

**BUSINESS STRATEGY, HIGH INVOLVEMENT HUMAN RESOURCE
MANAGEMENT AND FIRM PERFORMANCE:
A STUDY OF SMALL AND MEDIUM ENTERPRISES IN MALAYSIA**

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ABSTRACT

This study examines the linkages between business strategy and high involvement human resource management (HRM) as well as their impact on firm performance. The units of analysis for this study are small and medium enterprises (SMEs) operating in Malaysia. Based on a data set of 42 SMEs, the results show that there were significant relationships among these three major variables: business strategy, high involvement HR practices and firm performance. Significantly, the findings reflect that SMEs which believed in HRM values whereby entrepreneurs viewed people as source of competitive advantage and at the same time, adopted differentiation strategy, were more likely to use high involvement HR strategies. Although differentiation strategies tend to have stronger effects, both differentiation and response speed strategies had significant impact on firm performance. Most importantly, it is proven that SMEs implementation of high involvement HRM strategies significantly correlated with the firm performance.

Key words: Business strategy - Human resource management - Firm performance

INTRODUCTION

A recent development in the study of the effects of HR management practices on firm performance is the theory of a high-performance work system. The basis of the theory lies in the notion that superior firm performance is contingent upon the adoption of certain HR management practices, and the degree of 'fit' between those practices and business strategy. High performance work system (HPWS) or high involvement HR strategy, is typically characterized by significant delegation of authority to lower-level employees (empowerment), extensive training and development

of these employees, reliance on pay-for-performance (significant contingent or “at risk” pay), broadly defined job responsibilities, and employee participation in non-work aspects of organizational decision making.

This trend of high involvement HR strategy is crucial and very much needed by SMEs, especially those operating across national boundaries. Small and medium enterprise is often characterized by the free flow of human and financial resources. This further accentuates the need to manage HR effectively to gain competitive advantage in the global marketplace. To achieve this, entrepreneurs require an understanding of factors that can determine the effectiveness of various HR practices and approaches.

Besides, by integrating and aligning HR practices strategically with business strategy, firm performance can be further enhanced and secured. As affirmed by Bae and Lawler (1999), understanding organizational strategy is crucial to our understanding of HRM strategy. It is especially difficult for a firm to pursue appropriate business strategy if the employees do not have the necessary skills and knowledge to implement it. Hence, it is within this context that this research is carried out where the subsequent findings can provide firms with insights over the importance of the links between business strategy, HR strategies or practices and firm performance.

Additionally, review of the literature indicated a serious lack of large-sample empirical studies designed to investigate whether extensive use of ‘high performance’ HRM practices and a good alignment between HRM and firm strategy have positive effects on the performance of SMEs located in developing countries in Asia, let alone Malaysia. To eliminate some of the above-mentioned voids, this study is therefore focused to examine the relationship between high involvement HRM and SMEs performance in Malaysia.

Research Objectives

The approach taken here is to consider how the implications of the strategic HR management framework might play out in the setting of SMEs operating in Malaysia. Specifically, the objectives of this research paper include:

- To examine the linkages between business strategies, HR management and their impact on firm performance;
- To identify the HR policies and practices which can lead to better firm performance.
- To provide some practical implications of HRM strategy on firm performance for entrepreneurs.

LITERATURE REVIEW

Previous research on HR management widely accepted that employees create an important source of competitive advantage for firms (Barney, 1991; Pfeffer 1994). As a result, it is important that

a firm adopts HRM practices that make best use of its employees. The above trend has led to increased interest in the impact of HRM on firm performance, and a number of studies have found a positive relationship between 'high performance work practices' (Huselid, 1995) and different measures of company performance. Furthermore, there is some empirical support for the hypothesis that firms, which align their HRM practices with their business strategy, will achieve superior outcomes.

However, the implications of these findings for SMEs remain to be investigated. Mostly, studies of the relationship between HRM and organizational performance have been conducted on the domestic operations of US firms, with a smaller number of studies carried out in Europe (Guest and Hoque, 1994) and Asia (Ngo *et al.*, 1998). Scholars of international business have so far focused on the extent to which HRM practices within multinational corporations are globally standardized and/or locally adapted (Rosenzweig and Nohria, 1994; Taylor *et al.*, 1996) and largely ignored the relationship between HRM and firm performance (for an exception, see Ngo *et al.* 1998).

