An Empirical Study on Determining the Firm Performance and Human Resource Practices among SMEs in Food Industry in Jengka and Maran, Pahang

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Abstract: This paper focuses on the relationship between Human Resource Practices namely; training and development and information sharing with the firm performance of SMEs in terms of profit. This research surveyed SMEs firm of food industry in Jengka and Maran, Pahang. Self-administered questionnaire was employed in this study. A total of 38 useable questionnaires were analysed. The findings reveal that a weak relationship between HR practices and firm performance. As predicted, from previous studies the use of HR practices is relatively fewer in a smaller firm and they're using an informal approach in managing their human resources. This research presumes that SMEs yet not properly implemented HR practices in their firm effectively. However, this paper concludes that further research might include additional factors of HR practices and using another variable for firm performance.

Keyword: firm performances, training and development, information sharing, food SMEs.

I. INTRODUCTION

Small and medium size (SMEs) plays an important role in the development of the country. In an effort to achieve the Government target for SMEs to contribute 40% to the country's Gross Domestic Product (GDP) by 2015 (NSDC, 2013). Hence, Malaysia taking steps and initiatives to provide a platform to SMEs firm by providing various supports schemes such as financing also need training and human resources development. However, in order to consistently on track, it is a need for SMEs to know the factors that to influence their firm performance. Human resources are considered to be one of the important assets of an organization and could lead to sustainable competitive advantage. The value of human resource, the organization should consider their employees as a source of revenues and profit (Liu et al., 2007). However, it is important to understand how to manage human resources in order to maximize productivity. It is also to control the costs (Combs, Liu, Hall, & Ketchen, 2006; as cited in Zakaria, Zainal & Nasurdin (2011)).

Although a wealth of research has been conducted by previous researchers related to firm performances, little is known about the effect of HR practices on firm performances, specifically in food SMEs in Malaysia. Therefore, this study tries to fulfil the research gap by investigating the relationship between human resource practices and firm performance, particularly in food SMEs in Jengka and Maran, Pahang. Jengka and Maran was chosen because the majority of the SMEs are owned by Bumiputra, and almost 80% are food SMEs.

In the following sections, this research first review existing literature to derive hypotheses. Particularly, this research builds a conceptual framework to investigate the influence of HR practices on firm performances. Next, this research describes research method for the study. After presenting the results, this research discusses the identified relationships between HR practices on firm performances. Finally, this research addresses limitations of the study and proposes future research directions in this research area.

II. LITERATURE REVIEW

SMEs in Malaysia

M. Zcinalnczhad et al. (2011) as cited in Wahab and Rahim (2013), mentioned that different countries have different definition and interpretation for small and medium enterprises (SMEs) due to a number of factors and demographics criteria such as location, age, number of employees, sales volume, annual sales turnover and ownership through innovation and technology. In Malaysia context, Khalique et al. (2011) described SMEs in Malaysia mainly based on annual sales turnover and the total number of full time workers which is between 5 to 150 workers. He discovered that SME in Malaysia can be segregated into three main sectors such as general business, manufacturing and agriculture. According to Talib, Ali and Idris (2014), referring to the Small and Medium Enterprises Corporation, SMECorp 2006, SME are categorised into two sectors which are manufacturing and services. She highlighted that a third manufacturing sub-sector for SMEs are food and beverages SMEs with 5925 companies. As been reported in the SME annual report 2010/2011, SMEs represented approximately 99.2% of the entire business formations in Malaysia in 2010. In Malaysia, 97.3% of business establishments are comprised of small and medium enterprises (SMEs) which account for about 52.7% of total employment that is generated in the country. Malaysian government through the Ministry of International Trade and Industry (MITI) and its agencies works hard on assisting SMEs through various activities to promote exposures on prudent financial management as mentioned by Salikin et al. (2013). The food manufacturing industry in Malaysia plays a significant role in the economy development. As cited by Ahmed (2012), according to a 1990 survey by the Ministry of International Trade and Industry (MITI), the food SMIs constitute the largest group among these, amounting to 32 percent of all SMIs (MIDA).

