

# HR practices and readiness for change among Malaysian SME's employees

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## Abstract

This study examines how HR practices will influence readiness for change among Malaysian SMEs' employees. The study was a cross sectional where respondents' perception was measured at one point in time. 175 respondents from 18 SMEs participated in Quality Management Excellence Award 2011 participated in this study. Four HR functions, namely training and development, career development, compensation and benefits and performance appraisal were tested in this study to understand employees' readiness for change. Results indicate that three HR functions, namely training and development, compensation and benefits and performance appraisal were significant factors in influencing readiness to change. The findings were discussed and implications were also put forward.

**Keywords:** readiness for change, hr practices, training and development, career development, compensation and benefits, performance appraisal

## 1.0 Introduction

Change may be important for the SMEs if they want to sustain their business and to move forward competing in the global world. According to Kannan (2013), today's Malaysian SMEs account for more than 90% of all the establishments in the manufacturing, services and agricultural sector; providing around 65% of total employment and by 2020, it is expected that the value added production of SMEs to be around RM120 billion or 50% of total production in the manufacturing sector. Even though SMEs play a significant role in the development of the Malaysian economy, their contribution to the national economy is still considered small. Thus, SMEs in Malaysia are urge to start making the necessary changes so that they can grow at a much faster rate and be able to compete effectively with foreign companies,

Though change is necessary for any organization, Cunningham, Woodward, Shannon, MacIntosh, Lendrum, Rosenbaum, and Brown (2002) argued that change would not take place if individual employees do not change. But, individuals change would not occur if they are not prepared and ready for it. In most cases, the issues of whether the employees are ready or not for change were often being neglected in planning and implementing organizational change. It is important for any organization to assist individual employees to work through

their fears, resistance and anxieties about change. In other words, to create change, a change agent needs to take a proactive attempt to influence the belief, attitudes and intention behaviors of change participants.

Therefore, the purpose of this paper is to report findings of a research study that explored the possible influence of HR practices such as training and development, career development, compensation and benefits and performance appraisal on employees' readiness for change. We were particularly interested in discovering about whether employees' readiness for change was influenced by the HR practices in the organization.

## **2.0 Literature Review**

### *2.1 Readiness for change*

Change refers to the process of "altering people's actions, reactions, and interactions to move the organization's existing state to some future desired state" (McNabb & Sepic, 1995, p.370). Though the type and process of change are important when dealing with change, readiness for change is also important factor to be considered. This is because change will involve moving from the known state to an unknown one, ending the way things are done and doing things in a new ways. Thus, a failure to assess organizational and individual readiness for change may result in managers spending greater time dealing with resistance to change. But, a higher degree of change readiness is believed to lead to better performance, both financial and operational. Susanto (2008) defined readiness as a reflection in the organizational members' beliefs, attitudes and intentions regarding the extent to which changes are needed and the organization's capacity to successfully make those changes. In other writing, Armenakis, Harris and Mossholder (1993) have regarded readiness for change as the cognitive precursor to the behaviors of either resistance to, or support for, a change effort.

However, Smith (2005) argued that change readiness is not automatic and cannot be assumed. As stated by Armenakis, Harris and Mossholder (1993) in their writing, the core of change readiness normally involved a transformation of individual cognition across a set of employees. Thinking along the similar line, Self (2007) believed that to create readiness for change, organization needs to provide the organizational members with five different elements. First, the change leader must justify the need to change. Second, the change leader needs to demonstrate that the proposed change is the right thing to do. Third, the change leader need to ensure that the organizational members have the right knowledge, skills and abilities to implement change or are given the opportunity to develop these. Fourth, the change leader needs to provide with necessary support for organizational members. Fifth, the change leader must be able to provide answers on the outcome from the implementation of change. Susanto (2008) also argued that there are seven aspects of change readiness which include perception toward change efforts, vision for change, mutual trust and respect, change initiatives, management support, acceptance and how the organization manage the change process. Since people are the one who is going to embrace or resist change, it is vital to assess individuals' readiness perception prior to any change attempt and factors that might influence their readiness for change (Smith, 2005).

### *2.2 The role of HR in managing change*

To accelerate readiness for change in the organization, support from the management is very important. Since people are the real source of and the vehicle for change, the role of HR in managing change has become increasingly important. As stated by Harrison (1999), HR people are more acutely aware than anyone else when change is on the way and know that few people will like it regardless of the change.