In addition, there has been limited research on the impact of high involvement HRM impact in Asia, needless to mention in Malaysia. This study specifically chose SMEs as units of analysis because these enterprises pipeline great source of income and support the economic and social status of our country. Thus, there is a need to assess the effectiveness of these strategies and how great the impact is on firm performance.

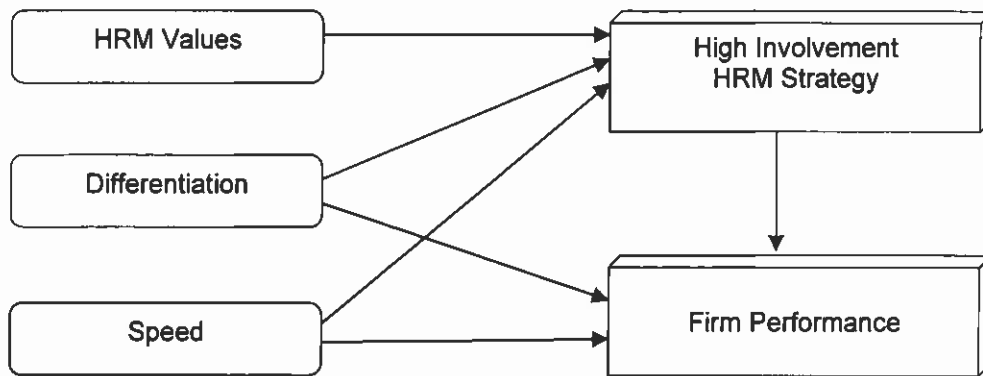
Conceptual Framework

In this paper, authors adopt the pioneer research done by Bae and Lawler (1999). Significantly, the conceptual framework of this study is developed using the model presented in Figure 1.1.

This model depicts firm performance as affected by business strategy (responsiveness to external customers and markets), speed (internal efficiency through reengineering), and HRM strategy (mobilization of human assets), with HRM strategy mediating the relationships between key organizational variables and performance. The theoretical constructs and the rationale for each hypothesized relationship in this study are developed based on this model.

An important issue in strategic HRM (SHRM) is whether a company should develop its competence internally or externally. Configurational perspectives of SHRM, is widely accepted by researchers who view strategies as "internally consistent bundles of HR practices" (Dyer & Reeves, 1995) that function as a unified system (MacDuffie, 1995). Many studies have provided typologies of HRM systems and strategies (Arthur, 1992, 1994; Begin, 1991; Dyer & Holder, 1988; Kochan & Katz, 1988; Miles & Snow, 1984; Osterman, 1987; Walton, 1985; Womack, Jones, & Roos, 1990; Wright & Snell, 1991).

Fig. 1.1 Research Framework
Business Strategy, High Involvement HRM and Firm Performance



Source: Bae and Lawler (1999)

However, as Dyer and Reeves (1995) pointed out, these typologies tend to array strategies and systems in reasonably comparable continua, from those characterized by high employee participation, extensive training programs, and broad job designs to those characterized by low participation, limited training, and highly specialized jobs. The term "high-involvement HRM strategy" can be used to denote the former approach and "traditional HRM strategy" to denote the latter.

In relation to this, Lepak and Snell (1999) proposed a framework that depicts various HR "architectures," with considerable discussion centering on internal development versus acquisition architectures. Specifically, these architectures of internal development and acquisition correspond, respectively, to the high-involvement and traditional HRM strategies. In other words, the decision made by a firm whether to develop competencies internally or externally correlates with its high involvement or traditional HRM strategies. Nevertheless, Lepak and Snell argued that this "make" (internal development) and "buy" (acquire externally) dimensions tend to be very complex.

Following Bae and Lawler's conceptualization, the make and buy dimension is related to the acquisition, development, and retention of employees (patterns of competence management). The "make" strategy relies primarily on the internal development of critical HRs, while the "buy" strategy emphasizes acquisition of such competencies via external labor market. Several relevant practices of the "make" strategy include selective recruiting, extensive training, promotion from within, and long-term attachment mechanisms.

Furthermore, according to Bae and Lawler (1999), managers can actually associate "make" closely with "organic" strategies and "buy" closely with "bureaucratic" strategies. These bureaucratic and organic strategies, according to Child (1973), refer to "Control that is essentially concerned with regulating the activities within an organization so that they are in accord with the expectations

established in policies, plans, and targets". Bureaucratic control consists of the utilization of a limited and explicit set of codified rules and regulations, which delineate desired performance in terms of output and / or behavior. In a cultural/organic control organization, there exists an inferred organizational code, an organizational game, which serves as an important guide to behavior in addition to whatever explicit rules that exist (Child, 1972, 1973; Edstrom & Galbraith, 1977).

