HR Practices and organizational commitment among SME employees which leads to retention

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Abstract—Small Medium Enterprises plays an important role in the contribution of economic development and its employees are seen as the asset that realizes the contribution. The objective of this paper is to construct a theoretical framework and examine the relationship between the human resource practices that affects the organizational commitment towards the retention of employees in Malaysia. The paper intend to contribute among the employees and employers of small medium enterprises in Malaysia by understanding the association between the human resource practices and the outcome of organizational commitment where it might be useful for the top management in developing good strategies to ensure employees are commitment and at the same time retaining them

Keywords—:Human Resource Practices; organizational commitment; retention; turnover; small medium enterprises (SME)

I. INTRODUCTION

Many nations especially the developing countries regard small and medium-size enterprises (SMEs) as facilitators of growth. SMEs play a crucial role in creating jobs, contributing large businesses and at the same time it is believed to be the drivers of national economic development [1-5]. The economy of Malaysia is largely based on SMEs and due to the significant contributions of SMEs, the government and other agencies are constantly giving importance on the development by
facilitating and providing a number of programs and facilities in order to strengthen the SMEs. This can be seen through the increase of government allocation from RM 1,561.6 million in the Eight Malaysia Plan to RM 2,160.2 million in the Ninth Malaysia Plan for the development of SMEs in Malaysia [6].

There is an intense competition in the SMEs industries in Malaysia. Many of them cannot spare the external economic brunt due to the uncertainty of the current global economic [7]. According to UNIDO, 90 percent of businesses are categorized under the SMEs sector and 60 percent of employment opportunities are from SME around the world [8]. Reference [9] stated Malaysian SMEs are among the highest employees’ turnover rates in the world (19 percent and 22 percent for small and medium enterprises, respectively). Most of the organization underestimate the cost of replacing worker as there are many hidden costs and this is due to the unexpected labour turnover [10]. According to reference [11-12], stated that high numbers of turnover in an organization can affect the motivation level of the employees who remains. It brings significant costs to the organization. For example, cost of replacement, cost of training, and cost of vacancy [13]. It is found that the challenges that SMEs faces are basically on attracting and retaining their employees which is very much focused on people [14]. In order to identify the root cause or the negative consequences of employee turnover, it is vital to implement the best practices of HRM in SME as the issues of employee retention are the most critical challenges in a workforce. This is supported by [15] where the management of SME should focus on the hr practices in order to retain their staffs when high turnover rate is concerned.

Reference [16] describe that the retention of employees are due to the high level of involvement of HR practices in an organization. However, from the employer’s point of view; new and refined programs are continuously introduced to sustain retention and commitment. These programs may promote positive impact on employees work climate and it will result in lower turnover. Investments on the HR practices enhance employees’ retention and commitment towards organization. HR practices are tied with the organization performance as a critical value chain and it increases the organizational commitment [17]. This is supported by [18] where the endurance and success of an organization depends on innovation, creativity and flexibility when the employees adapt with organizational behavior into current working environment.

In this research, our objective is to examine the hr practices and its relationship with organization commitment which leads to employee retention. It is hoped that through this study, management of SME will be enlightened with the recognition of hr practices and its importance towards organizational commitment and subsequently which lead to retaining the employees.

I. LITERATURE REVIEW

A. Human Resource Practices (HRP)

Many researchers have deemed that effective HRM practices can operate effectively within a competitive landscape [19]. With HR Practices and policies, organisations are able to reduce unnecessary employee turnover [20]. HRM practices are defined as “organizational activities that manage a pool of people who are considered as human resources or employees of an organization that had been employed to fulfill organizational goals” [21-23] stated HRM as the philosophy, policies, procedures, and practices related to managing people in an organization. According to [24] managing human resources is more difficult than managing technology or capital however, organizations are considering human resource as one of the most important asset [25]. There has been an increase interest in the effective use of HR practices in SME [26-28]. Many researchers stated that HRM practices can be grouped into various categories such as recruitment, selection, training and development, compensation and reward, performance appraisal [29]. The major hindrances faced by SME in terms of HRM are issues on employees training a, compensation, employee skills and performance which are found insufficient [30]. Managers and employees who are motivated through the practice of Hr practices can contribute to the organization. However recruitment and selection and training and development practices are still need the attention and would like to practice in a more sophisticated manner [31]. High turnover was found among SMEs due to lack of the factors in the HR practices like staffing and reward [32]. Findings of a study indicates that recruitment and selection practices are the key factors of human resources practice in an organization that leads to sustainability of SMEs [33]. Evidence has been shown that SME does not provide enough trainings to their employees compared to larger organizations [34]. This shows that despite the increase success of Hr practices to organizations are apparent, especially in trainings, SME has failed to realize the importance. Inadequate financial resources like compensation is found to be one of the reason why employees could not be retained in SME. Compensation being a factor in HR practices is perceived to be major consideration to commensurate the employees skills and expectations on their contributions as a recognition [35].

