ; Morgeson & Humphrey, 2006) have positive association with firm performance. These practices capitalise on the strength of the human capital for sustained competitive advantage (Jackson & Schuler, 2000). Furthermore, these studies also provide an insight to the management and human resource practitioner to exercise these practices as strategic tool for superior performance (Khan, 2010).

Akhtar et al. (2008) adopted Delery & Doty's (1996) seven best practices (i.e. training, participation, employment security, job description, result-oriented appraisal, internal career opportunities, and stocks/profit sharing) approach to examine the validity of SHRM and their effects on company performance among 465 Chinese enterprises. The findings showed that training, participation, result-oriented appraisal, and internal career opportunities were identified as the "core" of SHRM that have positive affect both product/service performance and financial performance. Akhtar et al.'s, (2006) findings are consistent with the results study done by Shipton et al., (2005). On the other hand, Gooderham et al. (2008) conducted a similar study using a factor analysis of 80 different HRM practices on its relationship with organizational performance among the European firms. The study shows that training monitoring, share-options, evaluation of Human Resource Department, profit-sharing, group-bonus, performance related pay have a statistically significant impact on performance. Furthermore, Ngo et al.'s (1998) findings indicate that firms that provide more structural training and development create more new products, had more satisfied employees and had higher sales. Fey et al. (2000) also finds that non-technical training, high salaries and promotions based on merit will have a direct positive impact on firm performance among the managers while job security among the non-managerial employees.

In summary, the above reviews have unified a list of HRM practices needed for SHRM research and argued that it is the synergistic effect of multiple HRM practices in SHRM that contributes to firm's performance. Organization needs to develop a human resource system that achieves both horizontal and vertical integration in achieving competitive advantage. However, there is no consensus or consistency evidence illustrating what constitutes these HRM systems or bundles that associated with high firm performance. Further to that, this study also attempts to better understanding the integration of SHRM practices on firm performance in the Malaysian insurance industry. By identifying the important components of SHRM practices for organizational performance, will help us better theorize the nature and impact of SHRM-performance relationship. Therefore, from the literature review, the conceptual model of this study is presented in Figure 1.



### Research Methodology

The descriptive research method is used to facilitate the description of the SHRM and firm performance of seven major insurance firms operating in Klang Valley. The descriptive method provides logical approach because the data consisted of the perceptions of respondents, which were gathered through the administered survey questionnaire. This method of data collection was chosen for this study as it provides greatest anonymity and lowest chance of biasness. The sample was composed of the non-executive, executive and managerial/top management employees of seven major insurance firms available in Klang Valley. Permission was granted from the Life Insurance Association of Malaysia and General Insurance Association of Malaysia to conduct this survey among its members.

A total of 350 questionnaires were distributed to seven different major insurance firms using the method of stratified sampling. The response rate is 89%. For the purpose of this study, the survey questionnaire constitutes three parts. The first part comprises demographic characteristics of the respondents such as gender, name of organization, age, education, year of service, designation and total employees. The second part of the questionnaire consists of 64 items which represent eight SHRM practices and rated anonymously by the respondents on a 5-point Likert scale of 1 = "strongly disagree" to 5 = "strongly agree". The third part of the questionnaire measures the firm performance by the following variables namely: 1) rate of productivity of your company, 2) customer service, 3) quality of products, and 4) sales growth developed by Dyer & Reeves (1995) and Delaney & Huselid (1996). Respondents were to rate on a 5-point Likert scale of 1 = "very poor" to 5 = "very good". The Cronbach's Alpha score is 0.87.

The collected data will be analyzed using the Statistical Package for Social Science (SPSS) Version 19. The analysis of data began with the reliability test for the scales using Cronbach's Alpha. This is followed by the examination and presentation of demographic profile of respondents using descriptive statistics. Pearson correlation analysis will be carried out to determine the relationships between independent and dependent variables. Multiple regression analysis was used to proof the level of significant in testing the relationship between SHRM practices and firm performance.

