

HUMAN RESOURCE MANAGEMENT AND ORGANISATIONAL PERFORMANCE: A BRIEF LITERATURE REVIEW AND SOME IMPLICATIONS FOR CO-OPERATIVES IN MALAYSIA

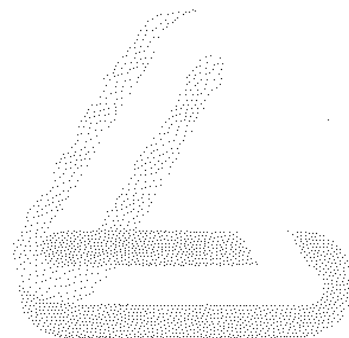
Sushila Devi S. Rajaratnam
Co-operative College of Malaysia

ABSTRACT

This paper begins with outlining the importance of human resource management in co-operatives in the current competitive environment. Some prior researches which demonstrate significant positive relationships between human resource management practices, employee commitment and business performance are briefly reviewed. The paper also highlights the dearth of empirical studies on human resource management in co-operatives and concludes with a discussion on some implications of the literature for co-operatives in Malaysia.

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INTRODUCTION

As a result of greater globalisation, liberalisation and deregulation in the business environment, co-operatives today are facing major challenges to preserve their co-operative identity and function as efficient business enterprises. Though co-operative ideology advocates the pursuit of both economic and social objectives, Alex Laidlaw (1987) emphasised, "*co-operatives are primarily economic and must succeed in business to survive and fulfill their social obligations to members.*"

As co-operatives respond by restructuring and engaging in more diversified businesses, they are subject to the same market considerations and constraints as private sector businesses. Hence, just like any other form of business enterprise, co-operatives must be managed effectively and efficiently so as to realise their goals and compete with the private and public sectors.

Human Resource Management in Co-operatives

One crucial issue faced by co-operatives as they operate their business activities is the management of human resources. Human resource management (HRM) concerns the effective management of people at work, and a major theme running through human resource management is acknowledging that employees are valuable assets of an organisation (Yahya, 2000). More co-operatives today are employing full time employees as in the current competitive environment, co-operatives cannot hope to sustain their businesses nor be economically and socially viable by merely depending on the voluntary services of the board and ordinary members. In fact a well-known co-operator, K.K. Taimni (2000) explained that, human resources in the context of co-operatives refers not only to the board and ordinary members but, also includes full time paid employees. He highlighted that it is the employees who help co-operatives to efficiently carry out operations, plan and execute activities and provide professional inputs to the decision making process.

In his article entitled "Paradigm Shift in Human Resource Strategies for Co-operative Competitiveness", P.C. Mathew (2001) underlined the important role played by human resources, stating that the efficiency of other management functions like technology adoption, production, marketing, finance, etc, in a co-operative, depends on the effective management of human resources employed in co-operatives. Effective management of employees requires being responsive to their needs and formulating and implementing systematic human resource policies and practices.

Human Resource Management Defined

Wright and Ferris (1996) defined human resource management as “...concerned with effectively using the assets of human resources for the attainment of organisational goals and the continued viability and success of the organisation”. Storey’s (2001) definition is that “Human Resource Management is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce ...”. Mondy, Noe and Premeaux (2002) briefly define HRM as “... the utilisation of individuals to achieve organisational objectives”. All three definitions explicitly highlight the importance of the human resource function in organisations. Essentially, it is the human resource, among all the factors of production, which really makes the difference in an organisation. It is human capability and commitment which distinguish successful organisations from the rest and logically, it is thus a special resource deserving managerial time and attention (Storey, 2001). The practices commonly associated with human resource management function are *staffing* (human resource planning, recruitment and selection), *human resource development* (training and development, career planning and development, performance appraisal), *compensation and benefits, safety and health, and employee and labour relations* (Mondy, Noe and Premeaux, 2002).

Human Resource Management and Organisational Performance

The field of human resource management gained widespread importance since the early 1990’s when many empirical studies showed that effective human resource management practices in organisations are positively associated with improved business performance. In other words, adopting Human Resource practices was associated with better financial and operational performance in these organisations. The majority of these studies involved private sector organisations, mainly in the United States. The classic studies include those by Huselid (1995), Becker and Gerhart (1996), Huselid *et al.* (1997), Macduffie (1995) and Ichniowski *et al.* (1997).

