



The Dominance of Human Resource Management Practices Over the Financial Performance in Malaysian Companies

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ABSTRACT

The intense and continues changes in working environment lead the companies in Malaysia to gain and conquer the competitive advantages in order to compete well with other competitors in the market and with effective utilization of Human Resource Management in the aspect of its practices, companies will able to gain the advantages not only in terms of human capital, as well as increase in performance in general including the financial performance. The ignorance on the domain hold by the Human Resource Management had shown that companies tend to neglect the essential of human resource practices and focus on the continuity of business affair especially after the pandemic strikes. Thus, this paper is to gain the put the Human Resource Management practices under the spotlight its deserved through the scope of financial performance. This study applying the literature review technique on the secondary resources that are relevant to human resource practices and financial performance aspect. Therefore, through this paper the corporate sectors in Malaysia can be alert on the influence of human resource practices had in order to steer company upon the desirable outcome such as profitable return and boost in term of financial performance.

1. Introduction

The spark of the 21st century corporation was lit by the new technology as the corporation undergoing a radical transformation where the 21st century corporation emerges in different ways and opposite from the 20th century organization that the senior manager had shaped, along with the globalization that rapidly occur as the booming economies of recent years in developed countries have been fueled by globalization. With the abrupt occurrence of pandemic had given a huge impact upon the corporate world had led companies to faced major changes towards the surrounding. The implication of this globalization, revolution of technology and pandemic had led the organization to face high level of competition with the competitors in the market and one of the ways to over thrown the competitor is to achieved the competitive advantage and despite the globalization and technology development, the goal for each organization across the globe remain

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the same which is to achieve great profit from the business as one of the goals the company want to achieve.

Moreover, the connection between ways of firms manages their people and the economic result is resilient derived from substantial and growing number of research evidence. For instances, a quantitative summary of empirical result of 2011 meta-analysis as well as 66 studies with 68 samples involving 12,163 observations indicating the average correlation is 0.21 between measure of human capital and measures of performance such as profitability [1]. Moreover, a study conducted in 2001 by accounting professors at Stanford and Wharton using the data collected from the 153 publicly traded companies in order to access the influence of Human Resource Management practices on the stock return in 2011 where the result showed an increase of 10 percent in a measure of goal-setting activity at firm was associated with 6 percent increase in industry-adjusted stock returns. The boost of 6 percent stock associated with 10 percent increase in measure was related with the fact of the act of managers had used rating scale with full spectrum during performing evaluation upon the employee in the organization where the manager had provided feedback on the regular basis and during job appraisal which led to successful performance. This shows that, these practices are effective depends on the care and skill which many Human Resource Management practices available are implemented in order to solve real business problem and to upkeep a firm's operating and strategic initiatives.

2. The Development of Human Resource Management

Human Resource Management was started in the era of craftsmen and apprenticeship in England in 1800's which in the late 1800's, the industrial revolution. In the 19th century, the industrial psychology of the workers and scientific management was suggested to be combined by Frederick W. Taylor and required to be introduced, where the workers need to be managed in term of psychology along with maximum well-being of the workers and not only managed in the aspect of job efficiencies. The development of personnel management was triggered by the development of technology and the increase number of companies along with the government intervention and the upsurge of union in the 1920's [2]. According to Ivancevich [3], welfare secretaries is being referred as the "personnel administrator". Few scholars had been debating regarding the matter of the core root for the terms "Human Resource Management" which claimed to be derived from the terms "Personnel Management". The terms personnel management introduced after the World War that occurred in 1945 where the method of separation among themselves from the other managerial practices which turn the personnel practices into a professional practice by the personnel practitioner.

In addition, in the mid of 1980's, there was no outline related to the method to the management of the employees. Thus, the personnel management terms had been replaced with the terms of "Human Resource Management " [4]. Despite the changes that occurred, some scholar debating the fact that the term of Human Resource Management has no much different that personnel management, since personnel management and Human Resource Management carried the same practices of motivating g the employees, organizing an attracting the employees when the company required too. However, scholar had counter argument by stating different definition for each term in many ways [5]. Armstrong [6], the rename terms of Human Resource Management and personnel management was discussed due to the transformation that take place in the management world. As times go by, the terms for Human Resource Management had been the used to described the integration of personnel management practices that concentrated on the

while effectiveness of the companies. The transformation of personnel management highlighted a new significant ideology involving the managers in the company and it is not a rhetorical solely [7].

3. The Execution of Human Resource Management Practices in the Malaysian Companies

In Malaysia, the Human Resource Management is viewed under the category of “personnel” and improvement on Human Resource Management in Malaysian companies are sluggish and cautious which can cause troubles in term of competitiveness such as decreasing salary cost competition compare to other countries [8]. Back in the days, the system under the Human Resource Management undergoes massive alteration which infused the goal of ensuring to join Human Resource Management best practices within the strategic plan of the companies in order to achieved companies’ goal [9]. According to Abdullah et al.,[10], Malaysian companies had come to realization on the importance of Human Resource Management as part of effort to gain stability and diversity in workforce in the company. It is well aware through the scholar’s claim that dealing with human is far more complex than handling the technology. Especially countries like Malaysia that have diversity of cultures and races strengthen the need of effective Human Resource Management in an organization. For example, multinational companies (MNC) in Malaysia had shift its attention towards Human Resource Management as factor to gain success, as private sector companies need to treat the employees well to ensure the companies’ goal can be achieved and Malaysian SMEs need to retain the employees in order to preserved the talent in the companies.

