

**THE RELATIONSHIP BETWEEN HIGH
PERFORMANCE WORK PRACTICES
(HPWP), JOB SATISFACTION AND
INTENTION TO WITHDRAW
AMONG EMPLOYEES OF
GOVERNMENT-LINKED
COMPANIES
(GLC)**

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PERPUSTAKAAN
UNIVERSITI MALAYSIA SABAH

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2010**

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 **PASCALIA ASING @ ESTHER ASING**
UNIVERSITI MALAYSIA SABAH

**Dissertation submitted in partial fulfilment of
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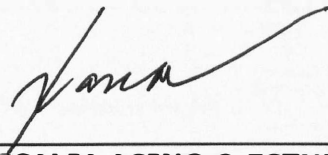
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DECLARATION

The materials in this thesis are original except for quotations, excerpts, summaries and references, which have been duly acknowledged.

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ABSTRAK

Tajuk kajian ini adalah Hubungkait Di Antara Amalan Kerja Berprestasi Tinggi (AKBT), Kepuasan Bekerja Dengan Keinginan Berhenti Kerja Di Kalangan Kakitangan Syarikat Milek Kerajaan. Model dari Arocas & Camps (2007) diubahsuai dan digunakan dalam kajian ini. Objektif kajian ini adalah untuk mengenalpasti impak AKBT kearah keinginan berhenti kerja dan untuk mengenalpasti samada kepuasan bekerja membolehkan dalam perhubungan antara AKBT dan keinginan berhenti kerja. Dalam rangkaian teori, kepuasan pekerjaan kakitangan digunakan sebagai pembolehubah pada perhubungan di antara AKBT yang terdiri daripada Gaji, Pengkayaan Kerja dan Jaminan Pekerjaan dengan Keinginan Berhenti Kerja. Kajian dijalankan khususnya di antara kakitangan Syarikat Milek Kerajaan Sabah yang mempunyai persamaan dalam bidang perniagaan seperti bidang infrastruktur dan pembangunan hartanah iaitu K.K.I.P. Sdn Bhd (KKIP) dan Sabah Urban Development Corporation (SUDC) dengan tujuan untuk membuat penyelidikan pada setiap pekerja seramai 150 orang. Walau bagaimanapun, hanya 105 soal-selidik telah diisi dan dikembalikan. Untuk tujuan kajian ini, soal-selidik digunakan sebagai instrumen kajian. Keputusan kajian mendapati bahawa Kepuasan Pekerjaan mempunyai perhubungan kesan pembolehubah yang signifikan diantara Amalan Kerja Berprestasi Tinggi (AKBT) yang terdiri daripada Gaji, Pengkayaan dengan Keinginan Berhent Kerja dan Jaminan Pekerjaan, manakala AKBT tidak mempunyai hubungan yang signifikan dengan Keinginan Berhenti Kerja. Semoga kajian ini dapat membantu dalam pemahaman awal ke atas tingkahlaku kakitangan dan seterusnya dapat menggubah cadangan di dalam usaha untuk mengurangkan keinginan berhenti kerja di kalangan kakitangan-kakitangan Syarikat Milek Penuh Kerajaan.

ABSTRACT

THE RELATIONSHIP BETWEEN HIGH PERFORMANCE WORK PRACTICES (HPWP), JOB SATISFACTION AND INTENTION TO WITHDRAW AMONG EMPLOYEES OF GOVERNMENT-LINKED COMPANIES

This study entitled The Relationship Between High Performance Work Practices (HPWP), Job Satisfaction and Intention To Withdraw Among Employees of Government-Linked Companies was adapted and modified the model developed by Arocas and Camps (2007) to suit the setting of this study. The objectives of this study are to identify the impact of HPWP towards the intention to withdraw and to identify whether job satisfaction intervenes the relationship between HPWP and intention to withdraw. The study was carried in particular among the employees of Government-Linked Companies (GLC) in Sabah, specifically in the similar nature of business as in infrastructure and property development, namely K.K.I.P. Sdn Bhd (KKIP) and Sabah Urban Development Corporation (SUDC) with the intention of garnering each and everyone of the 150 employees of all levels. However, only 105 questionnaires were completed and returned. For the purpose of this research, questionnaires were used as the main research instrument. From the study, it was found Job Satisfaction has significant intervening effect on the relationship between HPWP and Intention to Withdraw. In addition, High Performance Work Practices (HPWP) consisting of Salary, Job Enrichment and Job Security, is positively related to employee's job satisfaction, whereas HPWP is negatively related to intention to withdraw. It is hoped that this research will contribute to the advancement of the understanding the general attitude of the employees of GLCs and thus to formulate recommendations on minimizing turnover issues.