### Results

The results of the demographic characteristics of the respondents show that 57.4% of the respondents are female while 42.6% of the respondents are male. This implies that insurance industry in this country gives female preference in the recruitment and selection process. The study also indicates that the majority of the respondents are aged 31 years and above (80.4%) implying that age is an important factor in appointment of executives, manager and top management. These are responsible positions with high accountability and required a great deal of experience in carrying out their duties efficiently and effectively. A total of 64.7% of respondents obtained Degree and we can presume that overwhelming majority of the respondents were well educated in their area of expertise. 60.3% of the respondents have been in the industry for at least 5 years of working experience. Majority of the participating insurance firms employ above 200 employees.

Table 1 shows the inter-correlations between measures of SHRM practices describe the pattern of independent variables are related to the dependent variable by aiming to identify ideal SHRM practices that complement and reinforcing each other. The Pearson’s product moment correlation coefficient values reveal strong correlations within the SHRM variables as follows: a) SHRM alignment in the organization and internal communication ( $r=0.209, \alpha= 0.01$ ), b) SHRM alignment in the organization and career planning ( $r=0.311, \alpha= 0.01$ ), c) recruitment & selection and training & development ( $r=0.338, \alpha= 0.01$ ), d) recruitment & selection and performance appraisal ( $r=0.190, \alpha= 0.01$ ), e) recruitment & selection and internal communication ( $r=0.218, \alpha= 0.01$ ), f) training & development and compensation & benefits ( $r=0.382, \alpha= 0.01$ ), g) training & development and performance appraisal ( $r=0.473, \alpha= 0.01$ ), h) training & development and internal communication ( $r=0.321, \alpha= 0.01$ ), i) training & development and career planning ( $r=0.407, \alpha= 0.01$ ), j) compensation & benefits and performance appraisal ( $r=0.220, \alpha= 0.01$ ), k) compensation & benefits and career planning ( $r=0.303, \alpha= 0.01$ ), l) compensation & benefits and job design ( $r=0.346, \alpha= 0.01$ ), m) internal communication and career planning ( $r=0.408, \alpha= 0.01$ ), and n) career planning and job design ( $r=0.469, \alpha= 0.01$ ).

Table 1 : Correlations between SHRM practices and firm performance

SHRM Practices	1	2	3	4	5	6	7	8	9
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1) SHRM alignment in the organization	1									
2) Recruitment and Selection Practices	.021	1								
3) Training and Development Practices	-.013	.338**	1							
4) Compensation and Benefits Practices	.029	.083	.382**	1						
5) Performance Appraisal Practices	-.259**	.190**	.473**	.220**	1					
6) Internal Communication Practices	.209**	.218**	.321**	.013	.051	1				
7) Career Planning Practices	.311**	.144*	.407**	.303**	.122*	.408**	1			
8) Job Design Practices	.036	-.106	0.076	.346**	-.057	.145*	.469**	1		
9) Perceived Firm Performance	.171**	.174**	.238**	.076	.342**	.285**	.247**	-.065	1	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The findings also show a stronger and positive correlation between performance appraisal practices and firm performance ( $r=0.342$ ,  $\alpha=0.01$ ) and followed by internal communication practices ( $r=0.285$ ,  $\alpha=0.01$ ), career planning ( $r=0.247$ ,  $\alpha=0.01$ ), and training and development ( $r=0.238$ ,  $\alpha=0.01$ ). This implies that performance appraisal has greatest impact on insurance performance compared with the rest of SHRM practices. Insurance firms view that performance appraisal management is a vehicle for the continuous improvement of business improvement via a co-ordinate program of people management interventions (Walters, 1995). However, the insurance's performance had negative correlation with job design practices.

The multiple regression model with all eight predictors produced  $R^2=0.254$ ,  $F(8, 303) = 12.93$ ,  $p<.000$ .  $R^2$  value of 0.254 indicates that 25.4% of the variance in firm performance is accounted by SHRM alignment in the organization, recruitment and selection, training and development, compensation and benefits, performance appraisal, internal communication, career planning, and job design and its square. R value of 0.504 indicating a strong relationship between the independent variables (SHRM practices) and dependent variable (firm performance). Findings show that the best predictions of an insurance performance are performance appraisal ( $\beta =.376$ ), internal communication ( $\beta =.201$ ), SHRM alignment in the organization ( $\beta =.183$ ), and career planning ( $\beta =.149$ ). These variables explain up to 25.4% of firm performance with performance appraisal taking the lead.

