

**THE RELATIONSHIP BETWEEN HIGH  
PERFORMANCE WORK PRACTICES (HPWPs)  
AND TURNOVER INTENTION AMONG  
EMPLOYEES OF MANUFACTURING SMALL  
AND MEDIUM ENTERPRISES (SMEs) IN KOTA  
KINABALU, SABAH**

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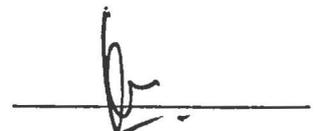


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# DECLARATION

I hereby declare that the material in this thesis is my own except for quotations, excerpts, equations, summaries and references which have been duly acknowledge.

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# CERTIFICATION

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Danielle Bridget Clarke  
1<sup>st</sup> February 2016

## ABSTRACT

This study is focusing on the relationship between High Performance Work Practices and the turnover intention among the employees in the Small and Medium Enterprises in Kota Kinabalu, Sabah. Being the second largest state in Malaysia it is inconceivable in knowing the numbers of SME establishments in Sabah are low in comparison to the other smaller states which generate higher establishment figures. In spite of the continuous effort by the Malaysian government in promoting numerous SME activities in the country, there has been yet a hidden struggle for these SME organizations to retain their employees. Based on previous studies, there are nine practices which are known to be applied in majority of SME organizations, namely compensation, performance appraisal, salary, training and development, job security, job enrichment, voice, employee engagement and employee empowerment. Previous studies have shown that these nine practices are related in influencing an employee turnover intention. However, the findings for this study have shown that only Job Enrichment is not significantly related towards turnover intention. These findings provide a whole new dimension in the pattern of labor and industrial relations practices in Sabah's SMEs particularly within the manufacturing sector.

## **ABSTRAK**

### **HUBUNGAN ANTARA HIGH PERFORMANCE WORK PRACTICES DAN NIAT UNTUK BERHENTI KERJA DI KALANGAN PEKERJA DALAM SEKTOR PEMBUATAN DI INDUSTRI KECIL DAN SEDERHANA, KOTA KINABALU, SABAH**

*Kajian ini memfokuskan kepada hubungan di antara High Performance Work Practices dengan niat untuk berhenti kerja di kalangan pekerja-pekerja di Perusahaan Kecil dan Sederhana (SME) di kawasan Kota Kinabalu, Sabah. Walaupun kedudukan negeri Sabah sebagai negeri ke-2 terbesar di Malaysia, namun jumlah organisasi SME di negeri ini adalah lebih rendah jika dibandingkan dengan negeri-negeri lain yang lebih kecil yang mempunyai jumlah penubuhan organisasi SME yang lebih tinggi. Di sebalik usaha pihak kerajaan Malaysia dalam menggalakkan serta mempromosikan pelabgai aktiviti SME di negara ini, namun terdapat lagi satu cabaran yang tersembunyi bagi organisasi-organisasi SME, iaitu usaha untuk mengekalkan pekerja mereka. Berdasarkan kajian lepas, terdapat sembilan amalan pengurusan yang diamalkan oleh kebanyakan organisasi SME dalam usaha untuk mengurangkan kadar niat untuk berhenti kerja di kalangan pekerja. Antara amalan yang dimaksudkan adalah seperti pampasan, penilaian prestasi, gaji, latihan dan pembangunan, jaminan pekerjaan, job enrichment, suara, penglibatan pekerja dan employee empowerment. Namun begitu, dapatan kajian ini telah menunjukkan bahawa hanya Job Enrichment tidak mempunyai hubungan yang signifikan dalam mempengaruhi niat untuk berhenti kerja di kalangan pekerja. Dapatan kajian ini menyediakan satu dimensi baru dalam corak amalan pengurusan serta hubungan industri di kalangan organisasi SME di Sabah terutamanya dalam sector pembuatan.*

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# CHAPTER 1

## INTRODUCTION

### 1.0 Overview

The ability to sustain as well as to retain key employees and keeping employee turnover at a minimum rate are among the key factors for an organization to remain competitive in the rapidly expanding global economy. However, in this globalization era, employee turnover is a common issue in many organizations. When a key employee leaves an organization, it will cause a noticeable loss for the organization due to termination, advertising, recruitment, selection and hiring (Chan et al., 2010; Abbasi & Hollman, 2008). Turnover is particularly difficult among smaller organizations because losing a key employee may severely disrupt the organizational routine, productivity as well as the institutional knowledge. Based on previous studies relating to the turnover intention among employees in the Small and Medium Enterprises (SMEs), when organizations provide limited promotional or career growth opportunities, the likelihood for employees to search for better employment offers are highly apparent (Alnaqbi, 2011). Every so often employees find themselves struggling to adapt with the organizational culture resulting towards the intention to withdraw from the organization (Chung, 2014). Turnover intention is defined as an employee's intention to leave the organisation (Lee, 2004; Riley, 2006; Medina, 2012; Zahid Farooq Bhat, 2014) Therefore, Human Resource managers have yet to grasp on a good understanding about the needs particularly among the key employees. Employees who have their needs met are less likely to have the intention to withdraw instead they will give their utmost productivity and commitment towards the organization (Johanim Johari et al., 2012; Norizan Ismail, 2012; Alnaqbi, 2011). Among the ways in which can be taken to reduce the

