

**THE RELATIONSHIP BETWEEN HUMAN CAPITAL
MANAGEMENT PRACTICES AND
ORGANISATIONAL PERFORMANCE IN AGRO-
BASED GOVERNMENT AGENCY IN SABAH,
MALAYSIA**

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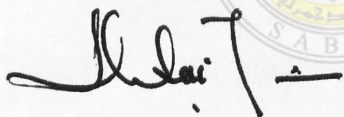
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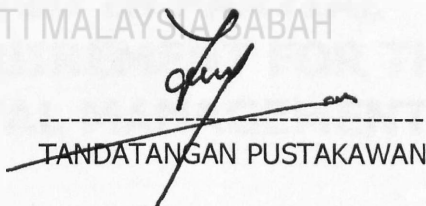
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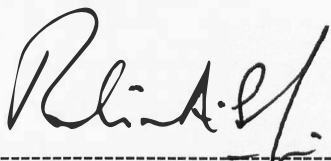
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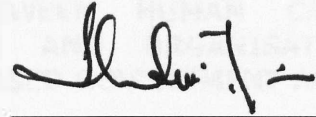
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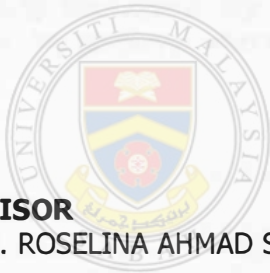
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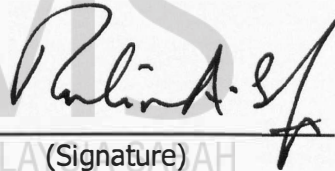
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ABSTRACT

THE RELATIONSHIP BETWEEN HUMAN CAPITAL MANAGEMENT PRACTICES AND ORGANISATIONAL PERFORMANCE IN AGRO BASED GOVERNMENT AGENCY IN SABAH MALAYSIA.

Previous studies examining the relationship between Human Capital Management (HCM) practices and organisational performance are mostly conducted in the West and adapted in this country to study the relationship on private sector. Unfortunately, there is a wide gap on study examining the performance of the agro-based government agencies whose dual roles are socio-economic and commercial functions. Various questions have enormous implication to the survival of agro based government agency, and yet have not been fully addressed by existing research. This dissertation examines the relationship between HCM practices and human capability on organisational performance in agro based government agency in Sabah. The goal is to measure the relationship of four domains of HCM practices (employee relations, manpower planning, job security and compensation) and human capability on organisational performance. This study also examines the significant of organization age as moderator for HCM practices and human capability on organisational performance. A total of 122 usable questionnaires were collected using cross-sectional survey in the agro-based government agencies under the Sabah Ministry of Agriculture and Food Industry between March 2010 and April 2010. Results of multiple regression indicated that HCM practices has no significant relationship with organisational performance, but human capability indicated a positive relationship with organisational performance. The hierarchical regression result showed that age of the organization does not moderate the relationship between human capability and organisational performance. The findings can form the basis for useful recommendations for agro-based government agencies managers in encouraging the practice of HCM who are concerned with maintaining their competitive advantage for long-term organizational success.

ABSTRAK

Beberapa kajian lepas melihat hubungan antara amalan pengurusan modal manusia dan prestasi organisasi dilaksanakan di negara Barat, dan diadaptasi di negara ini untuk mengkaji hubungan tersebut dalam sektor swasta. Kajian yang memberi fokus kepada agensi kerajaan yang terlibat dalam industri berasaskan pertanian, dan terlibat dalam kedua-dua fungsi sosio-ekonomi dan komersial masih terhad. Permasalahan yang timbul telah memberi implikasi kepada kelangsungan organisasi, namun belum di selesaikan sepenuhnya melalui kajian-kajian sedia ada. Disertasi ini melihat hubungan langsung antara amalan pengurusan modal manusia dan prestasi organisasi di industri yang berasaskan pertanian di Sabah. Tujuan utama ialah untuk menilai hubungan antara amalan-amalan pengurusan modal manusia (iaitu hubungan pekerja, perancangan tenaga manusia, jaminan pekerjaan dan pampasan) dan keupayaan manusia, dengan prestasi organisasi. Kajian ini juga melihat pengaruh umur organisasi dalam menentukan hubungan tersebut. Sejumlah 122 kertas soalselidik yang boleh digunakan berjaya dikumpul daripada industri-industri berasaskan pertanian dibawah Kementerian Pertanian dan Industri Asas Tani diantara bulan Mac dan April 2010. Ujian regresi menunjukkan hubungan antara amalan pengurusan modal manusia dan prestasi organisasi adalah tidak signifikan. Bagaimanapun keupayaan manusia menunjukkan hubungan yang signifikan keatas prestasi organisasi. Ujian hirarkikal juga tidak memberi pengaruh umur organisasi kepada hubungan antara keupayaan manusia dan prestasi organisasi. Hasil dari kajian ini boleh menjadi satu asas cadangan yang berguna kepada pengurus agensi yang berasaskan pertanian di Sabah dalam mengamalkan amalan pengurusan modal manusia yang prihatin untuk mengekalkan kelebihan bersaing mereka untuk kejayaan jangka panjang sesebuah organisasi.