Hence, based on these strategies, Bae and Lawler (1999) concluded that characteristics of "make-organic" strategies may include: minimum recruitment above entry level and selective staffing; formal and extensive training; process oriented performance appraisal (that is developmental in purpose); internal consistency in compensation; control by mission and values; and extensive participation and empowerment. On the other hand, the characteristics of "buy-bureaucratic" strategy include: sophisticated recruitment; limited and informal training; results oriented performance appraisal (e.g. management by objectives or profits target); limited employment participation and empowerment; and narrowly defined jobs on the basis of division of labor.

As these authors observed, internal development has been linked to a number of desirable organizational effects, including greater stability and predictability of a firm's stock of HRs, higher commitment to an organization, and better coordination and control. Despite these advantages, certain organizations may choose an acquisition strategy. Internalization may have significant costs, and buying or externalization may have significant advantages, including cost reduction and numerical flexibility enhancement regarding employment (Pfeffer & Baron, 1988).

Undoubtedly, firms can utilize multiple HRM strategies. "Make" and "buy" strategies are not necessarily mutually exclusive, as noted by Lepak and Snell (1999). However, Sonnenfeld and Peiperl (1988) maintained in their work that "each firm... should exhibit one model type of system, which we would expect to be most closely connected with the base, or primary, business strategy", a position the empirical literature in the SHRM field generally supports.

HRM Values and HRM Strategy

A lot of writing on SHRM has emphasized the significance of HRM and people as a source of competitive advantage (Barney, 1991; Pfeffer, 1994; Snell, Youndt, & Wright, 1996; Lawler, 1991). Together, they suggest that greater emphasis should be placed on the development of human capital. This is because the more management believes that HRM contributes towards corporate success, the more its role will be integrated into the firm's strategic planning process (Butler, Ferris, & Napier, 1991). In line with such beliefs, HR managers will have a greater voice in top-level organizational strategy formulation. According to Lewin and Yang (1992), HRM values also had an impact on various HRM policies. They measured HRM values using three items: (1) management's ranking of HR issues in the firm; (2) management's valuation of HR in relation to financial resources; and (3) management's beliefs about the contribution of HRM policies and practices to firm performance.

Based on this context, the first hypothesis for this study is formulated as '*Small and medium enterprise which strongly values HRM and people as a source of competitive advantage is more likely to use high-involvement HRM strategies*'.

Business Strategy and HRM Strategy

Many typologies have been developed to describe how companies address this basic issue (typologies of business strategies and HR management), but the typology developed by Porter (1980, 1985) is arguably the best known and has been widely used by both business policy and industrial relations researchers (Hambrick, 1983; Sorge & Streeck, 1988).

Porter argues that there are two successful "generic" business strategies that a firm may use to achieve sustainable competitive advantage over other firms in the industry. They are the "cost leadership strategy" (that is by becoming the lowest cost producer) and the "differentiation strategy" (by "differentiating" themselves from their competitors on some basis other than low cost, for example, service or product quality). The logic for the link between these strategies and HRM strategy stems from the differences in the uncertainty of the production tasks involved in the implementation of cost leadership and differentiation business strategies. Focusing on management objectives, HR policies and practices are used to shape employee characteristics, attitudes, and behaviors for the effective execution of different types of job tasks (Galbriath, 1977; Drazin & Van de Ven, 1985; Govindarajab, 1988; Jackson, Schuler, & Rivero, 1989).

Customers today demand low cost and high quality (Hammer & Champy, 1993). Furthermore, product differentiation strategy may be relevant to a firm's competing under the pressure of globalization. Significantly, differentiation strategy may be considered as approximate to Piore and Sable's (1984) description of "flexible specialization" with the use of more flexible technology to produce a broader range of relatively specialized products in smaller batches. The implications of managing people pursuing this differentiation strategy calls for high involvement HRM strategies where it involves selecting highly skilled individuals, giving employees more discretion, using minimal controls, making a greater investment in HRs, providing more resources for experimentation, allowing and even rewarding occasional failure, and appraising performance for long run implications. Thus, pursuing this strategy may result in feelings of enhanced personal control and better morale, hence greater commitment to self and profession. Clearly, product differentiation, in turn, is linked to a flexible work system, extensive training, and high employee involvement.

In order to test whether differentiation strategy correlates with HRM strategies, authors propose a second hypothesis, as '*Small and medium enterprise with differentiation strategies is more likely to have high-involvement HRM strategies*'.