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CHAPTER 1

INTRODUCTION

1.0 Overview

In the past, big emphasis has often been placed on attracting key people but there appears less research on the extent to which organizations go to retain those same people (Nankervis *et al.*, 2008). Turnover, resignations or withdrawal represent an outward movement of staff and take place for various reasons (Jackson *et al.*, 2009). Based on the researcher's observation as in the case of employees in the government-linked companies (GLC), when there are no promotional opportunities, or better opportunities elsewhere, many of them take the option of leaving the company. Sometimes employees just do not fit into the company culture, or they find themselves in conflict situations from which they decide to withdraw.

In the majority cases, some employee turnover is unavoidable, even in the best organizations. For some GLC, turnover is not desirable as it is costly in many ways. According to Nankervis *et al.* (2008) the cost of losing key people are divided into three categories namely, direct cost which includes the cost of recruitment, selection, orientation, training, lost of performance and productivity; indirect cost would be the effect on workload, negative impact on colleagues and possible loss of customers; and opportunity cost as in loss of intellectual capital and loss of corporate memory. Reducing turnover among the best performing employees can contribute to improved firm performance. The reasons for employees especially in the GLC quit their jobs may seem obvious, yet many Human Resource Managers simply do not have a good understanding about what is most important to their top-performing employees. Employers that plan and manage well can minimize the need for extensive recruiting and its associated costs. (Jackson *et al.*, 2009).

At present, the most important staff retention strategy is salary, as per Arocas & Camps, (2007) which confirm the importance of financial incentives in the staff retention goal. Keeping staff turnover low is an important factor and is one of the key factors in deciding the success of any organization. It requires

awareness of the current state of the high performance work practices (HPWP) by creating conducive environments where employees become highly involved in the organization and work hard to accomplish its goals, mission and vision.

In consideration within HPWP diversity, initially, in the late 1990's, Huselid (1995) included 13 items to assess a set of HPWP in the areas of personnel selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment, participation, training and promotion criteria. By 1997, Ichniowski *et al.* (1997) suggested contingent compensation, high screening in recruiting and selection, teamwork, employment security, job rotation, skills training, communication activities and two traditional labor relationships indicators such as the union status of the staff and a grievance rate variable as Innovative Human Resource Management Practices. As stated by the previous researcher, some of those practices were evaluated at policy level for example, whether the Organization is committed to a goal of long term employment security and whether they have offered their employees a pledge of employment security, as well as concerning practical level, for example, whether the organization believed in rotating jobs or tasks among the production line operators.

Later on, Arocas and Camps (2007) stated that there were originally 16 practices based on the Pfeffer's Model of Management but was reduced to seven (Pfeffer, 1998) such as job security, selective hiring of new personnel, autonomous teams and the decentralization of decision making as the core to organizational design, salary, training, a lessening of distinctions as well as substantial participant from the different departments in the company. However, by year 2000, according to Way, (2002) cited by Arocas and Camps (2007), three categories of practices that have been accepted in the literature as belonging to the construct HPWP: compensation (salary), job enrichment and job stability.

