



## Testing the Convergence Theory in the Malaysian Electrical and Electronic Manufacturing Sector

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### ABSTRACT

*The convergence theory proposed that due to globalization certain practices will be adopted and implemented by firms worldwide regardless of their location. The study investigates the proposition that strategic HRM practices adopted by the manufacturing firms in Malaysia will bear similarities to those implemented by the multinational corporations (MNCs). The results indicated support for the convergence theory, revealing similarities in the strategic HRM practices adopted despite the different country of origins of the firms.*

**Keywords:** Convergence theory, strategic HRM practices, manufacturing firms.

### 1. INTRODUCTION

Firms competing in the global environment face a multitude of new demands, in the forms of external and internal pressures, on their organization and people, often being pushed simultaneously into several contradictory directions. In response, the new global organizing paradigm is centered on complementarities and management process. Firms must be able to transform themselves into a global organization with a fluid and evolving dynamic network, which moves away from traditional and static structural solutions to global business challenges. Firms must embrace global integration and coordination to survive and prosper in the new global competition but at the same time must strive for local flexibility and speed. Firms have to nurture global organizational learning by stimulating creativity, innovation and free flow of ideas but also advocate a disciplined and methodical approach to continuous improvement. Succeeding in a global economy requires not only an open and empowered organizational climate, but also a tightly focused competitive culture (Pucik, 1996; Sieh, 2000; Shahid, 2001).

Naturally, the question that arises is how firms can face the competitive threats posed by globalization. The premise of this paper is that human resources are one of the most important factors providing flexibility and adaptability to organizations. As noted by Rundle (1997) people are the adaptive mechanism in

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determining how they will respond to competitive environment. Khatri (1999) opined that strategic human resource management has emerged mainly in the recognition of the fact that human resources need to be managed strategically for the firm to enjoy sustainable competitive advantage over competition. Therefore, the central theme of this paper is the strategic deployment of a highly skilled, knowledgeable and capable workforce to achieve competitive advantage and meet organizational goals.

Bae and Rowley (2001) noted that the impacts of globalization on HRM assert itself via the opening up and penetration of economies to external forces and influences. This may occur through exposure to other countries' HRM practices and direct importation of such practices by indigenous and foreign multinational corporations (MNC). Globalization's universalizing tendencies and implications implied "universal truths" that certain practices, including those of HRM, could be applied in any location. A central proposition is that because of political, economic, social and technological forces, brought about by globalization, there is a worldwide tendency for countries and within them HRM, to become similar as the copying and transfer of practices was encouraged. In other words, HRM practices would converge. According to McKinley, Sanchez and Schick (1995) and Thompson and Heron (2005) practices are adopted because of three specific social forces; first, constraining forces, which shift as practices once viewed as negative become interpreted positively and gain legitimacy. Second, cloning forces which pressurize firms to mimic the actions of leading companies in the face of uncertainty and third, learning forces which are shaped through processes in educational institutions and professional associations.

Globalization has changed the dynamics of traditional HRM by stressing on the aspects of commitment, flexibility, quality and strategic alignment (Perkins, 2003). Therefore the challenges facing HRM are: the development of a global mindset inside the organizations' human resources, that is the understanding of the new global competitive environment and how it affects organizations; the alignment of human resource practices and processes with the strategic needs of the firm; and enhancement of competencies and capabilities within the human resources function (Pucik, 1996; Von Glinow, Drost & Teagarden, 2002). Therein lay the role of strategic human resource management, which is to extract the maximum value out of human resources and the key factor that allows firm to succeed in doing just that is the proper motivation of employees through perfectly designed organizational structure and a focused approach.

## **2. OBJECTIVE OF THE STUDY**

The main objective of the study is investigate whether the implementation of SHRM practices in the electrical and electronics manufacturing sector in Malaysia is influenced by internal organizational factors such as the firms'

country of origin, age and size. The rationale behind this investigation is that in order firms to compete and survive in a globalized economy, the firms must be able to develop and retain their human resource talent and the implementation of SHRM practices will provide the firms with such opportunity.