Firm performance

In previous study, some researchers found that firm size may influence a firm's competitive power, and it can affect its financial performance (Chandy & Tellis, 2000). On the other hand, the performance of small businesses is defined as their capability to lead to the creation of employment and wealth by business start-up, survival and sustainability (Sandberq, Vinberg, & Pan,2002) as cited by Moorty et. al (2012). A research conducted by Adnan, Abdullah and Ahmad (2011) brought to light the issues that Human Resource Management practices did have some effects on Malaysian firm bottom line performance.

This study, however, was used financial performance only as indicators to firm performance. It is in line with EIM Research Reports, (2011) who reported that the cost

reductions on resources, labour, and capital may have a positive effect on the profit of the firm. The question this research has raised is whether the application of human resource practices is profitable for SMEs.

Training and development

Training and development is one of the human resource practices that deal with issues related to the activities organized by the organization to increase the knowledge and skills of employees in order to achieve organization objectives (Snell and Bohlander, 2010). The goal of training and development is to encourage the employee to enhance their knowledge, skills and behaviour emphasized in training program and also to facilitate them to transfer the training content to their work environment (Noe, 2013). According to Snell and Bohlander (2010), an organization's revenues and profitability are positively correlated to the amount of training it gives to the employees. Looking at the impact of training and development on the performance of SME, research conducted by Omolo et al. (2013) on 777 SMEs in Kisumu Municipality found that training and development is significant predictors to the performance of the SMEs. They also argued that the performance of the SME will increase when the employee received better training and development program. Moreover, Grigore (2008) in his research on the impact of human resource practices upon small companies' performance identified that human resource practices included training has a strong positive effect upon the productivity, innovation capacity and company's profitability.

Research conducted by Winterton and Winterton (1997) among the senior strategic managers, line managers and members of management work team, however, found that there is a weak relationship between training and small firm performance. It is supported by Jameson (2000) who revealed that training in a small firm tends to favour informal training due to the size of firm and training budget. Due to this factor, it is difficult to discover any provision of training within small firm lead to improved business performance. In addition, according to Storey (2014), learning the process in a small firm typically occurs through experience, not through formal training program. He found that learning through experience may establish more successful business. With respect to these findings, this research saw a gap in studying the impact of training and development on firm performance, especially in the food industry in the Jengka and Maran, Pahang. Therefore, following hypothesis is proposed:

H1:   Training and development are positively related to firm performances in food SMEs in Jengka and Maran, Pahang

Information Sharing

Typically, the most sensitive the information in the organization, the most senior a person has to be before they get access to the information (Salamon, 2008). According to Vlachos (2008), sharing organization information with the employee will demonstrate that they are trusted, and it creates positive business impacts such as better sales and improved customer service. Moreover, research conducted by Vlachos (2008) on a group of research managers in Greece, found that sharing information on employees performance will not only creates positive meanings to them but also can help employee to improve their performance. Thus, it can reduce turnover (Ahmad &

Schroeder, 2003) and create harmony working relationship among employees (Nonaka, 1994). Despite the accumulation of knowledge on the impact of the information sharing on employee's performance, little is known about the effect of information sharing on firm performances particularly food SMEs in Jengka and Maran, Pahang. Therefore, the following hypothesis is proposed:

H2:   Information sharing is positively related to firm performances in food SMEs in Jengka and Maran, Pahang