In this study, job satisfaction was used to intervene the relationship between salary, job enrichment, job security and intention to withdraw. Intention to withdraw is the thought of leaving the organization, in other word, resignation. Chiu and Luk (2002) agreed that only the most efficient and best-managed organizations can survive. Money, benefits and many different forms of

compensation have been used to attract, retain and motivate employees and achieve organizational goals. Chiu and Luk (2002) further elaborated that organizations reward systems involve monetary as well as non-monetary compensation. Under monetary compensation, there are direct compensation and indirect compensation or benefits. However, the meaning of money is "in the eye of the beholder" and can be taken as their 'frame of reference' in which they examine their everyday lives (Tang *et al.*, 2000). Chiu and Luk (2002) also stated that monetary benefit does not generally or necessarily suit every worker since workers differ in their valuation of various benefits. In short, one cannot assume that all employees have same preferences. However, not all turnover is bad (Jackson *et al.*, 2009) and sometimes organizations encourage employees to leave i.e. voluntary separation scheme (VSS) whereby the objective is to shrink the size of the workforce overall or simply to help unproductive workers realize that they may be better off finding alternative employment.

Specifically, in this study, the researcher will explore and understand the causes of withdrawal intentions among the employees of GLC because only with this understanding can employees succeed at retaining their top performers. As a result of this research, recommendations on intention to withdraw among the GLC employees will be formulated.

1.1 Problem Statement

The turnover of top-performer among Government-linked companies [GLC] deserves further investigation in order to identify the root-causes and governing factors contributing to the intention to withdraw. In the past, it was greatly emphasized to attract key people and less focus on the extent to which organization should do to retain those same people. With today's emphasis on the so-called war for talent it seems that many organizations have switched their efforts to this very important area of human resource management. Attracting key people is only one dimension, the other is keeping them. It should go without saying that the starting point is effective recruitment and selection processes.

According to a survey conducted by Lucy Firth *et al.* (2003), managers need to actively monitor workloads, and the relationships between supervisors and subordinates in order to reduce and manage stress. Managers also need to monitor both the extrinsic and intrinsic sources of job satisfaction available to employees. The researchers further elaborated that these activities could assist in maintaining and increasing job satisfaction and commitment to the organization. The content theories on motivation focus on the factors within the person that energize, direct, sustain and stop behavior which attempt to determine the specific needs that motivate people. Those theories on motivation that has an impact on managerial practices include Maslow's need hierarchy, Alderfer's ERG theory, Herzberg's two-factor theory and McClelland's learned needs theory, Ivancevich *et al.* (1999).

As quoted by Allen *et al.* (2003) little explanation has been offered for how HR practices influence individual turnover decision. In fact, the main and leading challenge faced by many human resources departments nowadays is staff retention. Studies suggest that HR practices affect organization outcomes by shaping employee behaviours and attitudes (Huselid, 1995). One way of retaining employees is by creating an environment whereby employees not only become highly involved in the organization and work hard to accomplish its goals but also increase organizational effectiveness through High Performance Work Practices (HPWP), such as using selective hiring and training, motivation through pay for performance and opportunity to contribute through teamwork and suggestion systems (Gerhart, 2005). For example, based on the information gathered from the Human Resource Officers of GLC, there were eighteen (18) employees from the all levels resigned from K.K.I.P. Sdn Bhd for the past five (5) years, whereby in year 2005, four (4) resigned out of sixty eight (68) staff, year 2006 another four (4) out of seventy (70), three (3) out of seventy five (75) in 2007, four (4) out of eighty three (83) in 2008 and four (4) out of ninety three (93) in year 2009. For SUDC, there were ten (10) resignees, also from all levels, whereby three (3) out of seventy two (72) staff in 2005, two (2) out of seventy three (73) in 2006, only one (1) resigned out of seventy three (73) in 2007, in 2008, out of seventy four (74) two (2) and another (2) out of seventy five (75) staff resigned from the organization.

Although the number of turnover shown above is not alarming however, the intention to withdraw among the employees, deserve serious attention to avoid losing the top performers because in most cases, the intention to withdraw will not be known unless a notice of resignation is submitted to the Human Resource Unit and by then, it would be too late to convince them to stay with the organization. There are many ways that GLC employers can use to retain their key people but possibly the most effective is to simply sit down to a one-on-one session with them and ask what it will take to keep them. Given the costs, both direct and indirect, of first losing and then replacing key staff, the method of conducting a one-on-one session is far better approach than conducting the traditional exit interview after the employee has decided to leave.