### **3. LITERATURE REVIEW**

A through review of the literature is conducted addressing the relationship between country of origin, firms' age, firm size and SHRM practices. Prior research in organization theory has found that an organization's characteristics can influence its environment, strategy, and structure (Aldrich & Auster, 1986). In particular, firm size and age have been found to be especially important factors in shaping managerial cognition and decision-making (Evans, 1987; Freeman et al., 1983; Haveman, 1993; Kimberly, 1976; Shinkle & Kriauciunas, 2010). Firm age, on the other hand, reflects organizational legitimacy and institutional relationships (Park & Luo, 2001). Older firms are more entrenched in traditions and routines than younger ones, influencing executives' beliefs and attitudes toward change and novel situations (Fichman & Levinthal, 1991; Henderson, 1999). Since organizational characteristics affect senior-level executives' perceptions of the external environment (Sutcliffe & Huber, 1998) and strategic decision-making process (Fredrickson & Iaquinto, 1989; Mintzberg, 1973; Papadakis, Lioukas, & Chambers, 1998), therefore the paper argues that the firms implementation of strategic HRM practices will be shaped by firm characteristics among other factors by organizational characteristics such as firms' country of origin, firm age and firm size.

#### **3.1 Country of Origin**

A number of studies have noted the influence of national differences on SHRM choice and practices of multinational companies (MNC) in overseas subsidiaries. Zhang and Edwards (2003) in their study on Chinese MNCs in UK, found that SHRM choice and practice exhibits obvious characteristics of country of origins and despite arguments that HRM in MNCs is moving toward globalization or convergence, the fact there is evidence that the country of origin effects suggest that there may be limit to adoption of certain HR strategy and practice.

Porter's (1985) notion of the "competitive advantage of nations" implies that the success of international companies springs from the characteristics of their national resource bases. Ruigrok and van Tulder (1995) argued that on several dimensions MNCs exhibit national characteristics, even when the home base does not account for the bulk of sales, operations and employment, the home nation is almost always the primary locus of ownership and control, in other words, strategic decisions and innovative activities are still disproportionately located in the home country.

Dissemination by MNCs of practices in areas such as HRM has been described by Streeck (1991) as “regime competition”, his concern has been primarily whether weakly regulated systems would attract potential capital away from those with better employee protection. However such notions have been dispelled by Ferner (1997) who questioned whether MNCs from strong regulatory systems actually adopt and export the practices of their parent country and whether this gives them a competitive advantage in the host country where they operate. If so, they may actually form a conduit for the export of elements of a more highly regulated HR regime with more permissive systems.

There is a relatively small body of research pointing to the systematic differences in the ways which MNCs of different nationalities manage their human resources. A number of generalizations emerge from such studies and they provide substantive support for the notion that nationality is a significant determinant of MNC behavior. A series of studies has found U.S. MNCs to be relatively centralized and formalized in their HRM; their headquarters set or influence policy in wage systems, collective bargaining, union recognition, welfare and training policies (for example; Hamill, 1984; Negandhi, 1986; Bartlett & Goshal, 1989; Yuen & Hui, 1993). Enderwick (1985) suggested that US firms have been consistent innovators in industrial relations, by introducing productivity bargaining into Britain in 1960s along with fixed- term agreements.

U.S. styles of multinational HRM have typically been contrasted with Japanese and European style. Yuen and Hui (1993), in their comparison of U.S. and Japan MNCs in Singapore focused on the differences in the personnel function of the two home- country business cultures. In the American model, Yuen and Hui (1993) found that the labour management in US firms is posited on an “economic-contractual” model of hiring and firing, market determined wages, high labor mobility and they have been found to be antagonistic towards unions (Edwards & Ferner, 2002). Indicating that HRM has largely evolved into bureaucracies applying formalized and standardized personnel policies. In contrast, the Japanese model of HRM is a “human capital” model, based on “multidimensional employment relations” with focus on social and economic aspects, the predominance of internal labor markets and a consequent concern with recruitment, selection, training and development. These characteristics have been reflected in the behavior of Japanese MNCs in Singapore (Ferner, 1997). According to Brewster (1995) citing Thurley and Wirdenius (1991) stated that European model has the following characteristics: reflects key values such as pluralism and tolerance especially towards union and workers’ representation and is associated with balanced stakeholder philosophy and the concept of social partners.