### Discussion and Conclusion

In this study, we have investigated the relationship of SHRM in enhancing firm performance. It was discovered that SHRM practices enhances firm performance. The study found that performance appraisal, internal communication, career planning, training and development, recruitment and selection, and SHRM alignment in the organization have positive relationship

on firm performance. The results found in this analysis are consistent with the previous studies, such as performance appraisal, training, and recruitment (Youndt et al., 1996; Singh, 2003(a)&(b); Wright et al., 2005; Cho et al., 2006; Khan, 2010; Quresh et al., 2010; Arumugam & Mojtahedzadeh, 2011; Boohene & Asuinura, 2011), career planning (Fey et al., 2000; Singh 2003(a)&(b); Quresh et al., 2010; Nayyab et al., 2011), internal communication (Guest, 1997; Hoque, 1999; Singh, 2003(a)&(b); Erdil & Gonsel, 2007; Gurbuz & Mert, 2011), and SHRM alignment in the organization (Paauwe & Richardson, 1997; Abdullah et al., 2009; Gurbuz & Mert, 2011; Ishak et al., 2011; Osman et al., 2011; Pham, 2011). This study concludes that HRM plays a crucial role in service companies (Schneider & Bowen, 1993) and performance appraisal practices was high in practice in insurance firms.

Performance appraisal practices are growing as a key role of managing individual performance, discussing critical success factors in the job, and provide the key inputs to decision on merit-based salary increases, training, and promotion (Boxall & Purcell, 2003). Insurance firms stress the importance of effective performance appraisal management based on the belief that everything people do at work at any level contributes to achieving the overall purpose of the organization. It is therefore concerned with what employees do, how they behave, how they perform their work, and what they have achieved. The combined impact of performance appraisal practices will be expected to achieve more to improve firm performance.

The result of this study is persistence with Huselid et al.'s (1997) finding concludes that there is positive link between SHRM effectiveness and firm performance. The practices of SHRM undertaken in this study are concerned with how people are employed, managed, developed, rewarded, and taken care of as to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce. This shows that organization highly dependent on human resource to achieve high firm performance. There has been a debate by numerous academicians on the contribution of SHRM practices in firm performance. Lau & Ngo (2004) argues that a firm can achieves high performance through a universal set of HRM best practices. However, Schuler & Jackson (1987); Schuler & Walker (1990); Dyer & Reeves (1995) view that HRM strategy would be more effective and efficient when appropriately integrated vertically between an organization's business strategy and its HRM policies and practices.

The implications of this study indicate that insurance firm must strategically manage its human resource practices to achieve maximum performance. Human Resource Personnel should focus on how to develop and sustain its human resource through effective SHRM practices to enhance current and future performance of the organization. The HRM system in Malaysia went through great transformations in the early 1990s and one of the main goals of SHRM is to ensure that HRM is integrated with the strategy and the strategic needs of the firm in order to achieve sustainable competitive advantage. Conclusively, the contribution of this study is that effective SHRM practices organises the overall organization-level HRM measures with the goal of gaining competitive advantage through human resources that will lead to high firm performance.

### **Limitations and Future Direction**

This research has several limitations. The construction of the research questionnaire did not consist of sufficient items to explore the relationships between SHRM practices and firm performance. Only eight out of a wide range of possible HRM practices were selected in this study. Selection of SHRM items were based on the most popular SHRM practices quoted from previous studies. Therefore, the results of this study may be biased. This study only focused on the Malaysian insurance industry and the results may differ from other industries in Malaysia or other countries. This study may be taken up to cover a wider area such as insurance business unit branches and more respondents with cross cultural extensions. Future researchers may take up studies on SHRM for these aspects.

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