

THE STRATEGIC PARTNER ROLES THROUGH EMPLOYEE RELATIONS AND COMMUNICATION TO IMPROVE PERFORMANCE IN THE PERSPECTIVE OF MALAYSIAN SMES

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ABSTRACT

The issue of fitting human resource management practices to business strategy has become increasingly relevant over the few years and small and medium enterprises (SMEs) are no exception. Strategic human resource management (SHRM) has now come to be recognised as an inseparable part of a firm's competitive advantage. On the other hand, employee relations and communications are considered important human resource management (HRM) practices to ensure effective knowledge and information transfer from one person to another. Therefore, in the present study, we have made efforts to study the relationship between employee relations and communications and SMEs performance through the mediation roles of strategic partners. The conceptual framework for the present study adopted Ulrich's business partner role model as a mediator. Findings from the study conclude that employee relations and communications support performance when aligned with the roles of strategic partners. Based on the findings, this paper has valuable implications for both theory and in practice as it offers contributions both to SMEs and academics on the importance of effective employee relations and communication practices.

Keywords: SHRM, strategic partner, SMEs, HRM practices

1.0 INTRODUCTION

The concept of SHRM started to gain importance as researchers began to focus more on an integrated approach to understand how HRM practices can enhance performance (Para-Gonzalez *et al.*, 2019; Francis & Baum, 2018; Wright *et al.*, 2018). The SHRM concept is based on the view that HRM practices and firm performance are highly related to the changes in HRM itself to support the competitive value of firms (Wright & Ulrich, 2017). Currently, studies on HRM focus on exploring the direct or indirect relationships with firm performance (Roehl, 2019; Iqbal, 2019) using different approaches.

In Malaysia, SMEs dominate the country's economy by acting as the main contributors in providing job opportunities (Masnan *et al.*, 2018). SMEs are viewed as the backbones of an economic system of a country as they generate employment, increase income levels, and contribute to the gross domestic product (GDP) (Shahzad *et al.*, 2019). This is in line with the Malaysian government's view in the 12th Malaysia Plan (2021-2025) where Malaysian SMEs need to have an effective HRM strategy to improve performance (Ministry of Economic Affairs [MEA], 2019). For example, the Malaysian government conducted SME development

programmes across all economic sectors to support and expand the Malaysian economy. This reflected the government's effort on raising the national economic growth through SMEs and at the same time for SMEs to utilise the full potential of human resources available in Malaysia.

Based on the above-mentioned facts, examining HRM practices in the context of SMEs and its relationship to firm performance is currently relevant. Another important factor to support the relationship between HRM practices and firm performance is the key role of SHRM. Hence, this study investigates the relationship between employee relations and communications and firm performance through strategic partners, and whether or not there is link between these variables.

2.0 LITERATURE REVIEW

Despite robust evidence to support the importance of HRM practices in firm performance (Escriba-Carda *et al.*, 2017; Osei *et al.*, 2019), a review of extant literature reveals that past studies have focused more on large organisations and overlooked the contribution of HRM practices in the context of SMEs (Bai *et al.*, 2017; Shahzad *et al.*, 2019). More specifically, the available literatures on HRM practices in SMEs are still developing and considered insufficiently studied (Thierry *et al.*, 2018; Harney & Alkhalaf, 2020). In Malaysia, the study of HRM practices has been on large organisations (Othman *et al.*, 2015; Choi *et al.*, 2016). In addition, the extent of HRM theories in the context of SMEs is unclear, if not uncertain. Accordingly, the gaps in the existing empirical evidence relating to Malaysian SMEs need to be filled (Zakaria *et al.*, 2018; Prikshat *et al.*, 2016).

2.1 Strategic Partner Role

Regarding HRM, aside the continuous traditional administrative tasks that are performed, HRM has dramatically changed to become closely aligned to a firm's business strategy. Ulrich's HR Business Partner Role Model is one of the HRM models that suggests HRM ability in delivering and achieving organisational success (Ulrich & Brockbank, 2005). One of the HR roles is the strategic partner. The strategic partner role is viewed as an important HR role responsible for working with line managers to achieve goals. This is done via aligning business strategy and development by diagnosing the organisation's potential and performance using HR tools (Ulrich & Eichinger, 1998).