Tregaskis (1998) in her study of MNCs operating in UK, found that the implementation of HRM practices in the subsidiaries depend very much on the country of origin of the firms. Thereby confirming the earlier findings by

Brewster and Bournois (1991) and Rosenzweig and Nohria (1994) where significant differences between nations in their HRM practices were found and this factor even influenced how their multinational corporations implement their HRM in host countries.

The implications for the research presented by the arguments above clarifies that one can expect that MNCs will strongly exhibit the impact of their country of origins and this will affect in the implementation of a strategic human resource management.

Thus based on the above review this hypothesis is generated:

H1: There is significant difference in the implementation of SHRM practices according to the firms' country of origin.

### **3.2 Firms' Age**

Scholars have argued that as firms move through various stages of development, differing problems must be addressed, resulting in the need for different management skills, priorities and structural configurations (Kimberly & Miles, 1980; Kazanjian, 1988; Smith, Mitchell & Summer, 1985). Commitment HR systems may be more important in the early stages of business development and as the business grows, more employees need to be recruited and control or traditional HR systems becomes more important. Since younger firms tend to be in an earlier stage of development than older firms, firm age may be of an influence on the orientation and implementation of commitment HR systems (Verheul, 2004). Organizational life cycle theory assumes that firms go through a sequence of growth and change, with the process driven by organizational learning and increases in size which is related to a firm aging, which also applies to HRM practices. New firms must work with the resources available and to succeed they must be able to react and mobilize whatever resources available depending on the various personal, organizational and environmental conditions (Aldrich & Langton, 1997).

Welbourne (1998) in her survey of public listed firms found that firms implementing administrative or traditional HRM tend to be older and unionized. Fields et al. (2000) stated that older firms were more likely to nurture and retain managers whose organizational knowledge accounts for growth. Verheul (2004) found that firm's age does not influence the orientation of the type of HRM practices implemented in a firm.

Based on the abovementioned review, this hypothesis is generated:

H2: There is significant difference in the implementation of SHRM practices according to the firms' age.

### **3.3 Firm Size**

The influence of firm size on HR practices is well documented in theoretical and empirical studies. For example, institutional theory suggests that larger organizations should adopt more sophisticated and socially responsive HR practices because they are more visible and are under more pressure to gain legitimacy. However, economic considerations suggest that because of the costs associated with many aspects of HRM, acceptable economies of scale must be reached before sophisticated HRM systems can be implemented (Bawa, 2001). Jackson and Schuler (1995) in their review of HR literatures, presented evidence to show HR practices varies systematically with firm size. Ng and Maki (1993) in a study conducted in Canada found that larger firms are more likely to have the resources to employ human resources professionals, who may be more aware of the latest trend in managing human resources. Wagar (1998) examined 10 HR practices and found that firm size is a major determinant of the extent of adopting a number of formal appraisal systems and the presence of an HR Industrial Relations department.

However, studies by Golhar and Deshpande (1997) in Canada did not find any differences between small and large firms in terms of the HR practices that they adopt. Similarly, Dessler and Turner (1991) found that large and small firms in Canada are equally committed to employee growth career growth and development. Golhar and Deshpande (1997) reasoned that the adoption of new production philosophies such just- in- time (JIT) and total quality management (TQM) may have forced small manufacturing firm to address HRM issues. According to Fields, Chan and Akhtar (2000) size is related to the type of HRM strategy implemented as they found that larger firms in Hong Kong have more complete and sophisticated human resource systems as they have more workers to control, therefore the firms were able to spread the costs over more employees and have to be more image conscious due to their higher visibility.