Organizational Strategy and Firm Performance

Organizational strategy pursued by any firm may have several impacts, be it positive or negative, on firm performance. In his original work, Porter (1980,1985) posited that a firm needs to choose between the generic strategies and avoid becoming stuck in the middle between cost leadership and differentiation strategies.

Through differentiation strategy, firm produces no standardized products for customers who value differentiated features more than they value low cost. Because a differentiated product satisfies customers' unique needs, firms following the differentiation strategy are able to charge premium prices. The ability to sell a good or service at a price that substantially exceeds the cost of creating its differentiated features allows the firm to outperform rivals and earn above-average returns. Undeniably, the differentiation strategy has a positive relationship with firm's financial returns (Hitt *et al*, 2003).

Kim and Lim (1988) applied this approach to the Korean electronics industry, indicating that the performance implications of strategies were comparable with those of developed countries. But early empirical findings using the generic strategy concept were inconsistent on this point (Dess & Davis, 1984; Hall, 1980; Hambrick, 1983; Miller & Friesen, 1986; White, 1986), and later theoreticians have argued that cost leadership and differentiation are not mutually exclusive in certain situations (Hill, 1988; Jones & Butler, 1988; Murray, 1988). Customers now demand low cost and high quality (Hammer & Champy, 1993), and experience with total quality management (TQM) and related systems suggests that high quality at low cost is an achievable goal (Crosby, 1979; Gunn, 1987; Womack et al., 1990). Thus, product differentiation may be relevant to a firm's performance and HRM system regardless of economies of scale.

In order to test if differentiation strategy correlates with firm performance in this study, the third hypothesis is designed as '*The extent to which small and medium enterprise pursues differentiation strategy is positively related to firm performance*'.

Response Speed

Analyses of organizational and workplace transformations often stress the importance of time-based competitive advantage (Hamel & Prahalad, 1994; Stalk, 1988; Stalk & Hour, 1990). Production systems that pursue quality, variety, and speed demand "workers with considerable intellectual preparations" (Taira, 1996). This means that workers should be trained and empowered (Hammer & Champy, 1993; Pfeffer, 1994). Since the 21st century competitive landscape emphasizes education, employee competence building would be readily achieved in this era.

In addition, environmental changes and emerging values like individualism and performance orientation provide an adequate cultural context for empowerment. Bae (1997), in his study,

specifically pointed out enhanced response speed as a significant aspect of evolving Korean business strategies.

Similarly, the relationship between response speed as part of organizational strategy with HR strategy as well as firm performance should be determined in this study with formulation of the following two hypotheses: (i) *'Small and medium enterprise emphasizing higher speed in firm activities and services for internal and external customers is more likely to have high-involvement HRM strategies'* and (ii) *'The speed of firm activities and services for internal and external customers is positively related to firm performance'*.

Strategic HRM As Determinants of Firm Performance

The era of strategic HR management was ushered in nearly two decades ago (Tichy, Fombrun, & Devanna, 1982), and since then, a behavioral perspective has emerged as the predominate paradigm for research. However, it was only in the 1990s that the concept of bundling of HR practices became popular, and attracted numerous studies by scholars. The studies presented below are in chronological order on the assumption that the cumulative research findings would provide us a better understanding of the subject matter.

Ferris, Russ, Albanese, and Martocchio (1990) made one of the first major attempts to examine how effective management of HRs might contribute to positive organizational performance. One of the problems faced at that time was the lack of clarity in specifying and measuring the link between HRM and organizational performance. In their study of 2,236 firms from the U.S. Construction Industry, they addressed the respective roles played by three important organizational functions and activities on firm performance. These are: status and importance of HRM function; role unions play in the performance; and strategic planning in organizations. They showed that firms that had HRM departments were generally high performers (i.e. larger total sales volume), firms that had a higher percentage of their workforce unionized also performed better than firms with a lower percentage and, finally firms performed better when they engaged in more formalized strategic planning.

Cutcher-Gershenfeld (1991) developed and tested in his thesis that the links between industrial relations climate and economic performance. Based on a longitudinal analysis of changing patterns in labor-management relations across work groups in the primary manufacturing facility for Xerox Corporation, located in Rochester, New York, he was able to classify management-management relations as traditional, adversarial relations and transitional/ transformational relations. He concluded that transitional and transformational labor relations were associated with higher levels of organizational performance than traditional labor relations.

