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Adapting SHRM: Game Changer for Malaysian SMEs

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Abstract
Prior studies supported the theories regarding the relationship between human resource management practices and firm performance. However, a review of extant literature reveals lacking studies in the context of small and medium enterprises. More specifically, the available works of literature are considered still developing and insufficiently studied. Therefore, this paper investigates the relationship between strategic human resource management and SME performance in Sabah, Malaysia. This study adapted Ulrich’s Business Partner Role model as the theoretical support to explain the integration of strategies in human resource management practices. By using the quantitative approach, 260 respondents participated in the study. Findings from the study revealed that regardless of the size of a company, adapting strategic human resource management helps improve firm performance.

Keywords: SHRM, Firm Performance, Enterprise, SMEs, HR Roles

Introduction
In theoretical studies, the concept of Strategic Human Resource Management (SHRM) started to gain importance as researcher began to focus more on the integration between HRM practices and firm performance (Francis and Baum, 2018; Wright and Ulrich, 2017; Nguyen et al, 2019). The concept of SHRM view that the relationship between Human Resource Management (HRM) practices and firm performance are highly related to the ability of turning the HRM practices itself to carry competitive value of firms (Martinez-Del-Rio et al., 2021). According to Para-Gonzalez et al (2019), instead of performing traditional administrative-support tasks, SHRM focuses on how HRM practices is linked to the strategic management through multiple HR roles. In other words, the notion of SHRM is embodied on how firms are able to turn their HRM practices with strategic approaches (Wright et al., 2018).

In the industrial context, although there seem to be increased interest of SHRM in SMEs, the empirical knowledge in this area is still developing and insufficiently studied especially among emerging markets and developing countries (Thierry et al., 2018; Harney and Alkhalaf, 2020; Li et al., 2019).
Malaysia is one of the emerging market countries. The SMEs in Malaysia generally dominate the economy by acting as the main contributors in providing job opportunities (Masnan et al., 2018). Malaysian government view SMEs as the backbone of an economic and major employers in the country (Shahzad et al., 2019). This can be justified through the government effort in the 12th Malaysia Plan (2021-2025) where Malaysian SMEs is placed as one of the keys focuses to improve the country’s employment through HRM programme (MEA, 2019). Through the Ministry of Economic Affairs (MEA), the Malaysian government announced the importance of effective HRM strategy by highlighting the importance of managing human capital as a national strategy for economic growth (MEA, 2019).

Although there is apparent evidence of the importance in Malaysian SMEs to the economic growth, the study of SHRM in Malaysia has been within large organizations (Othman et al., 2015; Choi et al., 2016). In addition, the extent of the relationship between SHRM and firm performance is unclear, if not, uncertain. Accordingly, the gaps in the existing empirical evidence in relation to the Malaysian SMEs needs to be filled (Zakaria et al., 2018; Lai et al., 2017; Prikshat et al., 2016). Moreover, given most SHRM studies in Malaysia have been conducted in Peninsular Malaysia (e.g.: Choi and Ismail, 2008; Shahnaei, 2017; Zakaria et al., 2018; Othman and Mahmood, 2020), it is crucial to narrow the empirical gap in East Malaysia, especially in Sabah given the limited studies on SHRM in this region.

Literature Review

Firm Performance

It is widely accepted that HRM are positively associated with firm performance (Sabiu et al., 2019; Lai, 2019; Garg, 2019). Firm performance is closely linked with organizational effectiveness (Manoharan and Singal, 2019). In this study, firm performance is categorized into three primary groups namely, financial performance, non-financial performance, and HR-related performance (Katou, 2017; Cristiani and Peiro, 2019; Gahlawat and Kundu, 2019).

This is supported by referring to previous studies. For example, Nam and Lee (2018) suggested that a study on HRM field should focus on HR outcomes such as employee turnover, attitude, behavior, and motivation. Other studies from Lai (2019), suggested that it is necessary to consider the SMEs’ owners objectives to determine the firm performance, such as profitability for financial, and productivity for non-financial performance. In addition, Para-Gonzalez et al., (2019) found that firm performance was regarded as the key determinants to SMEs’ survival. Hence, it is necessary to include all three (i.e.: financial, non-financial, HR-related) performance in HRM studies. This is supported by other studies such as Kundu et al (2019); Garg (2019); Xiu et al (2017) where most of the HRM literatures and performance measure both financial and non-financial. Notwithstanding, Zakaria et al (2018) HRM study in Malaysia used firm performance as an indicator to success factors by looking into non-financial and financial performance of companies in Malaysia.