Based on the abovementioned review, this hypothesis is generated:

H3: There is significant difference in the implementation of SHRM practices according to the firm size.

## **4. METHODOLOGY**

This study's research methodology comprises the information on the research design, sampling, and measurement of research variables.

### **4.1 Research Design**

According to Cutcher-Gershenfeld, (1991) SHRM practices should be measured as a combination of practices in a bundle, rather than individual practices. Furthermore a research that focuses on the impact of individual HR practices may produce misleading results, with a single practice capturing the effect of the entire HR system (Wan, Ong & Kok, 2000). According to Barnard and Rodgers (2000) some of the most prominent theoretical and empirical literature published in recent years suggested that the organization need to bundle together the appropriate combinations of HRM practices to realize the synergistic effects that follow from the interactions among complementary practices.

Thus, the study utilized SHRM practices scales that will be measured as a single set of combined practices. SHRM practices are measured from items derived from Delery and Doty (1996), Bae and Lawler (2000) and Huselid et al. (1997). The variable of SHRM practices was designed to tap into the employee involvement/ empowerment construct as recommended by Lawler's (1986) and Pfeffer's (1998) conceptualization of SHRM, where, the practices are considered to be strategic because the variable contains these elements: power sharing, shared communications, enhancement of knowledge and rewards. This measure examines the extent of SHRM practices are implemented in the manufacturing firms. The SHRM practices items include: team-based work, workforce flexibility, internal career opportunities, employment security, employee participation, training and development, performance- based pay, empowerment, profit sharing, performance appraisal and employee relations.

Internal career opportunities, training and development, employment security, performance appraisal, employee participation and profit sharing were derived from Delery and Doty (1997). Performance- based pay and empowerment were derived from Bae and Lawler (2000). Workforce flexibility and employee relations were derived from Huselid et al. (1997). This measure requires the HR manager to state the extent these HR practices were being implemented in the particular firms. Responses is measured on a five point Likert scale ranging from 1= never to 5= always.

Team-based work contains these items: team members are responsible for work preparation, work support and work control; members shared goals and values of the teams and target are set by team members.

Workforce flexibility is the degree of flexibility in deploying employees across different task and applying a variety of skills, the items are: deployment of employees across job boundaries; competencies of employees; employees' assigned different tasks whenever necessary; willingness of employees to take up different job and firms require employees to do many different tasks, using variety of skills.

Internal career opportunities refer to the extent the firm provides internal career opportunities. The items are: employees have clear career paths within the organization; employees have very little future in the firm (reverse coding); supervisors aware of employees' career aspirations and more than one position available for employees to gain promotion.

Employment security was conceptualized as to the degree which an employee could expect to stay in his or her job. The items are: employee can stay in the organization as long as they wish; difficult to dismiss an employee; guarantee of job security; retrenchment as he last option in case of economic problem.

Employee participation is defined as the degree to which employees were allowed to give input about their work. The items are: employees are allowed to make many decisions; employee participates in decision-making; employee provided opportunity to suggest about improvement; open communication between supervisors and employees.

Training and development is made up of these items: new employees receive formal training programs; firm conducts training needs analysis; firm conducts cost-benefit analysis to assess effectiveness of training programs; evaluation of training programs to determine objectives are met.

Performance-based pay is the degree in which performance is related to monetary compensation. The items are: earnings of employee are determined by job performance; range in pay is wide among employees; pay is closely tied to individual or group performance; promotion is based on seniority (reverse coding).

Measurement of empowerment contains: employees allowed using personal initiative to perform their work; employees extensively involved in problem solving exercises in relation to their jobs; employees permitted to decide on how to do their work; equality between management and employees.

Profit sharing was asked with a single item that asked the extent to which the employees receive bonuses based on the firms' profit.

Performance appraisal is defined as the degree to which performance appraisal is focused result/ output. The items are: performance is measured with objective quantifiable results; performance appraisals are based on objective, quantifiable results.

Employee relation is measured by these items: cooperation between union and management; union and management respect each others' goals; management seeks input from union to implement changes; prompt settlement of grievances.