HR practices are a set of planned strategies and policies implemented by an organization to ensure an organization's human capital efficiently and effectively to the achievement of organizational objectives (Mondy, 2011). At the organization level, HR practices have been identified as a source of business revenue (Mathis & Jackson, 2004). This is because HR practices such as compensation and benefits (offer of attractive rewards to attract and retain skilled manpower), performance management (evaluate employees' job performance to determine their strengths and weaknesses), training and development (train potential employees to undertake higher-level tasks), and career development (enhance employees career progression) are considered to be the foundation strategies that ensure the organization has a group of talented employees that help to increase the organizational performance.

Compared to other HR practices such as selection, industrial relation, and workplace safety and health; compensation, performance management, training and development, and career development are more likely to enhance employees' motivation, commitment and satisfaction (Comm & Mathaisel 2003; Robbins & Coulter, 2002). Compensation and benefits for example is not only influences individual's intention to work for a particular organization, but it is also a powerful tool in motivating the individuals to work hard for getting promotions. On the other hand, performance management helps employees to determine their strengths and weaknesses, and take necessary action to improve and enhance their competencies at work. Training and development programs are necessary for employees to develop their knowledge, skills and abilities for undertaking higher-level tasks, which may be the requirement of future career positions. Meanwhile, career development is crucial to improve employees' career performance by helping them to gain better position in the career hierarchy. Accordingly, Aggarwal, Datta and Bhargava (2007), Chen, Chang and Yeh (2004), and Sardar, Abdul Rehman, Yousaf and Aijaz (2011) also found that compensation and benefits, performance management, training and development, and career development are the most important source for an organization to generate a pool of motivated, committed and high performing employees who can significantly contribute towards organization's competitive advantage.

In the context of SMEs, they often have greater freedom in changing their employment practices, applying new technology and being able to use HR practices as a management tool in implementing changes and in achieving improved performance in the process of economic restructuring (Chow, 2004). Therefore, in order to promote readiness for change among employees, an organization should provide the employees with the necessary skills by conducting a proper training, implement equitable compensation and benefits policies as return to employees' contribution, provide with a clear career progression, and carry out fair performance appraisal to ensure each employee receive accurate performance feedback and rewards.

### *2.2.1 Training and development*

Mondy (2011) defined training and development as a formal activity undertaken by an organization to help employees acquire the skills and experience needed to perform current or future jobs. It is designed to help employees contribute positively and continuously in the form of good performance by obtaining new knowledge, skills and abilities (Berge, De Verneil, Berge, Davis & Smith, 2002). In past studies, training and development have been

found to enhance competitive advantage, facilitate firm growth and improve profitability (Bartel, 1994; Knoke & Kalleberg, 1994; Fairfield-Sonn, 1987).

Since employee roles and responsibilities shift rapidly in SMEs, receiving training concerning the new role is considered vital to the success of the employees and the business (Cardon & Steven, 2004). From the employees' perspective, training and development is an important tool for them to gain valuable support, knowledge, skills and abilities that may enhance their performance in an organization. From the discussion, we reached to a point that adequate training and development opportunities could play an important role in enhancing employees' readiness for change, and therefore, the following hypothesis is proposed:

*H1: Training and development is positively related to readiness for change*

### *2.2.2 Career development*

Career development refers to the processes and assistance provided by organizations to support and enhance employees' career progression by helping them to gain better position in the career hierarchy (Barnett & Bradley, 2007). It encompasses the activities on how organizations structure the career progress of their employees. It can also be tied to the organization's ability to share job information with employees, to make the necessary resources available and to support employees in developing their careers.

The key element of the concept of career development is not only individuals' initiative in developing their career, but also organizational career development support. Without organizational career development support such as performance feedback, promotional information and opportunities, employees will face difficulty in developing their career and might fail to ascend the career ladder. Although career development is more of cooperation between employees and organization, the input of organizational career development support is crucial to effectively increase employees' job satisfaction and commitment. Nothing can ever replace the support of the organizations in assisting employees to develop their career. To gain positive outcome for both the individual and organization, cooperation from these two parties are needed.