Strategic Human Resource Management (SHRM)

Previous papers supported the relationship between SHRM and its contribution to firm success. Su et al (2018) contended SHRM as the coordination of individual HRM practices with strategies to promote performance. The studies by Roehl (2019); Iqbal (2019) discussed SHRM constitutes not only the traditional role of HRM, but it also reflects the flexible arrangement and utilization of HR to achieve organizational goals. Farndale and Paauwe (2018) added
SHRM is about designing and implementing a comprehensive set of proactive HRM practices that assure the organization’s human assets and subsequently to firm performance. Teal (2019) supported the theories and suggested that SHRM can play a critical role in the delivery of HRM practices to achieve positive performance.

Given that SHRM is well documented in the literature (Roehl, 2019; Iqbal, 2019; Teal, 2019; Wright et al., 2018; Fahim, 2018; Farndale and Paauwe, 2018 Chaudhry and Joshi, 2017; Rees and Smith, 2017), this study suggested that SHRM plays an important role to support firm performance. This is supported by Wielemaker and Flint (2005), who explained how traditional HRM practices can be linked to SHRM. They justified SHRM as an organizational strategic formulation to justify firm performance through an attempt to link employees to strategic adaptation that encompasses HRM activities. Figure 1 illustrates that the HRM practices might not be directly linked in order to become strategic (arrow 1) but can instead act as a medium to carry the elements in HRM (arrow 2) to become SHRM (arrow 3). Almada and Borges (2018) explained that for HRM to become strategic, strategic roles are necessary to support the HRM practices.

Figure 1: The Supportive and Strategic Role of HRM Practices (Wielemaker and Flint, 2005)

Accordingly, the critical focus of this study is to align HRM with a strategic purpose through specific HR roles. Mahadevan and Schmitz (2020) referred HR roles as a ‘game changer’ in the HRM field. HR roles are positioned as a core element that support strategic entity in the HRM activities (Mahadevan and Schmitz, 2020). This is in line with the study by Ulrich (1997) which stated that HRM should not replace traditional activities, but to develop a ‘deliverable focus’ that can complement the HRM activities into strategic outcomes.

Ulrich’s Business Partner Role Model

Whilst few HR roles models were presented and discussed in the span of 40 years, much of this work overlap using different names (i.e.: Tyson and Fell, 1986; Storey, 1992; Kossek and Block, 2000; Jackson and Schuler, 2000; Sullivan, 2003). Among the HR roles models, Ulrich business partner role model is one of the most discussed HR roles. Ulrich suggest HR roles serves to support the need of SHRM to improves immediate contribution to organizational efficiency, empowerment for employees, and to align HR practices with the business objectives of the firm. Zheng et al (2009) argued that strategies in HRM is not necessarily making a direct impact on business performance. It is because SHRM is viewed as a contingency in making one step further to simultaneous the linkage between HRM, its
intended direction, and how it supports the expected outcome. Ulrich HR roles in this study is viewed as a support system that carry strategic roles to improve firm performance.

Ulrich’s business partner role model represents a new dimension of HRM on how it acts as delivering factor for organizational success (Choi and Ismail, 2008; Lemmengaard, 2009; McDermott and Keating, 2011). Ulrich and Brockbank (2005) stated that it is not what HR does, but how it delivers in any meaning to contribute organizational outcomes. HR roles act as the medium that integrate HRM activities into strategic management that deliver firm performance.

According to Ulrich and Brockbank (2005), to achieve key role in delivering a strategic approach within the firm, the HR should perform four different aspects of HR roles. First, to become a strategic partner by improving the efficiency of organizational systems and process, acting as change agent, and ensuring employees’ involvement. This requires the HR to focus on strategic development and change management according to the needs of the company. The second role, which is a functional role, is viewed as a deliverable role that makes things happen since the increased focus is on managing change and being strategic. The third role, the employee advocate, emphasizes the need for HRM to use effective communication and acting as a medium to support the relationship between employers and employees. And finally, the fourth role, the human capital developer is about planning today’s HRM to create future intangible assets as part of the firm’s competitive advantage.

Based on the discussion above, the Ulrich’s business partner role model is regarded as a suitable SHRM model as it covers all aspects of HRM activities from organizational operations, strategic, people, and process of a firm. Figure 2 illustrate Ulrich’s business partner role model which covers four different aspects of HRM activities. First, as a strategic partner focusing on processes and HR strategic activities. Second, as a functional expert focusing on processes and operations. Third, as employee advocate which focusing on the needs of employees and expectation of employers. Lastly, fourth, as human capital developer which focuses on employee development and human assets.