Based on questionnaire responses from HR managers at 30 of the 54 existing U.S. steel minimills between November 1988 and March 1989, Arthur (1994) found that mills with

“commitment” systems had higher productivity, lower scrap rates, and lower employee turnover than those with “control” systems.

Bird and Beechler (1994) examined the linkages between business strategy and HR management strategy in Japanese subsidiaries in the United States. They employed a contingency approach in studying the two strategies. Using the work of Miles and Snow (1984), who identified three pure types of strategies: defender, prospector, and analyzer, they found that subsidiaries with matched combinations did outperform their “unmatched” counterparts, particularly with regard to HRM-related outcomes (employee morale, tenure, promotion, and turnover).

The first empirical research on HR “bundle” or system was carried out by MacDuffie (1995). Using an international data set from 1989-1990, he surveyed 62 automotive assembly plants. His most significant finding was that innovative HR practices affect performance not individually but as a group. Huselid (1995) found that high performance work practices were associated with lower employee turnover, greater productivity, and higher corporate financial performance. His results were consistent across diverse measures of firm performance after corrections for selectivity and simultaneity biases.

Using 590 profit and non-profit firms from the National Organizations Survey, Delaney and Huselid (1996) found positive associations between HRM practices such as training and staffing selectivity, and perceptual firm performance measures. However, their result did not support that complementarities among HRM practices enhanced firm performance. They further contended that the lack of support could be due to the lack of development of reliable and valid measures of progressive HRM practices and complementarities among these practices. Thus, these issues remain a critical concern for researchers to address.

In a subsequent study by Huselid, Jackson, and Schuler (1997), they evaluated the impact of HR managers’ capabilities on HR management effectiveness and the latter’s impact on corporate financial performance of 293 U.S. firms. In their study, they made a distinction between technical perspective and strategic HR perspective. By technical or traditional perspective, they referred to the alignment of HR practices to the interest of the company’s stakeholders. These stakeholders include the government, and various professional organizations that regulate a wide range of employment practices. SHRM activities refer to a set of internally consistent policies and practices that ensure a firm’s human capital contributes to the achievement of its business objectives. Their findings showed that large firms in the United States are more proficient in their technical HRM capabilities than in their SHRM capabilities. However, as time goes on, a ceiling effect may begin to constrain the ability of the United States firms to gain competitive advantage through continued improvement in technical HRM activities. In addition to this finding, they noted significant correlation between SHRM effectiveness and employee productivity, cash flow, and market value. They concluded that the

greatest potential gains were through improved effectiveness in the domain in which firms in general are currently least proficient (SHRM activities).

In summary, the above studies generally reveal a positive relationship between HRM policies/practices (on an individual or bundle basis) and firm performance. Whether or not this relationship exists in this study, it remains as a question. Thus, the last hypothesis to be analyzed is *'The presence of a high-involvement HRM strategy in small and medium enterprise is positively related to firm performance'*.

RESEARCH METHODOLOGIES

The research framework of this study is based on the work of Bae and Lawler (1999). Specifically, Bae and Lawler developed a model, which examined the effects of organizational strategic variables, such as management values regarding HR management (HRM) and the sources of competitive advantage. They tested the model with data from 138 firms in Korea. The workers studied in their study were non-managers.

Sampling and Procedures

The units of observation for this study are small and medium enterprises operating in Malaysia. Specifically, all these SMEs are from manufacturing industry and located in Penang and Kelantan. A questionnaire was designed to be completed by the entrepreneur running the SMEs. Each questionnaire was accompanied by a covering letter explaining the purpose of the study. Entrepreneurs were assured of the strict confidentiality of their responses. Several visits to the SMEs were made for data collection. These SMEs' major business activities revolve around the following sectors: electrical and electronic products, steel and non-ferrous metal products, food and beverages, wood and wooden products, transportation and machinery parts and other manufacturing.

The questionnaire was originally developed by Bae and Lawler (1999). Permission to use the instrument was granted by both authors. The bulk of the questionnaire was used with some items added/modified. Otherwise there were minimal changes. To pre-test the questionnaire in Malaysian context, fifteen entrepreneurs were randomly chosen. The questionnaires were first administered to these respondents. Issues assessed during the pilot test were face validity, instructions and statement clarity, questionnaire layout and length. Improvements were made to the questionnaire based on the respondents' comments.

Data Analysis

Data for this study was analysed using Statistical Package for Social Science version 16. Firstly, application of descriptive statistics allowed for measures, which could be computed from the sample of collected data to give an estimate of responses to unit of analyses in the population. This permitted

the measure of central tendency via the arithmetic mean to be computed for all the SMEs scores, along with sample percentage distributions and standard deviation (SD) measures to gauge the variability. Therefore, the utilization of descriptive statistical methods allowed comparisons among SMEs participated in the study.