Based on the Exit Surveys conducted by the two focused GLCs in Sabah, the reasons behind their employees decisions to seek other employment easily proved that most turnover are under the employer's control such as:

Low Job Satisfaction

As recorded in the Exit Survey Form as well as conveyed during exit interview between the Human Resource Manager and the resignee at one of the GLCs, disliking the job itself was one of the factors that lead the employee to withdraw from the organization and also related to over stress which increases job dissatisfaction. Overload with work was also one of the contributing factors of stress. Managers were supposed to be able to manage employee's job overload by knowing the key technique on what really was important in the job so that employees are able to perform excellently.

One example is to conduct job analysis and making sure that management could provide the resources, training and manpower needed to do a good job. Having difficulties with supervisor is another area whereby employee made the decision leaving the organization due to the relationship with the Supervisor, for example, poor in providing feedback and affirmation, social support such as expressing concern, indicating trust, boosting esteem and listening.

Labor Market Conditions

Some top performers were being head-hunted by multi-national companies and other GLC offering better compensation package which include higher salary, better perks and benefits and having strong job security. Aggressive recruitment by competitors is another factor. Therefore, managers should be aware of the current labor market condition and take necessary step in order to be more competitive in attracting and retaining employees.

Poor Human Resources Practices

The issue on poor Human Resource practices such as low compensation is also another factor of resignation since pay plays a vital role in a person's economic and social well-being. Employees may see compensation as a reward for a job well done. Managers should be aware that employees invest in education and training and they contribute their time and energy at the workplace. Briefly, compensation is said to be the employees' return on those investment and contributions. The managers and co-workers both play an important role in granting recognition among the employees of the organization. Lack of career development opportunities, slow advancement and low employment security are among strong reason for the top performers resigning from the organization. Lack of fairness is another area that a manager should look into.

Other Role Commitments and Time Conflicts

Another factor that may force employee to withdraw is having other role commitments such as family affair and time conflicts. The best organization will find ways to achieve a balance between these two sets of outcomes and pursue activities that improve both. For example providing an in-house child-care centre, sports and recreation club i.e. gymnasium and aerobic class for interested parties.

This study aims to clarify the relationship between high performance work practices (HPWP) and intention to withdraw. The research question is "what are the forces driving employees intent to withdraw and to what extent the relationship between the three independent variables of high performance work practices (HPWP); compensation (salary), job enrichment and job security, affect the intention to withdraw is intervened by job satisfaction.

According to Arocas & Camps (2007), HPWP increase organizational effectiveness by creating conditions where employees become highly involved in the organization and work hard to accomplish its goals, in other words, by increasing job satisfaction and employee's commitment to the organization.

K.K.I.P. Sdn Bhd same as other organizations, is also facing turnover of top-performers. Employee's intention to withdraw has always been a problem such that it deserves an investigation into. Some of the reasons cited are low compensation, better offer elsewhere, been too long in the organization and that the employees no longer derive any satisfaction out of the job enrichment. Job security is another pressing issue. Knowing the reasons why these employees are unhappy can help the organization focus their effort on fixing the root causes of the problem.

Meanwhile, despite SUDC's effort in creating working conditions to increase job satisfaction, SUDC is still facing problems in lack of employee continuity coupled with the high cost of induction and training of new staff and thus affecting the organization productivity. Hence, this study is conducted in order to assist to institute measure to alleviate problems brought about due to intention to withdraw and also to examine the control mechanism as well as to minimize its occurrence. On the other hand, some form of turnover are desirable such as resignation of poor-performing employees, however, this study will limit its scope to the loss of valued employees.

Based on the issues mentioned above, this study is carried out to develop a basis of understanding in analyzing whether the three selected high performance work practices, salary, job enrichment and job security, could affect the intention to withdraw and trying to demonstrate the role of job satisfaction as intervening variable, in this relationship. As stated by Rouse, (2000), performance based pay (salary), autonomous work teams (job enrichment) and open systems are known collectively as high performance work practices. Thinking about organizations have also been the characteristics of high performance work practices (HPWP).