III   METHODOLOGY

Research Framework

Figure 1:
Research Framework
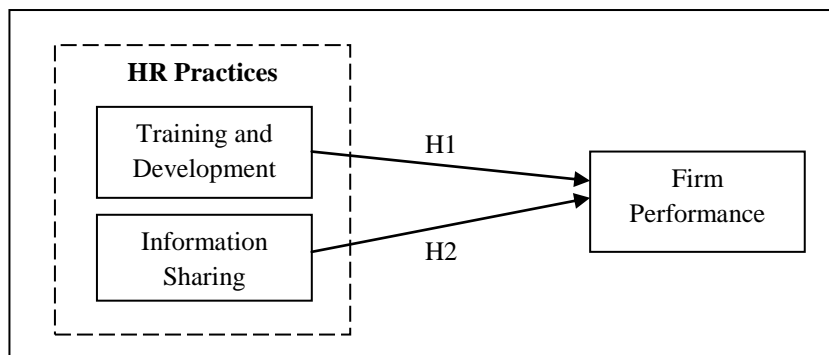
The dependent variable for this study is firm performance, whereas the independent variable for this study is HR practices that include information sharing and, training and development. This study aims to investigate the relationship and the influence of HR practices on firm performance.

Research Design

This study is a quantitative study using cross-sectional design. This study was employed survey research to test the conceptual framework and hypotheses developed, with the organization as a unit of analysis. The target population for this study consists of Small Medium Enterprises (SMEs) in the food industry in Bandar Jengka and Maran, Pahang. From the target population, convenient sampling was used to narrow down our potential respondent.

Questionnaire

55 set of self-administered questionnaire was distributed directly to a key person within an organization, who is actively involved in the decision-making process relating to information sharing and training practices. The questionnaire consists of four parts which are Part A, Part B, Part C and Part D. Part A measured demographic of the respondent, Part B measured perceive information sharing practices in the organization, Part C measured perceive training and development practices. Both part B and C using Likert scale. Lastly Part D is an open-ended question for respondent suggestion and recommendation.

Data Analysis

The survey data was analyzed using the latest Statistical Package for Social Sciences (SPSS) version 18.0. The analysis consisted of four major parts. Firstly, this research summarizes the general characteristics of all respondent in terms of their demographic information. Secondly, normality test and reliability test were conducted to verify the measurement. Thirdly, descriptive analysis and lastly, correlation analysis was done to identify how well a set of independent variables from the factors extracted able to predict or explain the relationships between the variables. These steps were conducted to ascertain that the assumptions about the data (i.e. sample size, missing variables, absence of outliers and normality) are not violated.

IV. FINDING

A total of 40 questionnaire returns carry out the total respondent rate is 72.7 percent. Out of the total responses received, two were invalid or incomplete and thus were rejected. Therefore, only 38 responded questionnaires were used for the final analysis.

Normality and Reliability Analysis

The two well-known tests of normality, namely the Kolmogorov-Smirnov Test and the Shapiro-Wilk Test have been used to test normality for each variable. The Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples) but can also handle sample sizes as large as 2000. For this reason, the researcher used the Shapiro-Wilk test as numerical means of assessing normality. If the significant value of the Shapiro-Wilk Test is greater the 0.05, then the data is normal. If it is below 0.05 then the data significantly deviate from a normal distribution.

Based on the Shapiro-Wilk test, significant value for variable information sharing is 0.357 and significant value for variable training and development is 0.007 which is can be conclude that data for information sharing is normal and data for training and development is significantly deviate from a normal distribution.

This study found that the coefficient alpha values for all the measured variables were all above 0.5. The Cronbach's Alpha values are ranging from 0.658 to 0.756 fulfil the minimum requirement of reliability. It implies that the measurements used are good and reliable. The findings also indicate that all the questionnaires scales score has adequate internal consistency reliability.

Summary Statistics of Survey Respondents

The demographic profile of the respondents is presented in Table 1. The number of female respondents was more than the male respondents. There were 71.1% females as compared to 28.9% males in this sample. The male respondents outnumbered female by 41.2%. Majority of the respondents that represented 39.5 percent were between 31 to 40 years old. This was followed by 28.9 percent who fell within the age 20 to 30 years old. Another age group of 41 to 50 years old represented 21.1 percent of the respondents. In terms of marital status, majority of the respondents that is 84.2 percent were married, and the rest were single. With regards to education level, majority of the

respondents had secondary education representing 63.2 percent. Table 1 also indicates that the highest numbers of respondents establish their organization between the years 2011 to 2015 represented 31.6 percent. 39.5 percent of the respondents earn profits between RM2501 to RM5000 every month. Most of the organization represent 84.2 percent were sole proprietorship company, and 15.8 percent were partnership. Table 1 also indicates that 92.1 percent respondents have less than ten (10) full-time workers.

