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MASTER OF BUSINESS ADMINISTRATION

The Impact of Human Resource Management Practices on Employees' Commitment in
the Banking Sector in Malaysia

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Zhou Hui

Date: 26 August 2014

Declaration

I hereby declare that this research project is of my own effort except for the information that has been used from various authors that have been cited accordingly and ethically.

Zhou Hui

Date: 26 August 2014

Abstract

Malaysia is experiencing fierce competition from the Asian/Pacific region, it is vital for companies in Malaysia to understand the fundamental drivers influencing employees' commitment to innovate successful new products, idea, practices and systems, only then can these companies compete successfully. As one of the twelve national key economic areas, the financial services sector, particularly the banking industry, has faced the problem of debacle, which would impacted greatly on internal and external customers' confidence and perception. over the years squarely on their management.

This paper examined the impact of human resource management (HRM) practices"(including orientation of recruits, formal operating guidelines, career planning and development) on employees' commitment by descriptive analysis and correlation analysis based on validity test and reliability test, using survey data covering 300 employees (management, supervisors, administrators and clerks) from the banking sector (including Maybank, Hong Leong Bank and RHB, 100 employees for each bank) in Selangor in the year of 2014.

The significance of the study is to provide evidence to support the relationship (strategic fit) between HRM practices and employee commitment. The study also seeks to gain descriptive information on HRM policy and practices in the banking sector, together with an assessment of the organizational and environmental factors that drive HRM strategy and policy. The results can support for the design of high involvement work practices to foster organizational commitment and to improve long term organizational performance in developing economies. The findings also can contribute to an organization's ability to understand the different components of commitment in order to experience overall efficiency and effectiveness from employees.

Keywords: *Human resource management practices, banking sector, employees' commitment, long-term affective*

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CHAPTER I INTRODUCTION

1.0 Introduction

This study is aiming at doing the research about that human resource management influences on the quality of commitment which is made by staff in the banking sector in Malaysia. The crisis within the financial sector in the 2008's resulted in the demise of a number of financial institutions. It is surmised that the financial sector got into difficulty as a result of bad management practices, loose controls and the pursuits of business ventures outside of banking as major factors which created an adverse perception in the minds of its internal and external customers.

Research findings of Ogilvie (1986) and Gaertner and Nollen (1989) are used as a basis for the theoretical framework. An issue is whether or not organizations can do anything during the whole progress of recruitment and the process of selection that will influence or set the stage for subsequent commitment. The researchers Ogillvie (1986), Gaertner & Nollen (1989) discovered that the organization adhere to the occupation employment practices of three main parts: training and development, internal promotion and job security. The three parts are to establish the relationship between employees.

Work is a complex phenomenon and no clear definition can be easily given. Dessler (2013) stated that transformation under the circumstance of HRM requires HR that to take effect on work related issues in all the organizations. These trends include the growing of the diversity of labour, globalization, technological innovation rapidly, and transformation in the essence of working, for example, the trends toward the society becomes a style of service society, and people pay more and more attention to education and manpower capital.

Some researchers also challenge whether loyalty and commitment of is real purpose of the organization (Margulis & McKendall, 1995). In uncertain employment situation, it is more realistic that employee commitment shows a decline trend. This encourages employees to build self-reliance and pursue their own interests, but also to enable an organization to concentrate on the high performance does not create unrealistic expectations (Bambacas & Hartmann, 2010).

1.1 Human Resources in Organizational Trend

Trends such as globalization and technology innovation change the way of enterprise management. The traditional pyramid organization is giving way to a new organization structure. Employee is authorized to make more decisions, and therefore, flatter structures with fewer layers of management in organizations appear to be the norm. In recent years, the researchers focused on how a company's employee collective is the source of a unique competitive advantage, cannot be competitors to imitate (Barney, 1991). Barney (1991) observed the human resource management practices can improve the return on the efforts of the staff, which may lead to the income is far greater than the cost of this process.