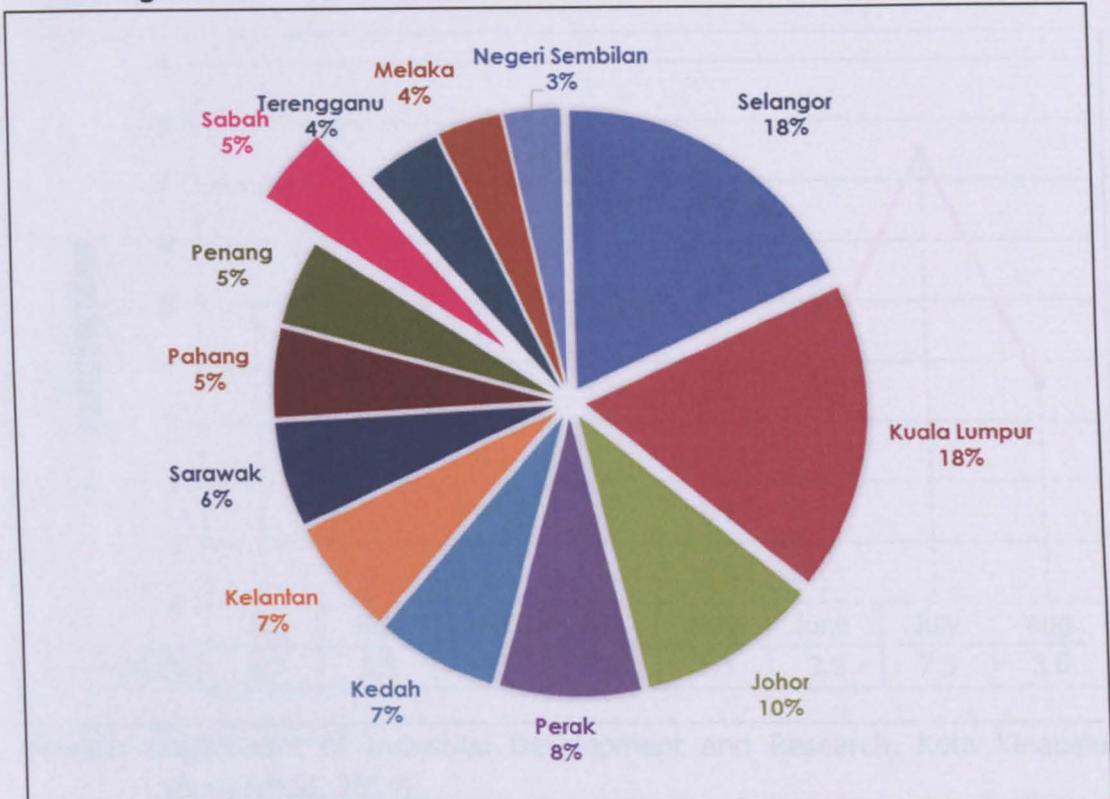
likelihood of turnover intention among existing employees is by creating an environment where employees are not only to become highly involved to accomplish the organizational goals but also enhance organizational effectiveness through High Performance Work Practices (HPWPs) so as to provide relevant opportunities for the employees to contribute through teamwork and suggestion systems (Huselid, 1995; Kirkman et al., 1999; Jan de Kok & Deanne den Hartog, 2006; Boxall & Macky, 2009; Mohammad Rabiul Basher Rubel & Mui, 2015). High Performance Work Practices which are carried out most efficient in an organization is capable in influencing the turnover intention among employees (Luna-Arocas & Camps, 2007). Furthermore, Jackson et al., (2006) also stated that an employer which plans and manages well is capable in minimizing cost through extensive recruiting and other associated costs that may disrupt the organizational routines. Chiu and Luk (2002) has stated that organizations which efficiently adopt the best practices according to the needs of their employees can only fiercely compete in the global market. For instance, monetary and non-monetary forms of compensation have been used to attract, retain as well as motivate existing employees and enhance the employment relationship in order to achieve the organizational goals (Morris, 2009; Moragwa, 2013; Abdullah & Wan, 2013).