An on line literature search identified two studies that investigated the human resource management and performance relationship in co-operatives. A study by Miguel (2000) found empirical support that human resource management practices have a positive influence on the performance of financial co-operatives in Canada. Unfortunately, as the full report was written in the French language, the detailed findings from the study cannot be reported.

An earlier study on the worker – owned industrial co-operatives in Mondragon, Spain (Woodworth, 1986) reflected that the successful implementation of human resource

management practices of training, teamwork, communication and knowledge sharing, participation in decision making (as co-operative members) and healthy labour relations in these co-operatives positively influenced their economic performance (in terms of job expansion, increased investments, higher sales growth and improved profits). Especially interesting is the knowledge that training for employees in these co-operatives also focused on co-operative ideology in addition to technical job related skills.

Recently, as part of a general Co-operative Diagnostic Survey on British Consumer Co-operatives, Davis and Donaldson (2000) conducted an exploratory survey to identify the trend in employment policies and practices among sixteen British consumer co-operatives. The human resource management practices surveyed related to recruitment, induction, human resource and succession planning, discipline management, employee relations (recognition of trade unions, use of other communication methods), remuneration and staff benefits, performance appraisal, training and development, and team building.

Generally, the findings do not paint a very optimistic picture of human resource management practices in these co-operatives. Among the pertinent findings are: there is little encouragement for staff to become members of the co-operatives; there is a decline in the number of managers employed, there is little human resource planning, and no succession planning is being undertaken. In addition, though there's some amount of two-way communication between employees and the management, the communication flow could be improved to include greater involvement by employees in matters related to the business of the cooperative as well as more involvement of first line supervisors. There is also no emphasis on team building in most of the co-operatives surveyed, and training and development programmes do not emphasise co-operative ideology nor quality management. The survey however, did not explore any relationship between the human resource practices and the business performance of these co-operatives.

Previous empirical studies shows that human resource management practices (recruitment and selection, training, performance appraisal and career development, compensation / rewards and benefits), individually have significant positive associations with organisational performance. Increasingly however, is the trend to study the effects of groups of human resource practices on organisational outcomes. A study by Ichiowski, Shaw and Prensushy (1997) concluded that groups of specific HR practices together have a much greater effect on organisational productivity than the individual HR practices. This is because HRM practices do not operate in isolation but are associated with each other and operate as HRM systems. Other researchers (Huselid, 1995; Arthur, 1994; MacDuffie, 1995; Gary and Ivery, 2003; Delaney and Huselid, 1996, Terpstra and Rozell, 1993; Vandenberg, 1999; Moynihan, Gardner, Park and Wright, 2001; Bartel, 2004) also demonstrated significant positive relationships between HRM systems and organisational performance.

Some of the measures of organisational performance used in these studies include annual sales, percentage of sales growth, annual profits, profit margin, operating expenses, market share, employee turnover or quits, employee absenteeism or attendance, return on equity, return on assets, loans or deposits growth, and customer satisfaction of service.

The HRM systems have been called 'high commitment' (Arthur, 1995; MacDuffie, 1995; Whitener, 2001), 'high performance' (Huselid, 1995; Delaney and Huselid, 1996; Moynihan, Gardner, Park and Wright, 2001), or 'high involvement' (Vandenberg, 1999; Guthrie, 2001; Batt, 2002). To date, there is neither agreement as to the terminology that should be used to classify this system nor the individual human resource practices that should make up these systems. From the literature it is obvious that these systems contain overlapping human resource management practices (Gardner, Moynihan, Park & Wright, 2001). Generally the HR systems include practices which provide employees with the skills, motivation and empowerment to contribute effectively to their organisations. The specific practices studied are selection, training and development, performance evaluation, career development, remuneration and incentives, information sharing or communication, and employee participation or involvement in decision making.

The empirical studies on the influence of human resource management practices on organisational business performance have been conducted across a wide variety of industries (manufacturing, automotive, financial services, telecommunication call centres, insurance, hotels, etc). Service organisations that have shown a positive relationship between HRM practices and organisational performance include financial institutions / banks, telecommunication call centres, insurance companies, hotels and food delivery services).