On the other hands, the unexpected pandemic that occurred had shaken the entire corporate sector across the globe as the pandemic had affected human and companies as companies need to act as saviors for the sake of their employees and business continuity by dealing with the obstacles along with the risks [11]. The pandemic makes no exemption for any counties including Malaysia as it had impact Malaysian’s economy harshly. Therefore, human resource carried the duty to direct the companies in term of workforce for the future as well to recover from the pandemic [12]. The lockdown had tear down companies’ business affair and companies need to aid their employees during this tough time through Human Resource Management due to department duty to disseminate information regarding employment and organization. This marked that the challenges had set to higher bar for the human resource as the pandemic strikes [13].

In 2020, estimation of 100,00 employees faced laid off during the pandemic according to Malaysian Employers Federation (MEF) which later disapproved by the Ministry of Human Resources (KSM) as various measures had been taken by the Government to curb these issues along with the responsibility of the human resources to cater the welfare of the workers [12]. Human Resource Management holds a crucial role play to assist company to face with abrupt changes caused by the pandemic such as lockdown [14]. New procedure executed by the companies and this is where Human Resource Management will come up with solutions with the top management to fit with the flexibility and adaptability which can act as advantages in the future when facing with uncertainties and staying connected with the employees is essential for Human Resource Management during the pandemic as well [12]. The “new norm” adjustment could give difficulty for the employees to fit in and it is the duty of Human Resource to execute approaches in order to assist the companies to avoid job depression and anxiety among employees at the workplace [15].

4. The Ascendancy of Human Resource Management Practices towards the Financial Performance

It is no doubt that Human Resource Management has the capabilities to push companies in achieving better performance and productivity. The circumstances had been supported by number of researches that had been conducted such as one of the most famous research studies conducted by Huselid in the year of 1995 regarding on how Human Resource Management had led to better financial performance and productivity. The study on the effect of Human Resource Management not only been conduct in solely in the organizational field but also in hotel industry where Chand and Katou [16] conduct an investigation whether Human Resource Management affect organization performance in a positive way or the otherwise in the hotel industry in India along with the objective of the study to identify the specific characteristic that can affect organizational performance. The study outcome shows that, performance the hotel is positively related with the human resource practices such as the recruitment and selection, compensation, pay system and training. In the other study conduct by Joseph & Dai [17], aside from the explanation on the matter that strategic alignment with Human Resource Management serve as a factor for firm performance, Joseph & Dai [17] also stated that there is link between Human Resource Management practices and organizational performance. Moreover, a study performed by Nayyab et al [18] on the bank indicated that Human Resource Management practices such as compensation, performance appraisal and training long with employee participation in decision making process help to improve bank performance and significantly link with the performance. Furthermore, a study executed by Osman et al., [19] proves that Human Resource Management had the capabilities give a positive effect on the company's performance as much as 50% on the company's performance which resulted from an efficient implementation of human resource practices in the companies. In the study performed by Datta et al., [20] had proved that effective implementation on human resource practices show stronger connection on organizational performance than develop the high-performance work system in the company to help to increase competitiveness and companies' performance. This was supported by Osman et al.,[19] where human resource display huge impact on the performance of Malaysian companies. Hence, indicating positive outcomes in term of financial performance.

5. Methodology

For the purpose of this study, literature review had been applied where search on papers had been executed through the sources such as Scopus, Google Scholar. For instances, the discussion in the paper was retrieved based on the websites, journals, paper, published paper, dissertation as well relevant sources on the Human Resource Management and financial performance that meet the requirement in order to meet the objective of this paper. Moreover, in term of literacy enrichment of Human Resource Management and financial performance can be reached through the literature review methods. This is due to this method managing to aid the companies in Malaysia to improve human resource practices using the proof that is available [21].

6. Conclusion

Human Resource Management aid an organization in term of organizational behavior in the field of flexibility, competency and employee commitment where the improvement of organizational behavior can help to increase financial performance of an organization [22]. Companies in Malaysia began to aware the significant of Human Resource Management as

managers in Malaysia organizations become conscious on the capabilities of Human Resource Management to create steadiness at the workplace [23]. The diversity of ethnicity and races in Malaysia lead to composition of diversify workforce need proper Human Resource Management. This is because, failure in managing human capital within companies will major problems to the companies. Moreover, no matter what industry and size of the companies are, the presence of Human Resource Management is essential in order the company to accomplished [24] and a scholar as well debated that main factor for company successful performance is to have effective Human Resource Management [25]. This statement had been supported by the number of journals of International Journal of Business and Management Vol.4, No 6 where 66 organizations come to the conclusion that lack of Human Resource Management efficiency practices and program, the companies would face difficulty to sustain and achieve its effectiveness in the companies [26].

The practices of Human Resource Management to integrate the interest of an organization and its employees and act more rather than just an activity relating to the coordination of an organization's human resources. With the Human Resource Management presence and been implement properly in the organization, Human Resource Management managed to act as the major contributor of success to an enterprise because its capabilities in term of practices and policies is in a key position to affect customers, business result and ultimately shareholder value and act as the sources of sustainable competitive advantage available to organization through the presence of people. Moreover, Human Resource policy and practices are vital toward company performance such as to train, to recruit the future potential employee to be part in the organization and contribute their skill to enhance the organization's performance. Thus, high performance of work practices can result a number of enhanced organizational performances. The quality of the employee within the company was one of the factors used to determine whether the organization was a successful company or not in economic sector in a way of how the companies retain and obtain the skillful employees. In addition, people are a main essential factor giving that adaptability to organization along with flexibility according to Khatri [27].

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