Secondly, when both independent and dependent variables are derived from a single subject, response bias may appear (Podsakoff & Organ, 1986; Salancik & Pfeffer, 1997). Hence, to address such possible common method variance, reliability coefficients were calculated for each of the scales described above i.e. HRM values, differentiation, speed and firm performance, including the five subscales used to measure aspects of HRM strategy.

Finally, having established scale reliability, scale validity was considered. To test on the six hypothesized statements where the relationships among the major variables of this study can be identified, correlation analyses were conducted.

RESULTS

General Research Findings

A total of 42 SMEs responded to the survey. These respondent companies, mainly from manufacturing sector, can be further classified into seven different types of industry: electrical and electronic products, wood and wooden products, food and beverages, steel and non-ferrous metal products, textile and textile products, transportation machinery parts and lastly, other manufacturing.

Overall, SMEs in the electrical and electronic products industry accounted for most of the respondents (38%). The average number of years these SMEs operate in Malaysia is approximately 14.34 years. Surprisingly, ten respondent companies reported as having no HR department in the firm and finally, the mean number of full time employee work primarily on HR issues amounted to only 6 administrative persons.

Scale Reliability

Although all the constructs under investigation of the study were drawn from existing literature and purified by the opinions of experts and focus groups, a statistical procedure was adopted to ensure their validity. Overall, the reliability coefficient of the total 64 items undertaken in the study (excluding items on firm characteristics) was tested and found at alpha of 0.9586. This implies that all constructs in the questionnaire are highly reliable and it further assures the degree to which these measures are free from error, yielding consistent results. In order to examine response bias that may appear, reliability coefficients for each of the scales or variables undertaken in the study, including the subscales used to measure aspects of HRM strategy, were further calculated. Table 1.1 lists the calculated reliability coefficients for each subscales used to measure HRM strategy.

With the exception of performance-based pay, all the subscales measuring aspects of HRM strategy had alpha coefficients of over 0.80. Significantly, findings of Table 1.1 reflect that these subscales are highly reliable and answers from respondents can be considered as consistent for the first part of questionnaire. Similarly, when reliability coefficients were calculated for other major variables undertaken in the study, ranging from high involvement HRM strategy, differentiation, speed, HRM values to firm performance, the responses for these variables were found to be highly reliable with alpha exceeding 0.85 (Table 1.2).

Correlation Analysis

Specifically, six hypothesized statements were tested and analyzed. Significantly from the findings, the model is fully supported. All the six hypothesized statements are not rejected, reflecting significant relationships among major variables undertaken in the study. Hypothesis one postulates that SMEs which strongly values HRM and people as a source of competitive advantage are more likely to use high-involvement HRM strategies. The result from correlation analysis shows that HR values correlate with the HRM system. The coefficient for the relationship is 0.591, which is significant at 0.01 level. Thus, the hypothesis is supported.

Hypothesis two posits that SMEs with differentiation strategies are more likely to have high-involvement HRM strategies. The analysis shows that the relationship is significant at 0.01 level, with a coefficient of 0.485. In relation to this, hypothesis three states that the extent to which a firm pursues a differentiation strategy is positively related to firm performance. Upon testing and analyzing this hypothesis, it is found that there is significant relationship between these two variables, with a coefficient of 0.513.

On the other hand, hypothesis four and five focus on the relationship among speed, HRM strategy and firm performance. Hypothesis four is supported with a coefficient of 0.561. However, hypothesis five is weakly supported with its coefficient reported only at 0.391. Although this hypothesis is not strongly supported, it is sufficient to show that significant relationship exists between speed and firm performance. It is worth noting that, in Bae and Lawler's study, similar hypotheses, namely relationship among speed, HRM strategy and firm performance were tested on multinational and local firms operating in Korea, but were rejected. In other words, speed was found having no significant relationship with HRM strategy and speed not positively related to firm performance, in the context of Korean firms.

Finally, hypothesis six which states that the presence of a high-involvement HRM strategy is positively related to firm performance is not rejected either. The correlation coefficient for this hypothesis is recorded rather low, 0.429. However, this result is consistent with Bae and Lawler's finding which concludes that high involvement HRM strategies increases firm performance.