On the other hand, if an organization can provide employees with opportunities to learn new skills and develop their competencies, employees will reciprocate with positive behaviours towards the job (i.e. assuming new position) and organization. These actions indirectly can promote employees readiness for change when dealing with new task. Hence, it seems logical to expect that HR practices will affect employees' readiness for change, and the following hypothesis is proposed:

*H2: Career development is positively related to readiness for change*

### *2.2.3 Compensation and benefits*

Few authors have defined compensation and benefits as the cumulative financial (for examples, wages, salaries, incentives, commissions, bonuses, retirement pension plans, employer paid insurance and vacation plans) and non-financial rewards (for examples, job recognition awards and flexible work schedule) payable to employees in return for their services (Milkovich & Newman, 2005; Mondy, 2011). The financial and non-financial rewards are usually based on the value of job, level of personal contributions, efforts and performance (Milkovich & Newman, 2005). Many organizations not only uses the compensation and benefits to reward employees' efforts, but also use it as a motivation tool to improve employees' work attitudes (i.e. job satisfaction, commitment, engagement, organizational citizenship behaviors (OCB), and readiness for change) (Chiu, Luk & Tang,

2002; Lau & Sholihin, 2005; Mathis & Jackson, 2004; Snape & Redman, 2010). Therefore, the following hypothesis is proposed:

*H3: Compensation and benefits are positively related to readiness for change*

#### 2.2.4 Performance Appraisal

According to the definition given by Mathis and Jackson (2004), performance appraisal is a process used to identify, measure, evaluate, and improve employees' job performance. Specifically, it is a formal activity carried out by an organization to periodically review and evaluate employees' performance (Mondy, 2011). Performance appraisal is not only a useful tool to evaluate employees' job performance, but it can also be used to develop and motivate employees (Anthony, Kacmar & Perrewe, 2002). This is because through performance appraisal processes, employees may become aware of their performance level and realize their weaknesses through valuable feedback or guidance from top management in order to take necessary steps for improving their performance. Indirectly, it becomes an indicator on whether the employees have successfully embraced the change made. Therefore, the following hypothesis is proposed:

*H4: Performance appraisal is positively related to readiness for change*

### 3.0 Research Framework

The research framework for this study is shown in Figure 1. In this study, three independent variables namely training and development, compensation and benefits and performance appraisal were tested against readiness for change.



**Figure 1. Research Framework**

### 4.0 Method

#### 4.1 Participant

175 respondents from 18 SMEs participated in Quality Management Excellence Award 2011 participated in this study. Out of 175 respondents, 61.1% were female, 32% were between the aged of 30 to 34 years and 86.3% were married. Malays constitute 77.7% of the survey participants, followed by 13.1% Malaysian Chinese and 7.4% Malaysian Indians. The

majority of the participants in this survey (68.6%) had higher academic qualifications of first / professional degree. Senior management staff made up 57.1% of the total participants. The rest consisted of executive. 36.6% of the participants had served their organization between 7 to 10 years.

#### 4.2 Measurement

Measures for readiness for change were adapted from Dunham, Grube, Gardner, Cummings and Pierce (1989) while human resource practice was adapted from Delery and Doty (1996). In this study, each of the adapted questions asked how strongly the respondents agreed or disagreed with the statements given on a five-point scale whereby, 1 = strongly disagree, and 5 = strongly agree.

### 5.0 Results

Table 1 presents the means, standard deviations, and Pearson correlations of variables for the 175 participants who had participated in the study. The internal consistency reliabilities (Cronbach's Alpha) of the research measures are reported in parenthesis along the diagonal of the correlation table. As shown in Table 1, the Cronbach's alpha for the overall HR practices items were .93. The four sub-scales of the 26 item hr practices scale (training and development, career development, compensation and benefits and performance appraisal) also have satisfactory reliability values ranging from .78 to .87.

Results from Table 1 shows that the overall HR practices were significantly positively correlated with readiness for change ( $r = .56, p < .05$ ). Table 1 also revealed significant positive relationships between all the HR practices components and readiness for change, with correlation coefficients between .45 and .49. These results imply that the higher the adoption of HR practices, the higher participants' readiness for change.

Table 1  
*Descriptive statistics, scale reliabilities, and correlations of variables*

| Variables                    | N   | Mean | SD  | 1      | 2      | 3     | 4     | 5     | 6     |
|------------------------------|-----|------|-----|--------|--------|-------|-------|-------|-------|
| 1. HR practices - overall    | 175 | 3.74 | .57 | (.93)  |        |       |       |       |       |
| 2. Training and development  | 175 | 3.84 | .72 | .80**  | (.82)  |       |       |       |       |
| 3. Career development        | 175 | 3.61 | .76 | .90**  | .692** | (.87) |       |       |       |
| 4. Compensation and benefits | 175 | 3.49 | .75 | .78**  | .50**  | .60** | (.78) |       |       |
| 5. Performance appraisal     | 175 | 3.91 | .53 | .856** | .55**  | .68** | .58** | (.84) |       |
| 6. Readiness for change      | 175 | 3.61 | .33 | .56**  | .45**  | .45** | .48** | .49** | (.88) |