Studies have proven that the importance of Hr practices are widely known especially in SME. Therefore, employers and Hr professionals have to work closely to ensure, training, compensation, employee relations and key factors of Hr practices are properly monitored [36]. The effort of organization to attract, compensate, motivate and retain employees is becoming a difficult task for Small and Medium Enterprises (SMEs) as the search for talent employees has becomes highly competitive.
Most of the SMEs who integrate HR system in their organizational objectives and vision, are able to be more organized and maintain high performance[37].

B. Organizational Commitment

Organizational commitment refers to the attachment one has towards the workplace emotionally. Various study show that employees’ decision on whether to stay in an organization largely depends on their degree of commitment. This is best reflected by [38]commitment theory which looks into three dimension – affective commitment (reflecting employees’ affective dependence, identification and involution in organizations and reflecting employees’ disposition to stay in organization as their affection to organization), normative commitment reflecting employee commitment to stay in organizations as their sense of gregarious responsibility and obligation. Continuance commitment reflects employee commitment to stay in organization predicated on practical consideration [39] Intensity and level of commitment also depends on the behavior expected from individual in organizations. Reference [40]explained organization commitment elements supports the possibilities of employees staying in the organization, but each element carries different features. Strong affective bond with organization will push employees to stay in the organization because that is what they want and on the other hand there are employees who feel that they have to stay in the organization because due to strong continuance commitment [41] Practitioners will be in a better position to understand an impact of a policy or practice when commitment is understood [42].

C. Retention

Retention of employees is the key of an organization in order to sustain a long term success. Effective succession planning in an organization can retain best employees and in return will receive a great deal of customer satisfaction and organization performances will result in high sales volume and this will satisfied the colleagues and organization[43]. Encouraging employees to sustain in the organization for a long term can be regards as employee retention. Based on [44], the desire of critical measure for retention of the employee has become strategic and sustainable among competition in an organizations. There are many strategies by human resource in retaining the employee for getting advantage for the organization. According to [45] the purpose of retention is to avoid the loss of competent employee from the organizations as it could have great effect on the productivity and the service delivery. The retention of the high performance employees have become more challenging to the managerial level because this type of employees will move from one organization to another if other organization attract them.

D. Relationship of HR practices and Organizational Commitment

Utilizing human resource practices in an organization is paramount where it can foster employees commitment [46]. It has been said previously that effective HR practices are crucial to facilitate employees bonding with organization. Organizational commitment seem to be positively influenced by number of key HR practices such as P-O fit (person-organization fit), compensation program, recognition, and as prospects of undertaking employment assignments which is challenging[47]. The author gave a new vibe to the relationship between HR practices and commitment. Recent study conducted in the Middle East reflected that there is a significant relationship between two HR practices such as recruitment and selection and training and development towards employees’ commitment [48]. Similar study was done by [49] where it was found that the possibility of commitment from employees can be obtained through the investment of hr practices in an organization. The right HR practices bring in strategic effectiveness to the organizations and overall organizational success[50].

Many researchers have deemed that effective HRM practices can operate effectively within a competitive landscape [51]. With HR Practices and policies organizations are able to reduce unnecessary employee turnover [52-53]. In addition, [54] supported that HR practices contribute a lot of opportunities to achieve competitive advantage in terms of employee retention, hence increases SME performances. [55], opined that SMEs management staff should enhance the HR practices scope as it will increase satisfaction, competencies and commitment of their employees, thus increasing the retention rate among employees. HR practices play a key role in keeping employees committed and remain in the organization. In a study conducted in Ghana SME, the findings reflected that HR practices such as recruitment & selection as well as training & development do not have direct relationship with retention but rewards seem to be having a positive relationship with retention [56]. It is important to understand employees’ wants and needs and tweaking HR practices accordingly. Similarly [57] in a study conducted on Malaysian SME proposed that Maslow’s Hierarchy of Needs, Alderfer’s ERG theory, and McClelland’s Learned Needs theories to be embedded in HR practices to enhance the its effectiveness which will leads to
better retention. [58] research findings reflected that there are less chances for organizations to able retain employees if there is inefficient rewards program and growth opportunities. The findings of the study of [59] indicates that investment on Hr practices contributes to employees retaining in an organization as the turnover intention was found low. Hr practices in terms of training and development was found to promote employment security which leads them to have a sense of belonging thus subsequently reducing employee retention [60].