Table 1:
Demographic Profile of Respondents

	Variable	Value Description	Frequency	Valid Percentage (%)
1	**Gender**	Male	11	28.9
		Female	27	71.1
		Total	**38**	**100.0**
2	**Age (years)**	20-30	11	28.9
		31-40	15	39.5
		41-50	8	21.1
		51-60	3	7.9
		Above 60	1	2.6
		Total	**38**	**100.0**
3	**Marital status**	Married	32	84.2
		Single	6	15.8
		Total	**38**	**100.0**
4	**Education level**	Primary School	1	2.6
		Secondary School	24	63.2
		Certificated	4	10.5
		Diploma	4	10.5
		Bachelor Degree	5	13.2
		Total	**38**	**100.0**
5	**Estimate profit**	Below RM2,500	12	31.6
		RM2,501- RM5,000	15	39.5
		RM5,001 – RM7,500	3	7.9
		RM7,501-	5	13.2
		RM15,001 –	0	0.0
		Above RM20000	2	5.3
		Total	**38**	**100.0**
6	**Year of establishment**	Less than 1990	4	10.5
		1991 – 1995	1	2.6
		1996 – 2000	8	21.1
		2001 – 2005	4	10.5
		2006 – 2010	9	23.7
		2011 – 2015	12	31.6
		Total	**38**	**100.0**
7	**Form of business**	Sole Proprietorship	32	84.2
		Partnership	6	15.8
		Total	**38**	**100.0**
8	**Full time worker**	Less than 5	18	47.4
		6 – 10	17	44.7
		11 – 15	0	0.0
		16 – 20	1	2.6
		More than 20	2	5.3
		Total	**38**	**100**

Table 2:
Descriptive Statistics for Information Sharing

	Mean	Std. Deviation
Our employees know well our objectives and strategy	3.9737	.49248
We inform personnel about their performance	4.0789	.48666
Company analyzes past failures and informs the employee to take lessons.	4.1842	.56258
Not all the information can be shared with employees.	4.1579	.82286
I share the secrets of cooking / recipes to produce a product with my employees.	3.8947	.98061
My company has strict policies relating to the sharing of information with outsiders.	3.8684	.93494
We inform personnel about their duties and responsibilities every day.	3.9211	.94101
Our customers know well product/menu that we are offered. Valid N (listwise)	4.3947	.49536

Table 2 indicates the result for information sharing. It shows that the respondents feel that their customer know well about their product or menu that they're offered with the highest mean of 4.39 (SD = .49536). Information sharing in determine company profitability can also be seen when respondents always analyzes past failure and informs the employee to take lessons with mean of 4.18 (SD = .562).

Table 3:
Descriptive Statistics for Training and Development

	Mean	Std. Deviation
We systematically train and develop our personnel	4.0000	.56949
Each employee should be provided with specific expertise in business operations.	4.1053	.60580
We train employees to gain many skills and abilities	4.1842	.56258
Our company have adequate budget for employee training.	3.6579	.78072
We satisfied with the results of employee training programs.	3.8158	.69185
Our company has strategies to train employees.	4.0000	.46499
I always undergo training/ programs organized by government agencies.	3.6579	.90871
I often send my employees to undergo training / programs organized by the government agencies.	3.3158	1.01623
We used own expertise/experience to train new employees.	4.0526	.69544
We set a time frame for all training given to new employees.	3.5526	.82846
We evaluate the effectiveness of training through customer feedback Valid N (listwise)	4.1842	.56258

Table 3 shows the result for training and development. Respondents train their employees to gain many skills and abilities and evaluate the effectiveness of training through customer feedback shows the highest mean of 4.18 (SD = .562). It was followed by the respondents fell that each employee should be provided with specific

expertise in business operation with the mean of 4.10 (SD = .605). The lowest mean shown by respondents often send their employees to undergo training/courses or programs organized by the government agencies with mean of 3.31 (SD = 1.01).

