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**THE INFLUENCE OF HUMAN RESOURCE PRACTICES ON
ORGANIZATIONAL PERFORMANCE: A STUDY AMONG SMALL AND
MEDIUM ENTERPRISES IN KLANG VALLEY**

A project paper submitted to the College of Business
in partial fulfillment of the requirements for the degree of
Master of Human Resource Management
Universiti Utara Malaysia

By:

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DECLARATION

I declare that this research titled “The influence of Human Resource Practices on Organizational Performance: A Study among Small and Medium Enterprises in Klang Valley” is a result of my own research where the information obtained and are presented in accordance with academic rules and ethical conduct. This research has never been submitted for any undergraduate or postgraduate program and qualification.

I certify that all the supports and assistance received in preparing this thesis and all the sources abstracted have been acknowledged.

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ABSTRACT

This study was undertaken to examine the relationships between human resource (HR) practices and organizational performance among small and medium enterprises (SMEs) in Klang Valley. The objectives of the study was to investigate the relationship between HR practices namely compensation policy, communication, information sharing, training and development towards organizational performance. Based on the literature reviews a model of relationship was proposed and developed to examine the relationships between the four factors of HR practices. To examine the relationship of the variables in the model, data from 84 respondents among SMEs in Klang Valley were used. To test the hypotheses of the study, correlation, and multiple regression analysis were performed.

The correlation analysis suggested a significant and positive relationship among two of the four HR practices variables and organizational performance. The correlation results suggest that organizational performance is positively and significantly associated with communication and information sharing.

Multiple regression analysis result indicated that among the four factors of HR practices, communication and information sharing were the two main predictor variables to organizational performance. Results from correlation and multiple regression analysis further suggested that communication and information sharing are two key variables to organizational performance in Klang Valley.

Based on the findings, recommendation and suggestions for organization are presented. The limitation of the study and the future research opportunities in this area are also discussed.

ABSTRAK

Kajian ini mengkaji hubungan di antara amalan-amalan sumber manusia iaitu polisi pampasan, komunikasi, perkongsian maklumat, latihan dan pembangunan dengan prestasi organisasi. Berdasarkan kesusasteraan yang terdahulu, satu model hubungan telah dicadangkan dan dihasilkan untuk mengkaji hubungan antara empat faktor bagi amalan-amalan sumber manusia dan prestasi organisasi. Bagi menguji hubungan pembolehubah-pembolehubah di dalam model ini, data daripada 84 orang responden diantara perniagaan kecil dan sederhana di Lembah Klang telah digunakan. Analisis korelasi dan regresi berganda telah dijalankan bagi menguji hipotesis-hipotesis kajian.

Analisis korelasi itu telah mencadangkan satu hubungan yang signifikan dan positif antara dua daripada empat pembolehubah amalan-amalan sumber manusia dengan prestasi organisasi. Keputusan dari korelasi mencadangkan bahawa prestasi organisasi itu adalah positif dan nyata berkait rapat dengan komunikasi dan perkongsian maklumat.

Keputusan regresi berganda menunjukkan bahawa antara empat faktor bagi amalan-amalan sumber manusia, komunikasi dan perkongsian maklumat adalah dua pembolehubah utama yang mempengaruhi prestasi organisasi. Keputusan dari analisis korelasi dan regresi berganda mencadangkan bahawa komunikasi dan perkongsian maklumat adalah dua kunci pembolehubah untuk prestasi organisasi di Lembah Klang.

Berdasarkan hasil kajian, cadangan-cadangan dan dikemukakan untuk organisasi. Selain daripada itu, had batasan terhadap kajian ini dan kajian seterusnya di masa akan datang di dalam bidang ini juga turut dibincangkan.

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CHAPTER 1

INTRODUCTION

1.1 Background

According to Rowley and Abdul-Rahman (2007) that it still remain critical to organizations and economies on the importance of human resources (HR) and their management. Despite the emphasis often given to multinational companies (MNC), locally-owned companies (LOC) also retain their importance. For example, it is argued that HR management (HRM) is increasingly crucial for organizations (Pfeffer, 1994; Jackson & Schuler, 2000; Barney, 1991). HR can also contribute to the success of countries (Pieper, 1990). Furthermore, HR is seen as the foremost intangible asset which composes an organization's core competence and crucial to solving organizational problems and increasing performance.

Based on Wikipedia, Human resources (HR) is a term used to refer to how people are managed by organizations. The field has moved from a traditionally administrative function to a strategic one that recognizes the link between talented and engaged people and organizational success (Teagarden & Glinow, 1997). While Human Resources Management (HRM) practices can be defined as a process of “developing, applying and evaluating policies, procedures, methods and programs relating to the individual in the organization” (Miner & Crane, 1995). HRM is a highly dynamic process where environmental forces continually make an effect on all

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