Dessler (2013) believes that today's managers are more necessary to improve employee commitment. Today's changes mean that the organization must rely more on self-discipline and high commitment to employees. Organizational

commitment had explained as recognition and to participate in the organization, first of all believe that the group's values and objectives; Moreover, representative organization; and then, is eager to stay in the organization (Mowday, 1992). Allen and Meyer (1991) pointed out that definitions and interpretation of organizational commitment, it's a kind of mental state, (a) the relationship between employees and organization, and (b) affect their decision to continue with members of the organization.

Although all the three components of organizational commitment helps to reduce the likelihood that employees leave the organization, it is still necessary to distinguish between them because they will lead to quite different working behaviour (Herscovitch and Meyer, 2002). Employees with affective commitment are more likely to attend work regularly and perform assigned tasks to the best of their ability (Meyer and Allen, 1991)" while employees with normative commitment may only see work as a means that be mutually beneficial. On the other side, employees with continuance commitment, who remain just to avoid leaving costs, may only do things that can maintain the employment. Empirical research provides support for the three-component model, including predictions about differential behavioural outcomes. The above opinions on the three kinds of employees' commitments were later supported by lots of empirical researches.

Organizational commitment is important, because it affect employee turnover, organizational identification and hard work, the relatively low organization commitment to employees is costly, therefore, deserves the attention of management. Money is not the prime motivator for employees' commitment but the type of working environment is. This concept is also endorsed by psychologist Frederick Herzberg says the best way to motivate employees to challenge and achievement of the opportunity to build their jobs through job enrichment. Firms may respond strategically to adverse economic conditions and the risk of corporate failure, and within this context, reorganize their human resources to achieve incremental changes or a complete strategic

transformation of organizational performance. Such changes may involve the use of a set of HRM practices denoted as high involvement work practices or systems designed to improve organizational performance by addressing organizational systems that have become bureaucratic; over-manned, over-managed, inflexible and unresponsive to customers and to change.

1.2 Research of Objective

This paper is to examine whether HRM practices will influence the level of commitment displayed by the employees of the banking sector in Malaysia, and to examine whether HRM practices will influence the level of commitment displayed by the employees of the banking sector in Malaysia. The study is aim to assess the degree of human resource management function banking staff in Malaysian banks the strategic agenda during the rapid change of organizational change, and determined the major challenges facing human resource management professionals, a host of strategic change management measures in the context of this nature. Furthermore, it is anticipated that level of commitment displayed by the employees in the banking sectors will be researched and contribute towards a better formulation of human resource policies.

1.3 Background to the Problems

Malaysia is a rapid development of industrial economy from similar economy faces fierce competition, especially from Asia region. So as to successfully meet the challenges and competition, Malaysia started a new economic model, otherwise that is the ETP (economic transformation model), aimed at the manufacturing from based on product knowledge. For this model to be successful, it is a very important for enterprises to comprehend the basic driving force of impact an organization's success is the ability of innovative new products, ideas, systems, and practices. Thus in this way can the enterprise in the market competition. The debacle of the financial institutions, particularly in

the banking industry, impacted greatly on internal and external customers' confidence and perception. So, addressing the problems was important because confidence is a decisive factor in the success of business. Economic benefits of the external economic factors that affect banks, and also affect the degree of organizational commitment of the employee of the bank.

1.3.1 Organizational Performance

Hartog & Verberg (2004) found that the past research supported "high involvement work practices" and "high involvement work systems" (Huselid & Delaney, 1996) which is significance to organizational performance. These HRM systems might, therefore, be critical to the recovery and survival of the Malaysia banking sector. Special emphasis is given to assessing the extent of strategic fit in the organizational commitment and human resource management practices. Banks' corporate strategies are classified as falling within one or more of three strategic orientations: the low cost; quality and innovation strategies. Two researchers showed that the innovation strategy related factors: career opportunities, training, job security and other factors in a survey of 216 banks (Delery and Doty 1996). Youndt et al. (1996) have noted that organizations should be use the higher cost strategy justify the extra cost of human resource management systems.

1.3.2 Organizational Culture

Organizational culture is examined along four dimensions: support, innovative; rules and goal orientations (Den, H; VanMuijen, K; 1999). Laschinger et al. (2011) have noted that an organizational culture that fosters employee trust and motivation in management related to higher levels of organizational commitment.