HPWP attempts to find the best fit among technologies, processes, structures and external environment instead of trying to fit employees into the existing technological structure within an organization. Furthermore, HPWP leads to optimal utilization of all resources and a shift in focus from internal and external's effectiveness and efficiency (Varma *et al.*, 1999). In addition, organizing work so that employees participate in decisions that affect the daily operations of an organization is the main focus of HPWP. High involvement work system, flexible work systems and high commitment have also to be known as HPWP. When implemented correctly, HPWP not only improved productivity and quality to an organization but also minimize the intention to withdraw. However, according to Aghazadeh & Seyedian (2004), HPWP may not be appropriate to all organizations, but it is worth the time to evaluate whether an organization would or would not benefit from HPWP.

1.2 Objectives

The main objectives of this study are to investigate the followings:

- a) To identify the impact of high performance work practices (HPWP) towards the intention to withdraw among the employees of these GLCs.
- b) To identify whether job satisfaction intervenes the intention to withdraw among the employees of selected Government-linked companies (GLCs).

1.3 Scope

The scope of this study attempts to identify the various reason associated with the intention to withdraw among the existing employees in two Sabah based GLCs, namely, K.K.I.P. Sdn Bhd (KKIP) and Sabah Urban Development Corporation (SUDC) which includes Senior Managers, Managers, Engineers, Accountants, Senior Executives, Executives, Administrators, Assistant Administrators, Officers and non-executive level. Part of the scope is also to ascertain whether the perceived job satisfaction intervenes the intention to withdraw.

1.4 Rationale and Significance of the Study

The findings of the study will contribute to the advancement of the understanding the general attitude of the employees of GLCs and thus to formulate recommendations

on minimizing turnover issues. In addition, the study will also examine the intervening effect of job satisfaction towards the relationship between the intention to withdraw and high performance work practices. When implemented effectively, high performance work practices benefit both employees and the GLCs. Employees have more involvement and confidence in the government-linked Companies, experience growth and satisfaction and become more valuable as contributors. The GLC also benefits from high productivity, quality, flexibility and customer satisfaction. These features together can provide an organization with a sustainable competitive advantage.

1.5 Definition of the Terms Used

The variable and dimensions used in this study have specific connotations. This research comprise of HPWP as independent variable, intention to withdraw as dependent variable, job satisfaction as intervening variable. The definitions of these terms are explained by the following:

1.5.1 Intention To Withdraw

Mobley *et al.* (1982) provides a general description of intention to withdraw as an employee's own subjective assessment that he will be leaving his current job in the near future. Based on Alderfer's ERG explanation of motivation provides an interesting suggestion to managers about behavior. In support of the ERG's explanation, employees will have the intention to withdraw if their higher-order needs (for example, growth) are being blocked, perhaps because of company policy or lack of resources, then it is in the manager's best interest to attempt to redirect the employees efforts toward relatedness (Job Security and Job Enrichment) or existence needs (Salary). This is because the ERG theory implies that individuals are motivated to engage in behaviour to satisfy one of the three sets of needs, Ivancevich (1999).

Although previous studies (e.g. Mobley *et al.*, 1982) examined three types of withdrawal intentions – from the organization, job and occupation, the intention to withdraw in this present study is defined as voluntary leaving the organization before the pensionable age with the intention to get a job elsewhere.

1.5.2. Job Satisfaction

Generally, in this study, job satisfaction is defined as an attitude that individuals have about their jobs and an extent to which one feels positively or negatively about the intrinsic and extrinsic aspects of one's job, for example, the quality of one's relationship with their supervisor, the quality of the working environment and the degree of fulfillment in their work, Bhuian and Menguc (2002).

In addition, Sarker *et al.* (2003) stated that job satisfaction influence the employees decision to stay or to withdraw from the organization whereby satisfied workers will be more productive and remain with the organization longer, whereas dissatisfied workers will be less productive and more inclined to quit. Employers , especially the managers should be aware of differences in needs, desires and goals because each individual is unique in many ways. Hence, it is worthwhile for GLC managers to focus on the content theories of motivation. This is based on Herzberg's Two-Factor Theory which discussed the dissatisfiers-satisfiers or the hygiene motivators or the extrinsic-intrinsic factors, depending on the discussant of the theory which include salary and job security, in the effort of minimizing staff turnover, Ivancevich (1999). Job satisfaction is an important work-related attitude in for several reasons and one of them is directly related to organizational commitment (Brown, 2004) able to influence a various important attitudes, intentions and behaviors, Boles (2007).