The questionnaire also contains five items to indicate demographic information of the firms, which includes home country origin of the firm, the duration the company has been established and number of employees.

A number of studies have found that the implementation of HR practices in firms depends very much on the country of origin of the firms (Zhang & Edwards, 2003; Yuen & Hui, 1993; Tregaskis, 1998). In this section firms were required to indicate their country of origin, the countries were coded as a= United States, b= European Union, c= Japan, d= South Korea, e= Taiwan and f= Malaysia. The categorization was adapted from Bae, Chen and Lawler (1998) and Wan et al. (2002) with Malaysia added as the host country.

Consistent with previous studies in this area, the respondents were required to indicate their total workforce based on five items coded as, a= 100 or less, b= 101 to 300, c= 301 to 500, d= 501 to 1000 and e= more than 1000. The categorization of this variable was adopted from Rozhan (1998).

Respondents were required to indicate the number of years their firms have been in operation, the scale ranged from a= less than 1 year, b= more than 1 year less than 5 years, c= more than 5 years less than 10 years, d= more than 10 years less than 15 years and e= more than 15 years.

## **4.2 Sampling and Data Collection**

In order to meet the representativeness criteria of a good sample collection, the questionnaires for the study were posted to all 700 companies in the electrical and electronics manufacturing sector. The database for the population was derived from the Federation of Malaysian Manufacturers-MATRADE (Malaysia External Trade Development Corporation) Electrical and Electronics Industry Directory. This study is conducted in a single industry and the database is based on the MATRADE directory, specifically because it has the most comprehensive industry coverage and an updated list.

## **5. FINDINGS**

There are two parts in the data analysis. First part is descriptive analysis which is based on demography information of the respondents; the second part is the analysis of the effects between the organizational context variables and SHRM using one-way ANOVA.

### **5.1. Descriptive Analysis**

From the 700 questionnaires distributed to electrical and electronics manufacturing firms in Malaysia, 121 completed questionnaires were returned

representing a response of 17.2 %. Table I summarizes the information pertaining to the profile of the firms that responded. This response rate was no different from several other surveys conducted in Malaysia, which tend to obtain a response rate of 15- 25 per cent (for example Sarachek & Aziz, 1983; Rozhan, 1991; Hazman, 1998; Kanapathy & Jabnoun, 1998; Rozhan, Rohayu & Rasidah, 2001). A total of 51.2 % are Malaysian firms, 23.1% are Japanese firms, 10.7% are firms from the European Union, 8.3% firms are from the United States of America, 5% of the firms are from Taiwan and 1.2 % of the firms are South Korean firms. As for firm’s age distribution, the majority of the firms (31.4%) have been operating more than 5 years and less than 10 years, while 13.2 % have been established more than 1 year and less than 5 years. With regards to firm size, 28.9% of the firms have less than 100 employees in their employment and 17.4 % of the firms have both between 501-100 employees or more than 1000 employees.

Table 1: Demographic of Firms

		Frequencies	%
Country of origin	United States	10	8.3
	European Union	13	10.7
	Japan	28	23.1
	South Korea	2	1.7
	Taiwan	6	5.0
	Malaysia	62	51.2
Firm’s Age	More than 1 less than 5 years	16	13.2
	More than 5 less than 10 years	38	31.4
	More than 10 less than 15 years	35	28.9
	More than 15 years	32	26.4
Firms’ size	100 or less	35	28.9
	101 to 300	21	17.4
	301 to 500	18	14.9
	501 to 1000	26	21.5
	More than 1000	21	17.4

The composite score were categorized into three class intervals of low, moderate and high with equal width based on the formulation by Bryman and Cramer (1996), as stated below:

$$WCI = \frac{(HPCS) - (LPCS)}{3}$$

WCI: Width of composite index

HPCS: Highest possible composite score

LPCS: Lowest possible composite score

Table 2: Level of SHRM

Level of SHRM	Frequency	Percent
Low (92 & less)	-	-
Moderate(93- 145)	87	71.9
High (146- 200)	34	28.1
Total	121	100

In accordance with the ratings of below 3 as low, 3- 4 as moderate and 5 as high, to indicate the level SHRM practices implemented in the firms. The result table II indicates that the levels of SHRM practices implemented in the firms is moderate (71.9 %) and high (28.1%). This indicates that SHRM practices are implemented in the electrical and electronics manufacturing firms operating in Malaysia.