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LIST OF ABBREVIATIONS

HCM	-	Human Capital Management
KPD	-	Korporasi Pembangunan Desa Sabah (Sabah Rural Development Corporation)
LIGS	-	Lembaga Industry Getah Sabah (Sabah Rubber Industry Board)
KONELAYAN	-	Korporasi Kemajuan Perikanan dan Nelayan Sabah (Sabah Fisheries and Fishermen's Development Corporation)



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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter describes a brief overview of the research. It explores the research problem statement, objectives and scope of the study and significance of the study. Definitions of the key terms used and organisation of the thesis are also provided in this chapter.

The agro based organisation today is marked by extreme geopolitical and economic uncertainties. Globalization, rising customer and shareholder expectations are forcing businesses to respond to customers faster than ever with value added products and services. Companies are under pressure to increase revenues and profitability, while reducing costs, optimising resource utilisation, and tightening corporate governance, creating innovative products and services, enhancing quality and productivity, and increasing speed to the market (Azzat Mohd. Nasuridin *et al.*, 2008). Moreover, sharing information through the rapid changing technologies makes it easier to replicate competitors' strategies and work practices (Cho, Woods, Jang and Erdem, 2006). To address the challenges, the companies need to focus on the capabilities of the workforces. Harter, Schmidt and Hayes, 2002 (as cited by Azzat Mohd. Nasuridin *et al.*, 2008) indicated the role of effective human capital in generating and increasing knowledge, skills, motivation, synergy, and commitment, which results in a source of competitive advantage of the company. The emphasis on human capital to improve organisational performance not only because they cannot be easily imitated by competitors, but because they provide an effective and rapid response to market demands (Huselid and Becker, 1996).

Increased levels of global competition which affect the region including Malaysia was felt by most companies since the Asian financial crisis in 1997. The Sabah agro based government agency were badly affected and needed to respond to the increasing pressure from the stakeholder on their performance. They can no longer depend solely on the government to finance their activities, including payment of salary. At one time, it was widely published in the local media that many government agencies were ailing and even pressured by the government in power to close shop¹. The expectations of the stakeholder is that as a government agency, these organisations should implement the traditional roles of assisting rural poor by implementing socio-economic projects, and at the same time should undertake commercial projects to generate income. Thus, reduce their dependency on the government for funding. These expectations seem continuous, as evident from the 2004 Budget Speech by the YAB Chief Minister of Sabah delivered on 17 October 2003, whereby all statutory bodies were encouraged to be more financially independent and generate income. During the 2010 budget sitting, the YAB Chief Minister reemphasizes the importance to manage their financial resources and assets productively and profitably. To become financially independent is however, not an easy task. Coping with financial deficiencies and the rapid changes in global business environment have increased the need for the organisations to respond promptly. Therefore, these organisations have to position themselves in order to gain a competitive advantage and stakeholder's confidence.

Human resources have been considered as the most important asset that drives organisational performances, and provide an important source of competitive advantage (Pfeffer, 1994). However, the global business environment rarely accompanied by complementary changes in HCM practices leading to the failure of some companies due to mismanagement of people rather than technical problems (Bawa, Jantan, and Ali, 2000). This is because the company's HCM practices effectiveness is still low (Bawa *et al.*, 2000) and they are quite slow in

¹ Daily Express, 30 December 2002 and 21 August 2005.

adopting the “best practices” or “high work performance practices” (Rowley and Saadiah, 2007), although the government been committed on policy of high impact delivery system. Most resources have been mobilised to make the policy work, but hindered by HCM practices. Thus, in order to manage employees for competitive edge, the Human Resources managers must possess competencies that are relevant to effectively implement the human capital management policies and practices.