E. Relationship of Organizational Commitment and Retention

It is easier to make a committed employee stay in the organization than a non-committed individual. Commitment as discussed earlier involved bonding and exertion of certain type of passion towards the organization. These two variable would be able to work hand in hand if organization could tackle. The relationship between organizational commitment and retention has been in the limelight of research for many researchers today [61]. Recent research has shown that the affective commitment, or psychological bonding, of employees remains paramount for organization if they are able to draw key talent, motivate and apply the right retention strategies [62]. Intention of employees to continue working in their organizations is pretty much influenced by affective commitment than normative commitment. Affective commitment engenders emotional bonds that can cause employees to develop a sense of responsibility and obligation (normative commitment) to their organizations [63]. According to [64], turnover rate can be reduced via development of committed employees and [65] have higher inclination to stay on the job. On the other hand, unhappy employees’ unable act in the way they want because in an organization they feel an obligation towards their organization. In addition, normative commitment could evolved into continuance commitment as employees’ emotional attachment towards their organizations may lead to a desire to stay [66]. This means that by the turnover rate can be lowered through the development of committed workforce.

F. Conceptual Research Framework

A conceptual framework has been proposed based on the proceedings discussion of the above literature review.

![Conceptual Framework](image)

Fig. 1. Example of a figure caption

The above theoretical framework indicates that the independent variable is Human Resource Practices and the dependent variable is Organizational Commitment. The independent variable will have a significant effect towards the dependent variable which will eventually lead to the retention of SME employees.

G. Theoretical Implications

The essential criterions that contributes to employee retention in SME which was exploited through literatures are organizational commitment and Human resource practices. These reviews was used in terms of viewpoints and eventually to bring its concepts as in the aim of this research. The most significant theoretical contributions that this study has made to organizational commitment is through social exchange theory (SET) and motivational theories. Employees reciprocate accordingly, in their level of commitment to the organization. It is said that the level of commitment exhibited can be seen through the employees’ commitment in return. The study of [67] reported that high performance human resource practices can be viewed as the demonstration of organization to express commitment to their employee which concern about their wellbeing and development and desires to invest in them. The discussion on organizational commitment has resulted that thorough understanding of the factors in human resource practices plays an important role to the employees of SME which also leads to retaining the employees.

On the other hand, Herzberg’s Two-Factor theory known as Herzberg’s hygiene-motivation theory has also contributed to this study. This theory is driven by two sets of distinct factors which are “hygiene” factors and “motivation” factors to
describe job satisfaction. Hygiene factors causes dissatisfaction when deficient. The hygiene factors include aspects of working environment such as pay, fringe benefits, physical working conditions, company policies and administrative practices, job security and relationship with supervisor and peers. If these factors are absent or considered inadequate by employees at workplace, it may lead to dissatisfaction at workplace. As for the motivational factors, they are labeled as satisfiers. These motivational factors are inherent to work which include sense of achievement, recognition, work itself, responsibility, job challenge, advancement and opportunity for personal growth. The effectiveness of these motivational factors leads to motivation for the achievement of excellent performance and effort. Although this Herzberg’s Two-Factor theory mainly focus on the description of job satisfaction and motivation, but it also can be linked to the study of organizational commitment since job satisfaction and motivation are psychological trait leading to organizational commitment [68].

These lens of these theories recognize and emphasize the needs and demands from the employees from their workplace. Thus this study indicates that these hygiene and motivators consists in Herzberg’s Two-Factor theory and SET have an effect on organizational commitment through Human resource practices. This can prevent employees from leaving the organization and eventually create a positive working environment. In a nutshell, contribution of this research on SME employees has enlightened the understanding of human resource practices for employees through organizational commitment.

H. Managerial Implications

It is a very simple phenomena which through the right HR practices, the right employees will be hired into the organization where they are well trained. A trained employee will not only be equipped with the right skills but also enhanced self-esteem. A good performance management also contribute to overall employee performance where they know from the day one about “what they need to do”. Once this achieved, the performance of employees would be able positively affect overall company performance. Compensation and benefits has the extreme influence employees’ intention of retention so this element should not be overlooked.

I. Conclusion

This study recommends that Human Resource Practices can be validated and be conceptualized in SME by comprising the organizational commitment and employee retention. It is apparent that efficient Human resource practices have positive relationship that would infest the feeling of commitment towards organization which determine employees’ aim to remain. This study also indicates that the key HR practices which are hiring, compensation and training are important in the aspect of SME. This is indeed supported by various previous studies which was carried out in relation to impact of HR practices towards organizational success. So companies can strive towards improving their employee retention strategies by providing employees’ with effective HR practices in those key areas. In order to test the validity of this study, future studies should explore further by incorporating mediators to enhance the research by using structural equation model (SEM).

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