## 5.2. Data Analysis

Table 3: One-way ANOVA for Country of Origin, Firms' Age & Firms' Size

Variables	P Value		
	Country of Origin	Firms' Age	Firms' size
Strategic HRM	0.530	0.205	0.018*

Table III shows that only firms' size is significantly different in the implementation of SHRM practices in the firms at P value (0.018), thus H1 is accepted meaning that there is significant difference in the deployment of SHRM practices according to firms' size. By referring to the multiple comparison output, Tukey's statistic indicates that the significance (0.001) occurs at the group of 101 to 300 employees. Meanwhile H2 and H3 are rejected as the results show that for both variable of country of origin and firms' age, there are no significant differences in the deployment of SHRM practices in the firms.

## CONCLUSION

One possible explanation for the result is perhaps that firms both local and foreign have realized the effectiveness of having HR practices that will increase knowledge, skill and ability of employees, in an uncertain market environment brought about by globalization. The result, while inconsistent with a majority of prior studies, such as Bartlett & Goshal (1989), Yuen & Hui (1993), Edwards & Ferner (2002), Tregaskis (1998) and Rosenzweig & Nohria (1994); may provide an indication that due to the adoption and implementation of progressive HR

practices by foreign firms, local firms were pressured into adopting such practices in order to remain competitive. Bae and Rowley (2001) defined this scenario as convergence of HRM practices, where, due to political, economic, social and technological forces brought about by globalization there is a tendency for HRM practices to become similar due to copying and transfer of practices. DiMaggio and Powell (1983) used institutional theory to explain this phenomenon and suggested three mechanisms of isomorphic change that could have encouraged this convergence: first, coercive isomorphism or constraining forces, which shift as practices once viewed negatively become interpreted positively and gain legitimacy. Secondly, mimetic isomorphism or cloning forces, which pressurize firms to mimic the action of leading companies in the face of uncertainty. Thirdly, normative isomorphism or learning forces, which are shaped through processes in educational institutions and professional associations. Together these forces push firms to adopt certain HRM practices. Geary and Roche (2001) termed this HRM convergence as the “spill-over” effect, where the introduction of progressive HRM practices by foreign firms encouraged local firms to experiment with and implement such progressive practices in order to survive the uncertainty in the market environment.

The influence of firm age in implementing SHRM practices to influence was not significant. This finding implies that firm age or life cycles stage does not constrain or inhibit the implementation of SHRM practices; in other words firms regardless of their age, whether at growth stage or mature stage have the capabilities to implement SHRM practices. While life-cycle theory indicated that firms at different stages will implement different types of practices to address different problems (Aldrich & Langton, 1997; Verheul, 2004); Eggers, Leahy and Churchill (1994) stated that age alone does not indicate the firms’ ability to bring about organizational changes if the firms are not able to utilize their resources efficiently. This is supported by Huang and Cullen (2001) where it was found that the firms’ age was not related to the deployment of HRM practices to influence the organizational performance. Therefore, the reason for the non-significant result of this hypothesis could be attributed to firms, at the different stages of their organizational life cycle, have to implement SHRM practices in order to compete against each other and survive in a volatile and uncertain business environment.

The significance of firm size influence on the adoption of SHRM practices and firm implies that the implementation of SHRM practices differs between firms with different sizes. The result is complimentary to the previous findings by Ng and Maki (1993) and Wagar (1998). Possibly, firms of different sizes differs in the implementation of SHRM practices as larger firms could have more complete and sophisticated human resource systems compared to small firms, as large firms need to spread out their cost, higher level of control and image consciousness due to their higher visibility in society.

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