The Malaysian government had recognized the importance of developing human capital through the enforcement of HRD Act (1992), where private sector registers with the Human Resources Development Corporation (HRDC) and contribute monthly levies equivalent to one percent of their wage bills. The Human Development Contribution Fund reimburses part of the costs of approved training, retraining and skills upgrading programmes undertaken by employers. Such investments in employee development are often taken as integral to Human Capital Management and recognition of Human Resources as ‘assets’ to be invested in, not costs to be reduced (Rowley and Saaidah, 2007). Although the statutory bodies are not covered by the HRD Act, the government recognised the importance of human capital. The Chief Minister of Sabah, Datuk Seri Musa Haji Aman reemphasized its importance during the budget session for 2010 when he stated that development of skilled and competent human capital coupled with integrity and knowledge in science is a prerequisite to make Sabah a developed State by the year 2015. It is also one of the State budget 2010 strategies to accelerate human capital development as a catalyst of growth thereby promoting its participation in the modern economy as well as enhancing competitiveness. The 2010 budget provides an allocation of RM248.42 million for human resource development which is an important foundation towards producing a knowledgeable, competitive and innovative generation².

² Refer the 2010 budget speech by The Right Honourable Datuk Seri Panglima Musa Haji Aman, Sabah Chief Minister and Minister of Finance at the State Legislative Assembly on the 13 November 2009 (<http://www.sabah.gov.my/info/budget/2010StateBudgetSpeech.pdf>).

Given the importance of workforce to the state economic growth, and the lack of study in HCM practices in Sabah, Malaysia, it is justified that a study is taken to examine the relationship between HCM practices and organisational performance in the agro based government agency of Sabah.

1.2 Problem Statement

As discussed above, the agro-based government agency needs to respond to the increasing pressure from the stakeholders on their performance. These organisations are encouraged to be more financially independent and generate income. Since the Asian financial crisis, the state government has been reemphasizing the importance of managing the state agencies and government link companies' financial resources and assets productively and profitably in every budget sitting. However, it is not easy to be financially independent especially when the organisation is preoccupied with financial constraints and at the same time to catch up with the rapid changes in global business environment.

The present expectation of the stakeholders needs to be fulfilled if the agro based government agencies need to continue their existence. They must be relevant and position themselves competitively in the market. Figure 1-1 illustrates the various stakeholders' concerns which effective organisations must consider and attempt to address. Choices about how to manage an organisation's human capital often have unintended and unexamined consequences for stakeholders' perceptions of how well their concerns are satisfied (Schuler and Jackson, 2005).

Figure 1-1 : Stakeholders and their Concerns³



Apart from the growing stakeholders' expectations, the other observation by the researcher indicated other human capital concerns such as the existence of employer-employee strains due to the picket staged by employee union of one agency studied and the article stipulated in the local newspapers⁴. The main reason for picketing was the inability of the management to pay bonuses and pay increment amounted to 8.6 million. At the same time, another practice noted in these organisations to improve financial performance and productivity is the retrenchment exercise⁵. This practice is observed as one of the strategic policies adopted in response to the stakeholder expectation.

³ Adapted from S. E. Jackson and R. S. Schuler, *Managing Human Resources through Strategic Partnerships*, 8th ed., Cincinnati, Ohio: South-Western 2003: 17 (as cited in Schuler, R. S. and Jackson, S. E., 2005)

⁴ Refer Daily Express dated 19 Oct., 2006

⁵ Borneo Post dated 9 May 2004 and 8 November 2006

Beside the above, other consequences of ineffective HCM practices observed in organisations include low work commitment among employees, slow in executing task, unable to meet deadline, disciplinary problems such as dishonesty and misappropriation of company fund, increase in quality cost such as lost productivity, accidents, errors, scraps and rework expenses. These are some of the challenges that need to be rectified. Otherwise, the 2010 state budget strategies to improve public sector delivery system, to strengthen good governance and increase productivity will not work out. These issues are directly related to the HCM practices and suggested room for improvement.

Most studies examining the relationship between HCM practices and organisational performance were conducted in the West. Som (2008) whose study focuses on Indian emerging economy argued that most Strategic Human Capital Management research has occurred largely within the context of industrialized Western economies. This is supported by Ericksen and Dyer (2005) and Wright *et al.*, (2005) which call for further empirical research from different contexts. Gerhart (2005) also justifies the question as to what extent Western Strategic Human Capital Management framework is valid for other contexts by saying: *"This is a concern because it seems unlikely that one set of HR practices will work equally well no matter what context"* (pg.178). To further examine the existence of such a relationship, it is important to conduct research in other states besides the United States or United Kingdom contexts (Katou and Budhwar, 2006), especially in emerging economies. Delery and Doty (1996) also raised concern on the results of their study in the banking industry might not be valid in other industries. These authors urge that *"... the current findings need to be validated in other industries to rule out industry as an important contingency factor"* (pg. 829).