Human resource management is regarded as very pertinent to organisations engaged in service industries. For example, Bartel (2004) analysed the relationship between human resource management practices and the performance of bank branches in a large Canadian bank. She suggested that human resource management may be more important in the service sector than in the manufacturing sector due to the direct contact that exists between employees and customers in the service organisation. Earlier, Terpstra and Rozell (1993) found that HR practices in the service industries were more strongly and significantly correlated with organisational performance measures of profits and sales than in the manufacturing industries sampled. They asserted that since the service industry is labour intensive with human resources being the main input, the success of service organisations would therefore be more directly dependent upon the nature and quality of their human resources.

Therefore, employees who perceive positively the human resource practices in their work places would in turn be more committed towards giving better service to their customers and

this would then be reflected in the customers' perception of the quality of service rendered. In fact a study by Schneider and Bowen (1985) found significant relationships between HR practices and customer reports of service quality in a sample of banks.

The Influence of Organisational Commitment

Despite the evidence of robust impact of human resource management policies and practices on organisational outcomes, recent reviews of the empirical literature by Becker & Gerhart, 1996; Delery, 1998; Paauwe & Richardson, 1997; (cited in Gardner et al, 2001) conclude that past researches have shown varying degrees of positive association between HR practices and organisational business performance. Some studies have demonstrated a significantly weak positive relationship (Rogg, Schmidt, Shull and Schmitt, 2001). Batt (2002) argued that prior research is theoretically undeveloped in specifying the mediating employee attitudes and behaviours by which HR practices lead to organisational performance, especially in service organisations. This is because organisational outcomes of customer satisfaction, productivity, and service quality are highly dependent on how employee feel and behave during the service interaction.

One mediating mechanism through which human resource practices may influence organisational performance in service industries is through fostering organisational commitment in employees (Moynihan, Gardner, Park and Wright, 2001; Wright, Gardner and Moynihan, 2003). John Meyer and Natalie Allen (1997), well known researchers on commitment since the early 1980s, proposed that organisational commitment has three components : affective, continuance and normative, which are defined as below:

*Affective commitment refers to the employee's emotional attachment to, identification with, and involvement in the organisation. Employees with strong affective commitment remain with their organisation because they **want** to do so.*

*Continuance commitment refers to an awareness of the costs associated with leaving the organisation. They remain because they **need** to do so.*

*Normative commitment reflects a feeling of obligation to continue employment. They feel they **ought** to remain with the organisation.*

Most studies on commitment have typically measured affective organisational commitment since affective commitment has been shown to have the strongest positive relationship (or correlation) with employee work behaviour (Meyer and Smith, 2000). Employees'

commitment to their organisation is associated with positive employee behaviours such as reduced absenteeism, quits, improved job performance, and such behaviour would then have positive consequences for organisational performance. Some studies have showed that organisational commitment and employee behaviours such as absenteeism and employee quits (voluntary turnover) mediate the relationship between HR practices and organisational performance in service organisations (Gardner, Moynihan, Park & Wright, 2002; Batt, 2002; Wright, Gardner & Moynihan, 2003).

Though the literature is limited, organisational commitment has been researched in co-operatives. A study of residents' (as members and employees) of housing co-operatives in the United States (Vandewale, Van Dyne & Kostova, 1995) found psychological ownership towards the co-operative to be significantly and positively related to their extra role performance and this relationship was mediated by organisational commitment. This means psychological ownership is indirectly and positively related to members' performance in their co-operatives through their commitment to the co-operative. Extra-role performance is performance which goes beyond the call of duty and benefits the organisation but is not rewarded. Psychological ownership is a sense of belonging created through encouraging participation and communication in decision making and membership in the co-operative. Participation and communication are human resource practices which significantly and positively contribute towards employee and organisational performance. As members, employees' role in decision making is enhanced and this in turn contributes to a sense of belonging among the employees, which they reciprocate by manifesting positive attitude (commitment) and behaviour (extra role performance).