Figure 2: The Ulrich Business Partner Role Model (Ulrich and Brockbank, 2005)
To complement the model, Wright (2008) proposed that HR roles can be a medium to support performance. Parallel to Wright (2008); Bahuguna et al (2009) suggested that HRM activities has turned strategic to fully utilize HRM ability to support firm performance. Notwithstanding, as functional expert is a role that represents how HRM activities are carried out in an organization, it acts as a medium that transmit the process and operations of HRM activities to employees (Bhatnagar and Sharma, 2005; Amarakoon et al.,2019; Bamber et al., 2017). Hence, functional expert is omitted, given it is a deliverable that acts as a medium for HRM activities and not related to the strategic role context. From this discussion, the hypothesis for strategic HR roles and firm performance is developed:

H1: Strategic human resource management (strategic partner, employee advocate, and human capital developer) is significantly related to firm performance.

Methodology
This study applied the quantitative method where it determines the association between variables through hypotheses testing. A questionnaire survey was used to gather primary data by using a 5-Likert scale ranging from (1) strongly disagree to (5) strongly agree. The respondents of the study consisted of 260 SMEs in Malaysia. Research instruments were adapted from various past research. For strategic partner, the research instrument was adapted from (Conner and Ulrich, 1996). For employee relations and communication, the research instrument was adopted from (Triguero et al., 2013; Vanhala and Ahteela, 2011). For firm performance, the research instrument was adopted from (Bhatnagar and Sharma, 2003; Choi, 2011).

IBM Statistical Package for Social Science (SPSS) version 24 and SmartPLS version 3.2.9 was used for importing data and to explain the descriptive statistic and correlational analysis. To ensure the accuracy of the study, a pilot study was undertaken as a small-scale experiment to reduce errors in data analysis. This is supported by In (2017) that research errors can be reduced by conducting a pilot test.

Data Analysis and Findings
In this study, 400 sets of questionnaires were distributed amongst SMEs in Sabah based on the systematic random sampling method. The study population was derived from a list of registered SMEs in Sabah published by SMECorp.com, a website overseen by the Ministry of Entrepreneur Development (MED) Malaysia which is responsible to the implementation of SME development programs in Malaysia.

The initial data collection using electronic survey (e-mail) over a period of three months showed a low response with a total of four responses, giving a response rate of 1%. In dealing with non-responses, this study opted to apply the physical walk-in approach. Based on the physical walk-in approach, this study learnt that the low response rate from electronic mailing approach is due to several reasons. These included the lack of cooperation and interest from respondents, reluctance to reveal certain different method, and untrusted sources of e-mail. Accordingly, a total of 260 responses were collected within four-and-a-half-month period, giving a response rate of 65% from the initial target of 400 responses.
Next, data screening was implemented to ensure that the data collected were compiled correctly and accounted for in this study. Based on the data screening, seven questionnaires with more than 10% incomplete or unanswered items and 26 questionnaires with the same responses were omitted based on Byrne’s (2010) suggestion. As summarized in Table 1, the finalized total response rate for this study is 56.75%.

Table 1

| Questionnaire Distribution and Response Rate | Email Method | Hand-in Method | Total |
|---------------------------------------------|--------------|----------------|-------|
| Questionnaire Distributed                   | 400          | 254            | 400   |
| Responses                                   | 4            | 223            | 260   |
| Usable Responses                            | 4            | 223            | 227   |
| % of usable response                        | 1%           | 55.75%         | 56.75%|

The first aspect investigated was the demographic profile of respondents to understand the general background of the participants. The information collected included SME sector types, company types, years of establishment, yearly sales, and the number of employees. Table 2 summarized information using frequencies and percentage.

Table 2

Respondents’ Profile

| SME Sectors     | Number | Percentage |
|-----------------|--------|------------|
| Manufacturing   | 60     | 26.4%      |
| Service         | 94     | 41.4%      |
| Trading         | 55     | 24.2%      |
| Others          | 18     | 8.0%       |
| Company Types   |        |            |
| Sole proprietor | 110    | 48.5%      |
| Partnership     | 26     | 11.5%      |
| Private limited | 91     | 40.1%      |
| Years of Establishment | Number | Percentage |
| Between 2 to 5 years | 40     | 17.6%      |
| 6 to 10 years    | 147    | 64.8%      |
| 11 to 15 years   | 17     | 7.5%       |
| More than 16 years| 23    | 10.1%      |
| Yearly Sales     |        |            |
| Less than RM300000 | 37    | 16.3%      |
| RM300001 to RM1500000 | 181  | 79.7%      |
| More than RM15000000 | 8    | 4.0%       |
| Number of Employees |      |            |
| Less than 5      | 51     | 22.5%      |
| 5 to 75          | 153    | 67.4%      |
| 76 to 200        | 23     | 10.1%      |

Using SmartPLS software, the first stage of PLS-SEM analysis was used to analyze the reliability, internal consistency reliability, as well as convergent and discriminant validity. The convergent validity was performed to measure the correlation between each construct. To establish convergent validity, outer loadings of the indicators were examined as well as the
average variance extracted (AVE) for each of the items. Hair et al., (2014) suggested that outer loading should be greater than 0.70 and the AVE value should be above 0.50. Based on the result in Table 3 and Table 4, all constructs had fulfilled the requirements of AVE and outer loadings.

