

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

**DANIELLE BRIDGET CLARKE**

*THESIS SUBMITTED IN FULFILLMENT FOR  
MASTER BY RESEARCH*

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**UNIVERSITI MALAYSIA SABAH**

**2016**

## 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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DANIELLE BRIDGET CLARKE

MA 1221005 T



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# CERTIFICATION

NAME : DANIELLE BRIDGET CLARKE

MATRIC NO : MA 1221005 T

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

DEGREE : MASTER OF ARTS  
(INDUSTRIAL RELATIONS)

VIVA DATE :



**1. MAIN SUPERVISOR**  
FAZLI ABD HAMID

.....  
Signature

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DANIELLE BRIDGET CLARKE

1<sup>ST</sup> FEBRUARY 2016



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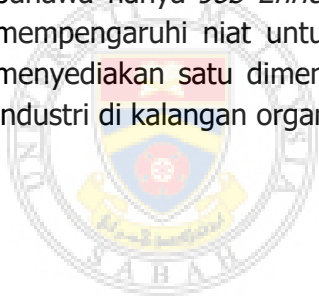
## ABSTRACT

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

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).

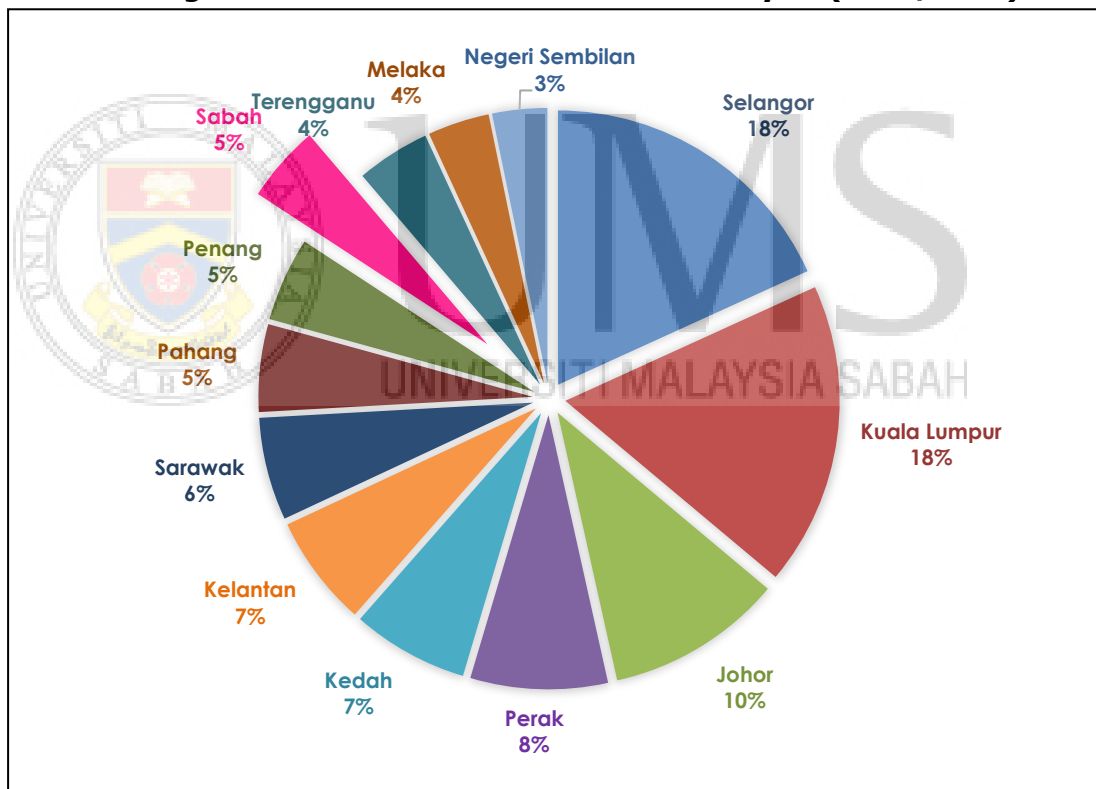
With today's emphasis on the so-called war of talent among many organizations most of the efforts have been diverted into attracting key people rather than retaining their key employees (Beechler & Woodward, 2009). The inability to retain the existing employees will eventually translate into higher cost 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 organisational 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)**