Empirical findings in the study show that a firm that adopts the high involvement strategy tends to have better performance. Hence, it is appropriate to conclude that despite the changing organizational environment, high-involvement strategy is still relevant and effective. This further confirms the universalistic perspective, where Pfeffer (1994) has argued that in order to achieve competitive advantage through people, one could adopt the so-called "best HR practices". Also, Arthur (1994) affirmed that commitment type of high involvement HRM system would be associated with high organizational performance.

As a conclusion, all the major variables tested in the study, ranging from business strategy (management HRM values), sources of competitive advantage (differentiation and speed), SHRM (training, empowerment, selective staffing, performance evaluation and performance-based pay) and firm performance are significantly related.

DISCUSSION AND PRACTICAL IMPLICATIONS

These research findings bring about some important practical implications. Firstly, the study has shown the importance of managing the goals of an enterprise and its human resources. Higher firm performance can only be achieved if the appropriate "HRM bundle" is taken into consideration. The study has shown that there is a significant relationship between the HRM system and the firm performance. In other words, this study has reaffirmed that the conclusion that people and HRM will be a critical source of competitive advantage for the firms (Pfeffer, 1994).

Secondly, a firm's management usually focuses on firm performance and profits. The results of the research imply that the goals of SMEs and those of HRM and individuals can be achieved together. In addition, the sources of competitive advantage, especially differentiation strategy, have significant effects on firm performance through HRM system. Although HRM system may not be the only determinant of a firm's performance, the study has shown that it is an important determinant. Therefore, employees are not just a cost to be consumed; rather, as is maintained from the resource-based perspective, people and HRM are emerging as critical sources of competitive advantage for firms (Barney, 1991; Pfeffer, 1994; Ulrich, 1991).

Furthermore, as noted by Bae and Lawler (1999), understanding organizational strategy is crucial to our understanding of HRM strategy. Moreover, it is very difficult for a firm to pursue appropriate organizational strategy if the employees do not have the necessary skills and knowledge to implement it. The firm should decide on the type of coordination control that is consistent with its organizational strategy (i.e. bureaucratic control or cultural control).

The study's finding particularly supports that business strategy correlates with HR strategy, which is consistent with Bae and Lawler's findings. Therefore, from both studies, it can be concluded that HRM strategy is not entirely affected by national differences. Thus, management can have certain discretion of making choices in HR management.

Finally, since the study proves that human resources can serve as a source of competitive advantage, maintaining sustained competitive advantage through institutionalizing core HR competencies is a critical issue. Therefore, further investigation within the Malaysian context, as well as in other cultural and institutional settings, would clearly be very useful.

LIMITATIONS AND FUTURE RESEARCH

To conclude, the main limitations of the study are discussed and is followed by provision for future areas of research. Firstly, the major limitation of this study lies with the size of the sample. Many American studies of SHRM and its impact on firm performance draw on very large databases that allow use of sophisticated analytical tools. This study would have benefited from greater use of SPSS, but researchers were limited by sample size. Collecting a large enough sample of SMEs located dispersedly in whole Malaysia was difficult, given the limited time and costs.

Besides, the units of analysis in the study include only SMEs located within Penang and Kelantan. Hence, findings may be skewed and unrepresentative of the general population. Time and cost permitting, future research conducting similar study should be extended to more small and medium enterprises as well as multinational corporations operating in Malaysia. Having such extension, not only the relationship among variables can be investigated, comparisons between local and multinational firms on the subject matter can also be examined.

Secondly, the correlation analysis conducted in the study only examines whether there exists relationships among variables. Causal relationship remains unaddressed. This may further be improved by conducting structural equation modeling analysis through statistical software like LISREL or AMOS.

Thirdly, the methods for data collection can be improved. The current study used surveys, which led to problems such as common method variance, consistency motive and social desirability. Researchers such as Podsakoff and Organ (1986) have suggested the use of multiple methods (such as experiments, personal interviews and case studies) and multiple sources of information (such as CEO and other employees) to supplement mail survey data. As such, future research could look into the usage of other data collection methods.

Finally, some respondent companies in the study found it hard to understand and answer questions posed in the questionnaire. Several entrepreneurs commented that questions asked in the survey were too difficult to be understood. This may be due to the nature of survey, whereby only English was used as the medium of communication. This limitation explains why Bae and Lawler translated the questionnaire into Korean before implementing the survey instrument. Without the translation of questionnaire into language which respondent can understand, chances are that respondents may have given inaccurate ratings. To avoid such limitation, future research should have

its survey translated into Malay, Chinese and Indian to facilitate multi-ethnic respondents' understanding.