Table 3
Convergent Validity for Firm Performance

| Indicators                  | Outer Loading | Cronbach Alpha | Composite Reliability | AVE  |
|-----------------------------|---------------|----------------|------------------------|------|
| Financial Performance       | f1            | 0.851          | 0.846                  | 0.936| 0.937| 0.682|
| Non-Financial Performance   | f3            | 0.749          | 0.749                  |      |      |      |
| HR-Related Performance      | f5            | 0.748          |                        | 0.830| 0.873|      |
|                             | f6            |                |                        |      |      |      |
|                             | f7            |                |                        |      |      |      |

Table 4
Convergent Validity for HR roles

| Latent Variable  | Indicators          | Outer Loading | Cronbach Alpha | Composite Reliability | AVE  |
|------------------|---------------------|---------------|----------------|------------------------|------|
| Strategic Partner| hrrole1 hrrole4    | 0.787         | 0.844          |                        | 0.947| 0.947| 0.666|
|                  | hrrole7 hrrole10   | 0.806         | 0.828          |                        |      |      |      |
|                  | hrrole13 hrrole16  | 0.836         | 0.804          |                        |      |      |      |
|                  | hrrole19 hrrole22  | 0.803         | 0.861          |                        |      |      |      |
|                  | hrrole25           | 0.775         |                |                        |      |      |      |
| Employee Advocate | hrrole2 hrrole5    | 0.743         | 0.800          |                        | 0.933| 0.933| 0.609|
|                  | hrrole8 hrrole11   | 0.776         | 0.788          |                        |      |      |      |
|                  | hrrole14 hrrole17  | 0.783         | 0.736          |                        |      |      |      |
|                  | hrrole20 hrrole23  | 0.746         | 0.785          |                        |      |      |      |
|                  | hrrole26           | 0.842         |                |                        |      |      |      |
| Human Capital Developer | hrrole3 hrrole6   | 0.765         | 0.769          |                        | 0.937| 0.937| 0.624|
|                  | hrrole9 hrrole12   | 0.826         | 0.866          |                        |      |      |      |
|                  | hrrole15 hrrole18  | 0.825         | 0.804          |                        |      |      |      |
|                  | hrrole21 hrrole24  | 0.707         | 0.768          |                        |      |      |      |
|                  | hrrole27           | 0.769         |                |                        |      |      |      |
Other than convergent validity, the study also performed discriminant validity. Discriminant validity is an assessment to ensure that the construct has the strongest relationship with its own indicators in comparison with other constructs (Hair et al., 2017). By using SmartPLS software, this study examines discriminant validity by using Fornell and Larcker (1981) criterion and HTMT analysis as suggested by (Henseler et al., 2015).

Based on the Fornell-Larcker criterion analysis, the findings show that all constructs had established overall discriminant validity with the square root of AVE value between two constructs should be greater than the correlation between the other constructs (Table 5). Other than that, as shown in Table 6, discriminant validity through HTMT ratio has been established with each construct showing values below 0.90 as suggested by Hair et al., (2017) and Henseler et al., (2015).

### Table 5
**Fornell-Larcker Criterion Analysis for Discriminant Validity**

| Construct | EA  | HCD  | SP  |
|-----------|-----|------|-----|
| EA        | 0.808 |      |     |
| HCD       | 0.744 | 0.816 |     |
| SP        | 0.665 | 0.758 | 0.839 |
| FINP      | 0.955 |      |     |
| NONFINP   | 0.748 | 0.910 |     |
| HRRP      | 0.838 | 0.780 | 0.895 |

Note: EA: Employee Advocate; HCD: Human Capital Developer; SP: Strategic Partner; FINP: Financial Performance; NONFINP: Non-financial Performance; HRRP: HR-Related Performance

### Table 6
**HTMT Ratio for Discriminant Validity**

| Construct | EA   | HCD   | SP   |
|-----------|------|-------|------|
| EA        |      |       |      |
| HCD       | 0.792 |      |     |
| SP        | 0.706 | 0.801 |     |
| FINP      |      |       |      |
| NONFINP   | 0.877 |      |     |
| HRRP      | 0.837 | 0.829 |     |