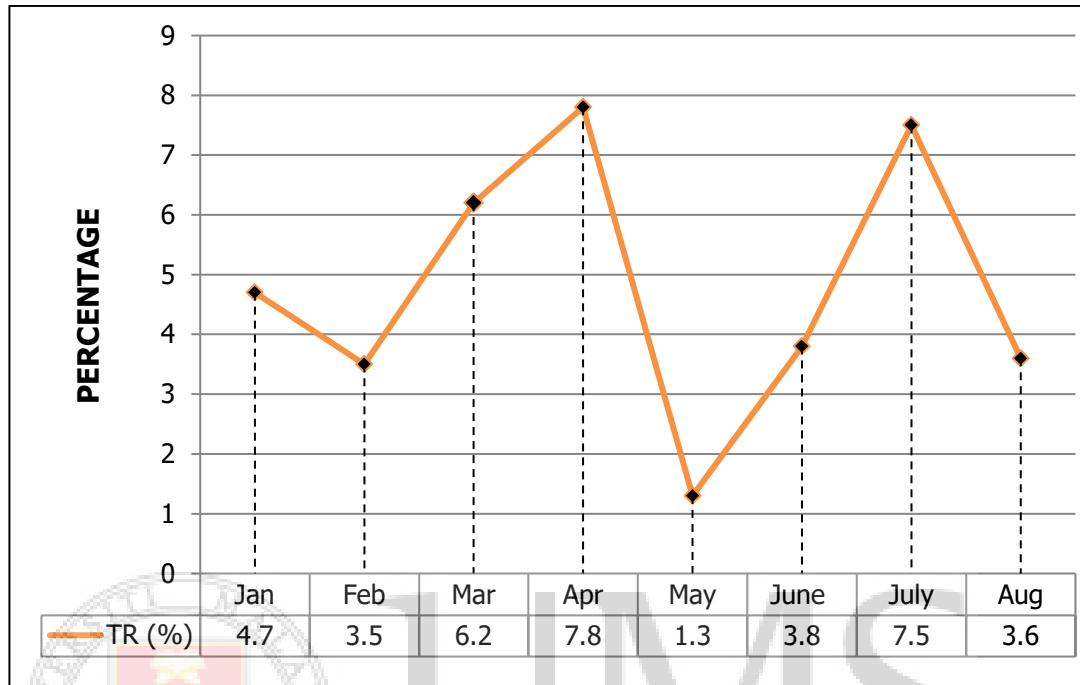


Source: Annual Report 2014/2015 – SME Corporation Malaysia

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 fluctuates 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.

## **1.2 Research Questions**

- i. What are the High Performance Work Practices applied in the Small and Medium Enterprises (SMEs)?
- ii. Do the High Performance Work Practices influence the turnover intention among the employees in the Small and Medium Enterprises (SMEs)?
- iii. Do the Industrial Relations elements influence the turnover intention among the employees in the Small and Medium Enterprises (SMEs)?

## **1.3 Research Objectives**

- i. To identify the High Performing Work Practices applied in the Small and Medium Enterprises (SMEs)

- ii. To determine the relationship between High Performing Work Practices and turnover intention among the employees in the Small and Medium Enterprises (SMEs)
- iii. To examine the influence of Industrial Relations elements towards turnover intention among the employees in the Small and Medium Enterprises (SMEs)

#### **1.4 Scope of Study**

The scope of this study is to attempt to identify the various factors associated with the turnover intention among the existing employees in the selected Small and Medium Enterprises in Kota Kinabalu, Sabah which includes the Executive and Non-Executive employees. In this study, Executive employee is referred to an employee who is in a position to give advice and making decisions, meanwhile, Non-Executive employee referred to as an employee who ensures that the decisions made are carried out (Vance, 2006).

