

# Chapter 1

## The Antecedents and Consequences of Strategic HRM in Malaysian and Philippine SMEs

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### ABSTRACT

*From a survey of Small and Medium-Sized Enterprises (SMEs) in Malaysia and the Philippines, the authors find that the adoption of strategic Human Resource Management (HRM) is at best at a moderate level. The adoption of strategic HRM by SMEs in both Malaysia and the Philippines is predicted from the positive effect of legal and regulatory requirements, the importance of business environment challenges, and the strategic role of the HR professional. Furthermore, regression analysis shows that in both countries, SMEs with strategic human resource management have better organizational performance in terms of human resource outcomes, operational outcomes, and financial outcomes, but the impact is larger in the Philippine SMEs. This study adds empirical evidence currently available from a small set of countries, mostly in North America and Europe. The authors end this chapter with implications for policy makers and HR practitioners and provide recommendations for future research.*

### INTRODUCTION

In the past decade, empirical research of Human Resources Management (HRM) in small and medium-sized enterprises (SMEs) has stepped up; 75% of the 120 studies we found in an on-line search of databases were published since 2002. As well, the countries covered have expanded.

Prior to 2002, 87% of studies were in developed countries in North America and Europe, mainly of the United States and the United Kingdom. Since 2002, only 56% were from this same group of countries, studies in Asia and Africa increased from just two in the previous period to 24, and the Asian continent accounted for 21%, with most studies done on China.

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While these numbers are encouraging, there is still much research that needs to be done (Cassell, Nadin, Gray & Clegg, 2002; Katz, Aldrich, Welbourne & Williams, 2000). Mayson and Barrett (2006) for instance note that not only is there very little research on HRM in small and entrepreneurial firms, but that theory is also lacking that could explain how important HRM is for such organizations. Marlow (2006) echoes the lack of theorizing as an impediment in our understanding. Cardon and Stevens (2004) found 37 articles on small and emerging firms but noted that close to half (n=16) do not distinguish between emerging and small ventures, “failing to clarify the different HR challenges resulting from newness and smallness and how they are overcome. Twenty-three of the articles confound small and medium enterprises, and less than half of them are based on empirical data” (p. 299). They note that more empirical research and theorizing is still needed specifically in training, performance management, organizational change and labor relations in small firms, as well as understanding retention of employees, integration and interactions of HR practices and the evolution of HR practices within the context of small firms.

As well, we find that some countries have not been studied, especially those from developing countries with a different cultural, institutional, or economic context from the U.S. and the U.K. By having studies of SMEs in a wider range of countries, we could begin to determine the influences that underlie any observed differences and similarities of HRM. We can also begin to understand whether the impact of HRM is the same or different, depending on the country context (e.g., Cunningham, 2010; Innes & Wiesner, 2012). Thus, we can become more confident of our recommendations to a sector that is recognized to be of economic importance to many countries.

In this chapter we offer empirical evidence from two Asian countries that have not been studied extensively, namely Malaysia and the Philippines. We found only three HRM studies of SMEs in Malaysia and none on the Philippines.

Yet, in these countries SMEs comprised around 99% of the total establishments, employed 56% and 70% of the total workforce in Malaysia and the Philippines respectively, and contributed 32% to the country’s GDP (Osman, Ho & Galang, 2011). The governments of both countries have also recognized the importance of this sector by implementing laws, policies and regulations that specifically are aimed at ensuring SMEs are competitive in a more global environment (Habaradas, 2009). Based on data from a survey that was conducted among HR managers, our study has three purposes. The first addresses the question of whether or not SMEs in these countries have adopted a more formal and strategic approach to managing employees. As a comparison, we will utilize survey data that we also collected from HR managers of SMEs in the U.S., a country that has a different economic, institutional and cultural context than Malaysia and the Philippines. The concept of HRM is argued to have originated from the U.S. Nonetheless, Mayson and Barrett (2006) observed that HRM in small firms in the U.S., as well as Europe and Australia, is largely ad hoc and informal.

The second purpose is to determine whether the adoption of a more formal and strategic approach to managing employees provides these SMEs with a competitive advantage. There have been many studies in the past decade linking strategic HRM with organizational performance of SMEs, again mostly in developed countries in North America and Europe. Those in developing Asian countries are limited: two in China (Zheng, Morrison & O’Neill, 2006; Zheng, O’Neill & Morrison, 2009), two in Vietnam (King-Kauanui, Ngoc & Ashley-Cotleur, 2006; Nguyen & Bryant, 2004) and one in Korea (Seong, 2011).

Our third purpose is to examine some antecedents to the adoption by SMEs of a more formal and strategic approach to managing employees. It has been argued that because SMEs are resource poor, they are limited in their ability to adopt strategic HRM practices, most of which would require money, time and expertise which are not

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