1.5.3. High Performance Work Practices

Snell & Bohlander (2007) provides a general description of high performance work system as a specific combination of HR practices, work structures and processes that maximize employee knowledge, skill, commitment and flexibility. Other researcher, Edgar & Geare (2007) constructed the concept of 'best' HR practices as increase employees' knowledge, skills and abilities (KSAs). The result is greater job satisfaction, lower employee turnover, higher productivity, and better decision-making, all of which help improve organizational performances.

However, this study would be based on the definition based on Arocas and Camps (2007) who stated that HPWP increase organizational effectiveness by creating conditions where employees become highly involved in the organization and

work hard to accomplish its goals, in other words, by increasing job satisfaction among the employees.

The proposed model for this research suggests the use of specific practices categorized under HPWP (Arocas and Camps (2007)) such as compensation (salary), job enrichment and job security and develop job satisfaction as an intervening variable to intention to withdraw.

a. Compensation (Salary)

Mello (2002) stated that an organization's compensation system usually consists of three separate components. The first and largest component is the base compensation or salary system. The second is the incentive system, where employees receive additional compensation based on individual, divisional or organization-wide performance such as bonus, commission, profit sharing and stock options. Third is the indirect compensation system, where employees are provided with certain benefits, some of which are legally required such as SOCSO, EPF, medical leave, overtime payment and others, for example, health insurance, retirement benefit, tuition reimbursement or flexible work schedule, are provided at the discretion of the employer. In general, the elements of compensation in this research encompass the all three components mentioned above.

Chiu *et al.* (2002) revealed that money, benefits and many different forms of compensation have been used to attract, retain and motivate employees and achieve organizational goals around the world. According to their study, the top three ranking in attracting, retaining and motivating employees are base salary, merit pay and year-end bonus. All three components are in the form of cash and base salary is one of the main determinants that employees use when they make an employment decision. On the whole, most employers used merit pay as a reward for good work performance and to retain good employees, employers must make sure that their employees are treated fairly, by minimizing salary discrepancies among the employees.

According to Mondello and Maxcy (2009), salary means all compensation paid including money, property, investments, loan or anything else of value. In other words, salary is a fixed compensation for services paid to a person on a regular basis. However, based on the two focused subjects (KKIPSB and SUDC) salary does not only concerns money but also include everything that an individual perceives to be of value in the employment relationship which includes a car or transportation allowance, provision of personal electronic devices such as personal digital assistants (PDA), handphones and laptops should be given. Other 'sweeteners' for the middle management in their perception of 'salary' are parking spaces, club memberships dues to professional associations, professional development such as conference attendance and support for study visits to other Industrial Parks within Malaysia and Sabbatical opportunities.

b. Job Enrichment

This research refers job enrichment as an inclusion of greater variety of work content, which require higher level of knowledge and skill, encouraging workers autonomy and responsibility in terms of planning, directing and controlling their own performance and providing the opportunity for personal growth and meaningful work experience, Garg and Rastogi (2006).

According to McClelland's Learned Needs Theory, this theory believes that employees need are acquired from culture which consist of need for achievement (n Ach), the need for affiliation (n Aff) and the need for power (n Pow). McClelland contends that when a need is strong in a person, its effect is to motivate the person to use behavior that leads to its satisfaction, Ivancevich, (1999). Thus, managers sensitivity in managing and motivating their subordinates in terms of understanding their needs would motivate them to remain in the organization. Meanwhile, one concept produced by Herzberg's Theory is job enrichment which he defined as the process of building personal achievement, recognition, challenge, responsibilities and growth opportunities into a person's job, Ivancevich (1999). This has the effect of increasing the individual's motivation by providing them with more accountability when performing challenging work