#### **1.5 Significance of Study**

The findings of this study will contribute towards an understanding of the general attitude of the employees in SMEs in which may influence the decision whether to remain or leave the organization based on the High Performance Work Practices adopted by the organization. Hence, recommendations are formulated in order to decrease the turnover intention issues among SMEs. High Performance Work Practices which are implemented effectively aids towards employees' performance as well as an organizational performance. Employees driven by High Performance Work Practices are encouraged with a sense of confidence throughout their course of employment in SMEs. Other than that, the turnover intention are able to decrease due to the sense of being highly involved and appreciated as a significant contributor towards the organizational performance. According to Taylor (2002) and Johanim Johari et al. (2012), in order to reduce the turnover intention and retain existing key employees in the organization, the organization need to create an environment whereby employees feel that their contributions to the organization are valued. In addition, SMEs indirectly will gain from high productivity and quality in terms of their output in which will create as well as to sustain a competitive edge in the local and global market.

## **1.6 Operational Definitions**

The variables used in this study bring specific connotations. This study consists of HPWP as the independent variable and turnover intention as the dependent variable. The definitions of these terms are interpreted as follows:

### **1.6.1 High Performance Work Practices**

Tamkin (2004) define HPWPs act to improve the self-confidence and flexibility among employees and also contribute towards improved motivation, morale and commitment which in turn are related to the enhancement of an individual performance. HPWPs consist of a bundle of practices which, if implemented, will definitely result towards superior performance based on the organizational fit (Tamkin, 2004; Wu, 2011; Timiyoy, 2014). High Performance Work Practices consists of such systems include recruiting and selection protocols, performance management and incentive compensation systems, and training and development activities in which are thoroughly designed to acquire, refine and reinforce employee skills and behaviors according to the organization's competitive strategy which indirectly will result into lower turnover intention among employees (Huselid, 1997; Becker, 1998; Alnaqbi, 2011).

However, the definition for HPWPs which is used for this study is based on Arocas & Camps (2007) and Mohammad Raibul Basher Rubel (2013) whereby it stated that implementation of HPWPs may nurture into an optimistic work environment that in turn resulting into lower turnover intention and actual turnover.

The proposed research framework for this study suggests the use of specific practices categorized under HPWPs such as compensation, performance appraisal, salary, training and development, job enrichment, job security, voice, employee empowerment, and employee engagement.

#### **1.6.1.1 Compensation**

According to Rubel (2015) compensation refers to the benefits for which employees gain from their organization in order to compensate the loss incurred by them in sacrificing their resources (i.e. time, effort and knowledge) for the organization's gain. Compensation refers to the cumulative monetary and non-monetary rewards which is payable to employees as in return for their services based on the value of the job, level or personal contributions, efforts and performance (Mondy & Noe, 2005; Milkovich & Newman, 2005; Johanim Johari et al., 2012). From the

organizational context, attractive form of compensation package is crucial in the effort to attract, retain and motivate employees to continue contributing towards organizational goals (Philips & Fox, 2003; Berry, 2010; Johanim Johari et al., 2012). According to Chen & Huang (2009) and Nazlina Zakaria et al. (2013), compensation is important to enhance employees' creativity and innovativeness specifically for organizations which are innovatively driven. The compensation system can be both intrinsic and extrinsic rewards such as financial rewards, promotions and other form of recognitions (Gupta & Singhal, 1993; Chen & Huang, 2009; Nazlina Zakaria et al., 2013; Fang et al., 2013)

### **1.6.1.2 Performance Appraisal**

Performance appraisal is a form of feedback given to the employees based on the employees' performance in the organization. According to Carrol & Scheider (1982) and Dechev (2010), performance appraisal is defined as a process of identifying, observing, measuring as well as developing employees' performance in the organization. Performance appraisals aids towards employee performance by setting relevant objectives that will make it possible for these employees to achieve or exceed them. Besides that, performance appraisal is an opportunity to identify as well as to deal with the most important issues facing among among employees (Walsh, 2003; Ombudsman, 2014). According to Johanim Johari et al. (2012), performance appraisal not only influences towards an individual's turnover intention but it is also capable in motivating an employee's effort to work harder to gain promotion as well as enhancing their competency at work.

### **1.6.1.3 Salary**

Salary is a contractual amount received by an employee as a return for his or her services for the organization in which he or she is working for ( Mondello & Maxcy, 2009; Saleem & Gul, 2013). According to Osibanjo et al. (2014), salary is the fixed or guaranteed regular monthly or annual gross payment made to employees which varies between hierarchy of job positions, employees to employees and organizations to organizations. Moreover, salary shows to which extent an organization values their employees' hard work as well as commitment towards the organization.