Note: Coefficient alpha reliability estimates are in parentheses on the diagonal of the correlation table

\*\*Correlation is significant at  $p < 0.05$

To test hypothesis 1 to 4, regression analysis was conducted. Results in Table 2 showed that 33% ( $R^2 = 0.33$ ,  $F = 20.57$   $p < 0.01$ ) of the variance in readiness for change was significantly explained by training and development, career development, compensation and benefits and performance appraisal. In the model, only training development ( $\beta = 0.20$ ,  $p < 0.05$ ), compensation and benefits ( $\beta = 0.24$ ,  $p < 0.01$ ) and performance appraisal ( $\beta = 0.24$ ,  $p < 0.05$ ) were found positively associated with readiness for change. Therefore, Hypothesis 1, 3 and 4 were supported.

Table 2

*Regression results of training and development, career development, compensation and benefits and performance appraisal on readiness for change*

|                           | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|---------------------------|-----------------------------|------------|---------------------------|-------|------|
|                           | $\beta$                     | Std. Error | $\beta$                   |       |      |
| (Constant)                | 2.30                        | .16        |                           | 14.39 | .00  |
| Training and development  | .092                        | .041       | .200**                    | 2.250 | .03  |
| Career development        | .001                        | .045       | .001                      | .014  | .989 |
| Compensation and benefits | .108                        | .037       | .245*                     | 2.952 | .00  |
| Performance appraisal     | .147                        | .056       | .237**                    | 2.605 | .01  |

\*\* $p < 0.05$ ; \* $p < 0.01$ ;  $R^2 = 0.33$ ;  $F = 20.57$

## 6.0 Discussions

The present study was aimed at understanding the role of HR practices such as training and development, career development, compensation and benefits and performance appraisal on readiness for change. We hypothesized that the four HR practices could positively related to employees' readiness for change. But our results suggest that increasing the opportunity for training and development, offering higher compensation and benefits and giving frequent performance feedback, led to higher readiness for change. One possibility for this result is that training may provide the employees with the information and skill needed to adapt with the changes made, while compensation and benefits act as a motivational factor towards embracing organizational change. In addition, receiving consistent and frequent performance feedback may help the employees to understand the area that needs further improvement. As argued by Smith (2005), readiness for change is not automatic and it involves beliefs and attitude. Thus, change leader need to provide with various kind of support and encouragement for the change to take place.

## *6.1 Research Implications*

The current research findings have several implications for management of organization. The research results demonstrate that employee readiness for change may increase if the management focusing their effort on the HR practices, particularly, in training and development, compensation and benefits and performance appraisal. By providing more training opportunities, employees will gain new knowledge, and skills in preparing them to deal with a new way of doing things. Furthermore, providing the employees with a competitive compensation and benefits will indirectly motivate employees to embrace change. Finally, giving frequent feedback on the employees' performance may help reduce the feelings of uneasiness and tension, a sense of uncertainty and confusion in the time of change process.

In summary, the prescriptions discussed are suggestive of the types of actions that managers can take, to help maximize the readiness for change among employees. It is hoped that the results from the study will encourage new thinking among the managers. The research results reported in this study suggest the need for a view of change management which includes psychological and behavioral perspective.

## *6.2 Limitation and Direction for Future Research*

There are limitations in the design of this study that might influence the interpretations and generalizations of these findings. This study only concentrated on employees in SME that participated in the Quality Management Award 2011. Different results might be obtained if the study is conducted in other type of SMEs or other type of industries from different geographical areas. Based on the regression model, training and development, career development, compensation and benefits and performance appraisal only explains 33% of the variance in readiness for change. This indicates that there are other potential factors that might influence employees' readiness for change like organizational support, leadership style, and individual characteristics. Hence, future research that would like to replicate the framework of this study is suggested to incorporate the mentioned factors to elicit a comprehensive understanding on what influence readiness for change.

## **7.0 Conclusions**

The aim of this study was to investigate factors that might influence SME employees' readiness for change. The main concern of this study is the role of HR practices in enhancing the readiness for change. The results indicate that training and development, compensation and benefits and performance appraisal did relate to readiness for change. Since the study was conducted at SME that participated in the Quality Management Award 2011, the findings must be interpreted with cautious and cannot be generalized to represent other organization. It is hoped that through the examination of HR practices in increasing readiness for change, a more complete understanding of the kind of effort needed to implement change intervention.



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