With today's emphasis on the so-called war of talent among many organizations most of the efforts have been diverted into attracting key people rather than retaining their key employees (Beechler & Woodward, 2009). The inability to retain the existing employees will eventually translate into higher cost for training of new employees. Moreover, if training is not adequately managed according to the existing competency possessed among these new employees, not only will it jeopardize the organizational efficiency but also the competitive drive as well as the quality expected at the end results. According to Kirkman et al., (1999), Tamkin (2004), Martins et al (2011), High Performance Work Practices play an important role towards organizational performance. However, there has been little research which helps to thoroughly clarify on how this bundle of practices actually gives an impact towards the organizational performance (Nazlina Zakaria, 2012).

High Performance Work Practices are consist of a bundle of practices which combined together in order to enhance the skills or involvement among the employees which best fitted with the organizational goals (Huselid, 1995; Becker, 1998; Tamkin, 2004; Gooderham, 2008; Nazlina Zakaria, 2011). Kroon et al. (2012) stated that High Performance Work Practices (HPWPs) are human resource management practices aimed at stimulating employee as well as orgnaisational performance. Moreover, Nazlina Zakaria (2013) has also stated that by adopting this bundle of practices the organization will be able to attract as well as to retain and motivate existing employees in order to achieve the organizational goals through the enhancement of organizational performance. However, employees have different valuation towards various benefits. Therefore, monetary benefit does not generally or necessarily suit every employee (Chiu and Luk, 2002). In other words, a Human Resource manager cannot assume that all employees have the same needs in terms of these practices for which will influence their intention whether to remain or leave the organization.

The development of the Small and Medium Enterprises (SMEs) in the East Malaysia region particularly in Sabah is slower as compared to the Peninsular Malaysia region. Based on Figure 1.1, although Sabah is known to be the 2<sup>nd</sup> largest state in Malaysia it is incomprehensible knowing which the number of SME establishments in Sabah are low in comparison to the other smaller states which generate higher establishment figures.

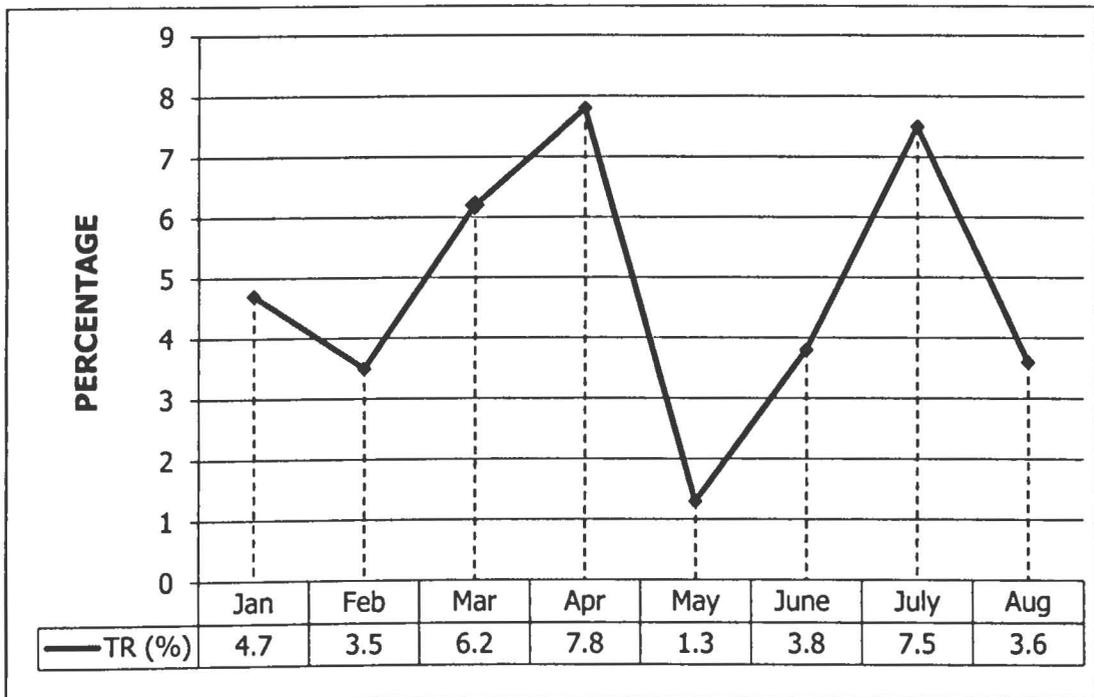
**Figure 1.1 SME Establishments in Malaysia (2014/2015)**



Source: Annual Report 2014/2015 – SME Corporation Malaysia

Adnan, Abdullah and Ahmad (2011) had stated that High Performance Work Practices play a significant part in effecting Malaysian's organization bottom line performance. This supports Islam and Siengthai's (2010) findings whereby it was found that majority of the core practices within the Human Resources context namely, Compensation, Performance Appraisal, Training and Development, as well as Recruitment and Selection have a momentous and positive impact towards organizational performance.