As to date, there has been little discussion about the relationship between HCM practices on organisational performance in the emerging economy such as Malaysia, and Sabah in particular. Studies were limited to plantation sector (Bawa, 2000), manufacturing company (Hung, 2001; Normala, 2006), small and medium

enterprise (Mohd Khairuddin Hashim *et al.*, 2005), and private companies (Lo *et al.*, 2009; Zaini *et al.*, 2009). Zaini *et al.*, (2009) suggested that further research is needed on different setting to investigate the relationship between HCM practices and business performance. Besides, all the studies above were done on commercial sector, and neglect the agro-based government agency and socio-economic sector.

Purcell *et al.*, 2003 (as cited from Katou and Budhwar, 2010) conclude that even though steps have been taken to identify the Human Capital Management performance relationship over the past decade, serious gaps in our knowledge still remain. Thus, the above discussions suggested examining the gaps in the present literature pertaining to the implementation of HCM practices and human capability in the agro based government agency in Sabah.

1.3 Research Questions

To investigate a systematic view on HCM practices and human capability, and examine the identified gaps in the literature, a conceptual model of the predictors of organisational performance has been proposed. The following research questions are designed to test the model.

- a. What is the relationship between HCM practices (employee relations, manpower planning, job security and compensation) and organisational performance in the agro based government agency in Sabah?
- b. What is the relationship between human capability (educational level, work experience, employee competencies and the value, uniqueness and inimitability of the employee) and organisational performance in the agro based government agency in Sabah?
- c. After moderating the age of the organisation, what relationship do HCM practices and human capability have on organisational performance?

These questions have enormous implication to the survival of agro based government agency, and yet have not been fully addressed by existing research. These questions are translated into the following objectives.

1.4 Research Objectives

Based on the above research problems, this study intends to achieve the following objectives:

- a. To determine the relationship between HCM practices (employee relations, manpower planning, job security and compensation) and organisational performance;
- b. To determine the relationship between human capability (educational level, work experience, employee competencies and the value, uniqueness and inimitability of the employee) and organisational performance; and
- c. To examine the moderating effects of age of the organisation on the relationship between HCM practices and human capability on organisational performance.

1.5 Scope of the Study

To achieve the above objectives, this study will concentrates on the employees of three statutory bodies involved in agro based industry under the purview of Sabah Ministry of Agriculture and Food Industry. The agencies are LIGS, KPD and KONELAYAN.

The study will be a cross sectional⁶ where employees of the three statutory bodies make up the population. The scope of coverage is limited to selected managers, executives and supervisor from the agro based government agency working at Kota Kinabalu area.

1.6 Rationale and Significance of the Study

This research and its findings are important to provide insight into the various HCM practices needed to successfully perform in an agro based government agency in Sabah. This study proposed to fill the gap in the body of knowledge in the practices of Human Capital Management in agro based government agency by addressing these issues: first, the study intends to investigate the relationship between HCM practices and human capability on organisational performance, namely sales growth and profitability. Secondly, this study is to examine whether the age of the organisation moderate the relationship between HCM practices and organisational performance, and between human capability and organisational performance. Finally, this study intends to enrich the previous study using the resources based perspective.

The research on the relationship between HCM practices, human capability and organisational performance in Sabah Malaysia is far from established. Specifically, this study would be helpful for those statutory bodies that perform dual roles which are to implement socio-economic projects and commercial projects. The findings of this study are expected to contribute to the industry and will be useful to top management and Human Capital managers and practitioners to improve their HCM practices and enhance employee capability.

⁶ Wall and Wood (2005) argued that cross-sectional study are those in which both the independent and dependent variables are measured on one occasion only (be these concurrent or not) while in longitudinal studies either or both the independent and dependent variables are measured on at least two occasions. Both types of study are of value. Cross sectional study is a cost-effective starting point for establishing that two or more variables are related, and the absence of a cross-sectional relationship would send warning signals that more costly longitudinal work might not be justified. Also, cross-sectional work often allows the use of much larger samples and hence arguments generalizability. Although cross-sectional studies provide a weak foundation for causal inference this research designs are to be preferred considering the time frame allocated for this study.