According to Ulrich and Brockbank (2005), the role of a strategic partner is based on the ability of a firm to blend in the HRM activities with the corporate strategies. Basically, the strategic partner is separated into three roles. First, as a reactive advocate, where the role focuses on the accuracy or preciseness of the strategy and the ability of the firm to make it happen. Second, to play an active role in crafting strategies based on the knowledge of HRM practices and to explore how corporate resources may be aligned to their goals. Third, helping to raise the standards of strategic thinking for the management team. As such, by focusing on these three responsibilities, the strategic partner role is responsible as catalyser between HRM activities and business strategy.

2.2 Employee Relations and Communications

Since HRM practices are viewed as instrumentals to managing, developing, and influencing employees, they become paramount both in academic and industrial view to align their employee management and integrate those practices with overall strategy to gain competitive advantage (Collins, 2021). One of the important practices in the HRM is the employee relations and communications (Ahmad *et al.*, 2019; Otoo, 2019; Zakaria *et al.*, 2018). Hans (2021) stated that employees are the central part of every organisation and "employees and their intellectual capital" is a resource that is valuable, non-substitutable, and helps in proffering a competitive advantage for an organisation. In addition, employee relations and

communications are viewed as an effective medium to achieve firm's goals as it promotes knowledge sharing (Kim, 2018).

2.3 Firm Performance

Most research in the HRM field has shown that HRM practices are positively ASSOCIATED with firm performance (Sabiou *et al.*, 2019; Garg, 2019). Researchers of HRM have categorised firm performance into three primary groups: financial, non-financial, and HR-related performance (Cristiani & Peiro, 2019; Edgar *et al.*, 2020).

2.3 Hypothesis Development

Despite the mounting evidence that supports the importance of HRM in firm performance, there is continuous criticism in which there is still lacking support for the direct linkage in the HRM and firm performance relationship. In addition, available HRM literatures are still debating on how HRM turns into strategic. Hence, a mediation effect of HR roles, namely the strategic partner roles was proposed to explain the SHRM function in the relationship of employee relations and communications to increase firm performance. Based on the explanation above, this study proposed:

H1: Strategic partner role mediates the relationship between employee relations and communications, and firm performance.

3.0 RESEARCH METHODOLOGY

This study applied quantitative method where it determines the association between variables through hypotheses testing. The respondents of the study consisted of 260 SMEs in Malaysia by using questionnaire survey and direct (walk-in) approach. Research instruments were adapted from various past research. For strategic partner, the research instrument was adapted from Conner & Ulrich (1996). For employee relations and communications, the research instrument was adopted from Triguero *et al.*, (2013) and Vanhala & Ahteela (2011). For firm performance, the research instrument was adopted from Bhatnagar & Sharma (2003) and Choi (2011).

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.

4.0 DATA ANALYSIS AND FINDINGS

SPSS software version 24 and SmartPLS version 3.2.9 were used for the data analysis. The relationship between the two variables was tested using the path coefficient and the correlation between two or more independent variables to dependent variables was tested using collinearity test. The mediating correlation between the variables was tested using PLS-SEM Variance Accounted For (VAF) method.

To establish convergent validity, outer loadings and AVE values were examined. Hair *et al.*, (2014) suggested the value for outer loadings should be greater than 0.70 and AVE value above 0.50. The reflective outer model analysis shows employee relations and communications outer loadings ranging from 0.762 to 0.831 for 6 items, with Cronbach Alpha of 0.887, composite reliability of 0.914 and AVE value 0.639. For the firm performance, the outer loadings for 7 items ranging from 0.748 to 0.873, with Cronbach Alpha of 0.936, composite reliability of 0.937, and AVE value 0.682. And for the strategic partner, the outer loading for 9 items ranging from 0.775 to 0.861, with Cronbach Alpha of 0.947, composite reliability 0.947, and AVE value of 0.666. Table 1 summarises the findings.

Table 1: The convergent validity analysis for outer model

Latent Variable	Indicators	Outer Loading	Cronbach Alpha	Composite Reliability	AVE
Employee Relation and communication	ERNC1	0.831	0.887	0.914	0.639
	ERNC2	0.798			
	ERNC3	0.814			
	ERNC4	0.809			
	ERNC5	0.782			
	ERNC6	0.762			
Strategic Partner	SP1	0.787	0.947	0.947	0.666
	SP2	0.844			
	SP3	0.806			
	SP4	0.828			
	SP5	0.836			
	SP6	0.804			
	SP7	0.803			
	SP8	0.861			
	SP9	0.775			
Firm Performance	FP1	0.851	0.936	0.937	0.682
	NFP2	0.846			
	NFP3	0.749			
	FP4	0.749			
	HRFP5	0.748			
	HRFP6	0.830			
	HRFP7	0.873			