One previous research has suggested that the type of organisational ownership can affect organisational commitment (Wetzel and Gallagher, 1990). Wetzel and Gallagher (1990) compared co-operative (non managerial) employees in the retail grocery industry in Saskatchewan with similar employees of private grocery retail outlets, as well as compared employees of retail (first-tier) and wholesale (second-tier) co-operatives. Though employees in both the co-operatives and private retail shops had positive feelings of commitment to their employers, the level of organisational commitment was significantly higher for co-operative employees than for those in the private sector. In addition the employees in retail co-operatives expressed significantly stronger organisational commitment than workers in wholesale retail co-operatives. Equally important was the finding that employees who identify more strongly with co-operative values are more committed to their co-operatives. The study indicates that the attachment to co-operative values reflects an important element of organisational commitment among employees of co-operatives. If employees are educated about the unique role and values of co-operative, and more importantly if management in co-operatives adhere to those principles in their dealings with employees, employee commitment to the co-operative could be increased.

Colter (1986) proposed that there is a need for co-operatives to implement human resource practices to prevent unplanned employee turnover and keep skilled and committed employees. These practices include opportunities for training and development, rewards such as pension funds, performance based pay, profit sharing (including options for employee share ownership), performance review meetings which focus on feedback and appreciation, properly designed working conditions and good interpersonal relations between board and staff.

Implications for Co-operatives in Malaysia

What are the general implications of the brief review of literature for co-operatives in Malaysia? Does the dearth in research on the relationship between human resource management and organisational performance mean that human resource management is not significant for co-operative performance? Co-operatives may be different in their ideology and objectives but as business organisations, they must be economically successful to sustain their social objectives. They must be managed efficiently. Management means first of all obtaining, motivating and retaining people with the right skills and attitude and then achieving results through them. An exploratory study by the Co-operative College of Malaysia on the Manpower Situation in Co-operatives in Malaysia (2002) found that co-operatives with full time employees were associated with better annual profits than co-operatives which did not employ full time employees. Hence there is a need for co-operatives to institute effective human resource policies and practices to ensure that people are equipped with the right skills and attitude, and motivated to perform well so that the co-operative benefits and achieves its goals.

As the literature indicates, human resource management may be more important in organisations which are service providers because of the close interaction between customers and employees, who are also the main input in such organisations. In co-operatives which are service providers, the members are customers, and how the service is delivered is highly dependent on the attitude and behaviour of the employees. In Malaysia, as at December 2003, more than 50 percent of the 4,469 co-operatives were involved in some form of services, which include financial / banking, retail /consumer trade, transportation, housing, and travel and tour services. Among the co-operatives engaged in services, credit / financial services constitute the back bone of the co-operative movement in Malaysia. These co-operatives constitute 35 percent of the total individual membership, contribute 64 percent of the total share capital and own 85 percent of the total assets. Generally, these co-operatives also employ more full time employees, the majority being clerical and other operational staff.

The literature on human resource management practices in the private sector service organisations serves as a guide on the significant positive association between human resource practices and organisational effectiveness. However, it would be beneficial for local co-operatives if an exploratory study is undertaken to identify the actual human resource practices which are relevant for co-operatives in Malaysia and which may contribute to successful performance in these co-operatives.

One important implication from the literature is that no one human resource practice is superior to the others. For example, if employees are educated in co-operative ideology but are not allowed to participate in decisions involving their work nor are they remunerated well for good performance, then the co-operative cannot expect them to be committed and perform. Employees may feel demotivated and may quit or display negative behaviour which is detrimental to the organisation. Past research indicates that human resource practices complement with one another, and their impact on employee commitment and organisational performance is synergistic. The investigation of this relationship would be a good area for potential research in Malaysian co-operatives.

With respect to the implementation of specific human resource practices, where possible, management in co-operatives should incorporate co-operative ideology. For example, orientation for new employees and on going training for all employees should also focus on co-operative values, principles and co-operative legislation. This will enable employees to understand the unique features of co-operatives as well as the major differences between working in co-operatives and other organisations.

In addition, to foster commitment to the co-operatives and retain skilled employees, whenever possible, more co-operatives should encourage employees to become members. As the literature indicates, encouraging membership in co-operatives is a form of fringe benefit and is also perceived by employees as an indication of management's concern for their welfare and well being. This should augur well for the co-operatives.

CONCLUSION

It cannot be denied that if co-operatives are to be relevant in the current environment and be viable business organisations, they have to be professionally managed. This requires the services of full time employees at the managerial and non managerial level, who are competent, capable and committed to steer co-operatives towards achieving their economic and social objectives. The co-operative board must realize that to instill the commitment of these employees and motivate them to perform, they have to be nurtured as a valued asset through carefully formulated and properly implemented human resource management policies and practices.

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