Correlation Analysis and Hypotheses Testing

Correlation analysis was carried out to test the relationship between the identified variables. This section analyses the relationship between the following variables:
1. The relationship between information sharing and firm performance.
2. The relationship between training development and firm performance.

These tests are performed using Pearson Correlation tests. Pearson correlation coefficients (r) can take on only values from -1 to +1. The in front of the values indicates whether there is positive correlation (as one variable increase, so does the other) or a negative correlation (as one variable increases, the other decrease). The sign of the absolute value (ignoring the sign) provides an indication of the strength of the relationship. A correlation of 0 indicates no relationship between the two variables. According to Cohen (1988), the strength of the relationship is low when Pearson Correlation coefficient (r) ranges from 0.1 to 0.29 or -0.1 to -0.29; medium when (r) ranges from 0.3 to 0.49 or -0.3 to -0.49 and high when (r) ranges from 0.5 to 1 or -0.5 to -1. The results of the Pearson Correlation analysis are shown in the Table 4.

Table 4:
Pearson Correlation Analysis

Variables	Information Sharing	Training and Development	Firm Performance
Information Sharing	1.00		
Training and Development	0.287	1.00	
Firm Performance	0.254	0.036	1.00

From the Table 4, there are statistical significant relationships among all the variables. The relationship with low strength are between information sharing and training and development (r = 0.287) and information sharing and firm performance (r = 0.254). The relationship with the lowest strength is between training and development and firm performance (r = 0.036). According to the result above, we can conclude that relationship between information sharing; training and development with firm performance is low strength and no significant relationship.

V. DISCUSSION AND CONCLUSION

This research paper tested two HR practices namely; training and development and information sharing and their relationship on firm performance. A weak relationship is found between both HR practices and firm performances. Our conclusions presume that SMEs yet not properly implemented HR practices in their firm effectively. It is in line with the study done by Daud and Mohamad (2010) who found that most of Malaysian SMEs does not adopted HR practices because they're using an informal approach in managing their human resources. Moreover, company

size is associated with the implementation of formal HR practices and the use of HR practices is relatively fewer in a smaller firm compare to large firm (Zakaria et al, 2011; De Kok & Uhlaner, 2001).

Therefore, this study contributed to the HRM literature related to research conducted by Jameson (2000) who prove that training in small firm tend to implement informal training due to the size of firm. Besides, this research is align with a study conducted by Storey (2014), who identified that learning process in small firm typically occurs through experience, not through formal training program. He found that learning through experience may establish more successful business. This is also supported by Zakaria (2013) who found that most of the SMEs do not implement HR practices effectively in their business. Moreover, she also encourages SMEs to involve in innovation in order to create competitive advantage and increase organization performance.

VI. LIMITATION AND RECOMMANDATION

There are also some limitations and future research directions in this study. One obvious limitation was that the sample is small due to the time constraints. Due to the limited sample of SMEs from the food industry, the findings here must be considered with attention. It is recommended that research using a larger sample needs to be done by future researchers to obtain a more accurate findings. Future research can be done on the larger sample of SMEs food industry also in others industry.

Furthermore, future researchers might include additional factors of HR practices that may influence SMEs performance. Many other factors such as environment, culture, organizational infrastructure and strategy may influence the firm performance (Rody & Stearns, 2013). Therefore, it may not be possible to completely generalize the findings of this study. For future research, it is recommended that researchers look deeper into the measurement of firm performance that is it could also be enhanced to measure the financial and non-financial performance. It would also be useful to examine the effect of HR practices to the other types of industry in Malaysia. Future researchers may also consider including any other moderator variable that may strengthen the relationship between HR practices and firm performance.

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