**Figure 1.2 SME Employee Turnover Rates in Kota Kinabalu (2012)**



Source: Department of Industrial Development and Research, Kota Kinabalu (Unpublished, 2014)

Based on Figure 1.2 it shows that employee turnover rates fluctuate every 3 months (Feb-Apr, May-July) throughout year 2012. Based on the preliminary findings for this study, among the causes of turnover; i) failure to fulfil Contract of Employment, ii) better employment opportunities, iii) poor High Performance Work Practices and iv) festive season. Based on previous studies, there are nine (9) practices in which are implemented in order to reduce employee turnover intention. Among the nine practices are namely, Compensation, Performance Appraisal, Salary, Training and Development, Job Security, Job Enrichment, Voice, Employee Engagement and Employee Empowerment.

Therefore, in order to remain competitive SMEs need to shift their mindset by adopting the best practices to enhance the organizational performance and to become more competitive, innovative and to create a technologically competitive SME sector (Nazlina Zakaria, 2013). According to Moha Asri Abdullah et al (2007), in

line with the workforce and technology transformation, SMEs are expected to play their role to expand the country's economy growth towards a better future. Therefore, this study will be focusing on the compensation, performance appraisal, salary, job security, job enrichment, voice, employee empowerment and employee engagement in order to identify its relationship towards the turnover intention among employees of Small and Medium Enterprises in Kota Kinabalu, Sabah.

### **1.1 Problem Statement**

Most studies on High Performance Work Practices are discussed on how to attract the key people into the organization but there are fewer studies on retaining the same high-performing employees. According to Nankervis et al. (2008) and Beechler & Woodward (2009), there appears to be less research on the extent to which organizations will go in order to retain those same people in their organizations. Instead, most research often placed a great emphasis on attracting key people into the organizations. Allen et al. (2003) stated that the fact which there is little explanation offered for how HPWPs influence the turnover decision among employees has caused many Human Resources managers nowadays faced with the challenge to retain their employees. However, studies have suggested that HPWPs have the ability in affecting an organizational outcome through shaping of employee behaviours and attitudes (Huselid, 1995; Chew, 2004; Sarikwal and Gupta, 2014). Thus, a research relating to employees and their turnover intention should be given more emphasis for fear that the organization might lose their competitive edge as well as their key employees in the process of expanding their organization.

Small and Medium Enterprises (SMEs) which is well-known to be the backbone of the country's economic growth as a driving force of innovations and also the important foundation in terms of expanding the business activities, it is inevitable for the SMEs to adopt High Performance Work Practices (HPWPs). This is due to the fact that SMEs play a significant role in providing employment opportunities for the local labor market. However, previous studies on the utilization and adoptions of HPWPs in Malaysia SMEs are still limited (Hassan et al, 2010; Nazlina Zakaria, 2013). With the adoption of HPWPs, SMEs are capable to attract,

retain and motivate employees which in turn will contribute towards the enhancement of organizational performance (Jackson & Schuler, 1995; Tamkin, 2004; Nazlina Zakaria, 2013). However, due to the lacking of expertise and capital investment in terms of the human resources in SMEs, this creates barrier to the development and growth of SMEs to be more competitive and competent through the adoption of HPWPs (Nor Hazana Abdullah et al., 2010; Moha Asri Abdullah, 2011).

### **1.1.1 Poor High Performance Work Practices**

Kroon et al. (2013) has mentioned that the adoption of High Performance Work Practices is not widespread in small organisations due to the scarcity of resources, which is reflected in the size of the organization, and on strategic decision-making in small organizations related to the owner's expertise and attitudes.

High Performance Work Practices which includes compensation, training and development, job security, job enrichment, voice, salary, employee engagement, employee empowerment, and performance appraisal are among a few of the factors which contribute towards the turnover intention among employees because these are among the crucial needs expected among the employees when they commit as well as contribute their time and energy at the workplace (Berry, 2008; Kiu-Sik Bae et al., 2010; Medina, 2012; Johanim Johari et al., 2012; Raida Abu Bakar, 2013).

### **1.1.2 Turnover Intention**

According to Moha Asri Abdullah et al. (2007), SME employees are temporary in nature and these employees will leave the organization when there is better career opportunities and compensation in other organizations. Since employees is an important asset for an organization specifically among SMEs, hence it is necessary for Human Resource managers to emphasize on HPWPs in order to reduce the turnover intention and actual turnover among employees.

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