Note: EA: Employee Advocate; HCD: Human Capital Developer; SP: Strategic Partner; FINP: Financial Performance; NONFINP: Non-financial Performance; HRRP: HR-Related Performance

When the measurement model assessment is satisfactory, the next step is to assess the hypothesis testing. This study follows Hair et al (2014) suggestion to use 5000 subsamples bootstrapping given that PLS-SEM analysis relies on a non-parametric procedure. The result from the bootstrapping analysis demonstrates p-value of hypothesis path. Analysis for path coefficient between individual HR roles and firm performance showed that strategic partner resulted in the highest coefficient of 0.501 with t-value 8.997, followed by employee advocate.
at 0.304 with t-value 5.665, and human capital developer path coefficient at 0.124 with t-value 2.018. Hence, Hypothesis 1 is accepted.

Discussion
In this study, the research questions examined that there is significant relationship between SHRM (strategic partner, employee advocate, human capital developer) and firm performance. The linkage between HR roles and firm performance was developed based on the literature review supporting SHRM and significant impact of HR roles to firm performance involving strategic orientation, advocating employee, and human capital development in the firm. Findings from the research analysis supported the hypothesis. Specifically, it was found that the path of coefficients for the relationship between SHRM and firm performance was significant at 0.340 and t-statistics value of 5.176, was higher than 1.96 at 95% confidence level. Table 7 summarizes the finding.

Table 7
Path Coefficient for the Relationship between HR Roles and Firm Performance

| Hypothesis | Path     | Path Coefficient (β) | T-statistics | Result  |
|------------|----------|----------------------|-------------|---------|
| H3         | HRR-FP   | 0.340                | 5.176       | Supported |

The result based on the analysis indicated that there is a significant relationship between HR roles and firm performance. Wright (2008) reported that HR roles act as a medium that delivers results in organisational performance. This is in line with the study from Bahuguna et al. (2009) that highlighted the nature of HRM practices has changed from being solely limited to administrative tasks to a broader role in supporting firm performance. Kuipers and Giurge (2016) noted that HR roles add value and contribute to performance. This is also supported by Ulrich’s (2016) study on HR roles, in that HR roles are about delivering business value by being strategic and flexible to business conditions from change. Moreover, HR roles should involve both content and process. Here, content emphasises where HR roles will add the most value to the organisation, whereas process, refers to aligning those roles with organisational goals. Taken together, content and process in HR roles deliver significant value to support firm performance.

Consequently, the findings of this study found that HR roles, namely strategic partner, employee advocate and human capital developer have a significant impact on firm performance. The finding shows that SME owners and managers in Sabah believe that as a strategic partner, it will improve overall firm performance. Also, aligning strategies, business planning, and goals will improve sales and profits. Notwithstanding, it will also improve the productivity rate, lower employee turnover, and improve personal growth amongst employees. The SME owners in Sabah also regard employee advocacy planning a key role in firm performance (Bashawir et al., 2019). Likewise, building personal trust, taking care of employee’s personal needs, listening, and responding to employees, lowering employee turnover will consequently improve overall individual performance in SMEs.

The development of human capital is also viewed as playing an important role in firm performance (Marescaux et al., 2013). For instance, shaping innovative culture, encouraging employee’s willingness to invest efforts for the company, accepting goals and values, ability to create positive morale and loyalty of employees are perceived to contribute towards firm
performance (Garg, 2017). Therefore, being able to apply and deliver HR roles not only supports the well-being of employees but also create positive working value in the organisation. Accordingly, the productivity of the firm will increase, reducing costs, and the willingness of employees to maintain their identity as a member of the firm will help improve sales and profits for the organisation.

Conclusion
This study has shown positive results in the relationship between SHRM and firm performance. It is evident that Malaysian SMEs can be benefited by adapting to SHRM to improve their firm performance. Moreover, it is found that HR roles is responsible as a strategic agent to support the HRM activities. The current study contributes to the literatures by examining SHRM and to prove the effect of HR roles as a strategic feature by answering “what makes HRM improve performance”. In this study, HR roles acted as the deliverable or ‘key’ that promotes performance. This is in line with other SHRM literatures where SHRM is about bringing value-added to the HRM activities to be strategic and to support performance. In addition, previous researchers in this field have mainly focused on large firms, banking sectors, or specific industries, whereas this study investigated various industries under SMEs in the state of Sabah, Malaysia. Thus, this study provides comprehensive research to support that SHRM is necessary to improve firm performance regardless of company sizes.

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