For second-order analysis, a two-stage approach was used to analyse the higher-order model. This evaluation includes a collinearity test, significance and relevance tests, analysis on the level of determination (R^2), effect size (f^2), and predictive relevance (Q^2). In the second-order analysis, GoF is not presented as PLS-SEM does not imply a restrictive assumption when estimating the model (Hair *et al.*, 2017). The path coefficient analysis for the relationship between employee relations and communications and firm performance showed 0.281 and t-statistics at 4.863. Notwithstanding, based on the analysis from the overall path modelling analysis, the paths between employee relations and communications, and strategic partner to firm performance show a significant relationship. Table 2 summarises the second-order analysis.

Table 2: Findings on the coefficient of determination (R^2), effect size (F^2), and predictive relevance (Q^2)

Construct	R^2 Value	Q^2 Value	F^2 Value
Employee relations and communications			0.638
Strategic Partner	0.696	0.329	0.237
Firm Performance	0.887	0.553	

For the mediation analysis, findings from the analysis show the VAF value of 26.6%, with indicators of partial complementary mediation between employee relations and communication practices, the strategic partner, and firm performance. This study concluded that H1 is supported.

By referring to the above result, the relationship between employee relations and communications and firm performance showed strong linkage. This shows that SME owners in Malaysia are aware of the importance of good relationship and effective communication to support performance in their firm. Findings from this study further highlight that SMEs in

Malaysia always involve their employees in terms of making decisions related to cost and quality. Employees are also encouraged to participate in operations related to decisions and how to suggest improvement to operational activities. For example, SMEs in Malaysia often listen to the employees relating to their opinions on how to improve the workflow. Moreover, employee relations and communications serve as the medium for employees to connect, cooperate and collaborate with the employer. This is supported by Najeeb (2013), Lengnick-Hall (2003) and Tabiu (2019), as the sharing of knowledge and information also increases productivity, sales and employee performance. This is due to the impact of relations and communication practices which acts as a source of competitive advantage through inimitable and non-substitutable intangible assets.

5.0 CONCLUSIONS

Based on the findings discussed from previous section, this study shows that SME owners and managers in Malaysia identify strategic partner as an important role in supporting firm performance. Findings from this study are consistent with the previous studies (i.e. Wright and Ulrich, 2017; Nadiv *et al.*, 2017; Wright *et al.*, 2018; Garavan *et al.*, 2020). Overall, the HR roles mediate HRM practices by acting as SHRM agent to improve firm performance. It is found that when the traditional employee relations and communication practices are aligned with strategic partner role, the employee turnover decreases and at the same time increases employee productivity.

For the theoretical implications, the findings of this study offer several contributions to the current HRM literature. First, this study extends the research in specific HRM practices, the employee relations and communications into SHRM context. This study brings both conceptual and empirical clarity to elucidate the relationship between employee relations and communications and firm performance. Second, this study contributes to the literature by examining HR roles and their impacts to SHRM. This study suggests HR roles as the “missing” strategic agents that act as the deliverable or “key” that turns any HRM practices into a SHRM practice that promotes performance. Third, this study applied mediation study that links the relationship between HRM practices, SHRM, and firm performance. This is supported by previous researchers who have suggested that there is no direct relationship between HRM practices and firm performance (Taamneh *et al.*, 2018; Gahlawat & Kundu, 2018; Almarzooqi *et al.*, 2019). And lastly, this study investigates various SME industries in Malaysia. Since there is limited empirical evidence to support the study of HRM in Malaysian SMEs, this study provides comprehensive research in the SME background. Accordingly, this study provides a better understanding of the theoretical and empirical aspects of HRM in the perspective of Malaysian SMEs.

In terms of managerial implications, this study suggests that SME owners and managers must realise the importance of HRM and embrace the concept of HR roles in SHRM. Employee relations and communications is an important practice that can create, maintain, and use employee-employer relationship to achieve positive performance. It is because employees are intangible assets that help to create competitive advantage and actively involved with the organisation business activities.

Overall, this study contributes to the academic and industries by suggesting the importance of linking employee relations and communication practices with SHRM to improve performance. The framework developed in this study demonstrates that HR roles are key factors in supporting and building SHRM.

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