RECOMMENDATIONS

Despite its limitations, the study has brought about some insights that can be helpful and valuable for Malaysian companies.

Significantly, the firm performance reported by most of the SMEs participating in the study have been relatively fair. The researchers managed to measure the perceived performance of these firms by getting the respondents to rate nine performance criteria originated from Khandwalla (1977), on six-category Likert scale. Generally, the lowest score firm can get is 9% whereby it implies that this firm is performing very poorly whereas for firm which scores as close as possible to the total marks of 56%, it indicates that the firm is performing excellently in all aspects. Findings from the study revealed that the lowest score for firm performance was recorded at 25% and the best firm scored as high as 51%. Overall, the mean score for firm performance was found at 38.26%, which is relatively high (Table 1.3) and four firms scored 46%. This shows that majority of the SMEs operating in Malaysia experience high performance in terms of market-oriented performance, organizational system performance, employee's job satisfaction as well as employee's commitment.

Since earlier findings also show significant relationship among HRM values, organizational strategy and HRM strategy, one may safely conclude that, one of the reasons why these SMEs perform well is due to their strong beliefs in management HRM values and also their approach in aligning organizational and HRM strategies. This can be a valuable insight for Malaysian companies. They should learn the effects and impact brought about viewing people as source of competitive advantage and the benefits of practicing high-involvement HRM strategies. The high performance enjoyed by these SMEs should serve as strong evidence that HRM aspects or people issues should never be overlooked in an organization.

Although HRM is not proven or has yet to be proven to be the sole determinant of firm performance, the study sufficiently shows that it may be one of the determinants of firm performance. As the saying goes, "if the business does not pose problem to you, then the people inside will". Hence, firms that fail to perform at its expected satisfactory level may have to start looking into the 'human' aspects in the organization. Undoubtedly, high-involvement HRM strategies breed productive workforce.

Table 1.1 High Involvement HRM Strategy Items

Item	Mean	α
1. Training		0.8996
Amount of money spent on training	3.7381	
Opportunity for education and training	3.9048	
Availability of different kinds of training	3.8810	
Systematically structured training process	3.8333	
High priority on training	3.8095	
Extensive training for general skills	3.0476	
2. Empowerment		0.8562
Minimum status differentials for egalitarianism	4.3095	
Engagement in problem-solving and decisions	3.5000	
Extensive transference of tasks and responsibilities	3.5952	
Very cooperative and trustful climate	4.3333	
Permitting enough discretion in doing work	3.4286	
Participation in very wide range of issues	3.9286	
Providing chances to use personal initiative	3.6905	
3. Selection		0.9035
Very extensive selection efforts	3.7857	
Great effort to select right person	4.3095	
High selection criteria in firm	3.7619	
Great amount of money spent in selections	3.2143	
Great importance is placed on staffing process	3.9762	
Focus on long-term employee potential	4.5714	
4. Performance Evaluation		0.8706
Much effort given to measuring performance	4.2381	
Clear and fixed performance standards	4.2857	
Close tie of pay to performance appraisal	4.2619	
Much emphasis on employee's personal development	4.1190	
5. Performance-Based Pay		0.3800
Seniority-based rewards practices ®	3.0714	
Close tie of pay to individual/ group performance	4.2381	
Wide range in pay within the same job grade	3.3810	
Provide employee ownership plan past few years	2.4048	
Extensive employee financial participation plans	2.0476	

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Table 1.2 Reliability Coefficients for Major Variables

Variable	Mean	α
High-involvement HRM strategy	3.7381	0.9299
Differentiation	5.0065	0.9303
Speed	4.1690	0.8958
Management HRM Values	4.2143	0.8719
Firm Performance	4.2513	0.8830

Table 1.3 Firm Performance

Scores	Frequency	Percent
25.00	1	2.4
26.00	2	4.8
27.00	1	2.4
28.00	1	2.4
31.00	3	7.1
33.00	1	2.4
34.00	3	7.1
35.00	2	4.8
36.00	3	7.1
37.00	1	2.4
38.00	3	7.1
39.00	3	7.1
40.00	2	4.8
41.00	1	2.4
42.00	1	2.4
43.00	3	7.1
44.00	3	7.1
45.00	1	2.4
46.00	4	9.5
48.00	1	2.4
49.00	1	2.4
51.00	1	2.4
Total	42	100.0
Mean		38.26

Reliability Analysis

Reliability Coefficients

N of Cases = 42.0

N of Items = 64

Alpha = .9586

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