



## The Relationship between Human Resource Management

### and Firm Performance in Malaysia

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#### Abstract

Drawing upon resource based theory which explains human capital as the key resource for the firms' development, this paper hypothesized that the human resource management (HRM) was anchored on firm performance. HRM were conceptualized as 4- and multidimensional constructs, respectively. The main thrust of the paper is to assess the impact of HRM on firm performance. The research uses a sample of 85 firms surveyed in Sarawak, Malaysia. The findings suggested that incentives and information technology are positively related to the firms' performance. Implications of the findings, potential limitations of the study, and directions for future research were further discussed.

**Keywords:** Firm performance, Training, Incentives, Performance appraisal, Information technology

#### 1. Introduction

Human resource management faces challenges of bringing better fitted workers into the organizations and meeting the workers' needs and expectations. Thus, there is a compelling demand to develop better ideas, strategies to improve the interface between employees and employers, and to elaborate comprehensive insight that can help human resource managers get better results and improved performance (Vigoda & Cohen, 2003). The relationship between human resource management (HRM) and firm performance has received extensive-considerable-attention from researchers in recent years (e.g., Li, Zhao, & Liu, 2006; Sanchez, Jimenez, Carnicer, & Perez, 2007; Lin & Chen, 2007). A vast amount of research has proved the positive relationship between HRM and firms' performances in terms of sales revenue, profitability, net asset ROI, and market share (Huselid, 1995; Schuler & Jackson, 1987; Hill & Rothaermel, 2003). However, limited researches on HRM have been observed to empirically examine its impact on the firms' performance. Hence, this study will add to the growing body of research by linking HRM to firms' performance and expands the domain of this relationship. Considering the potential cascading effect that employees' power could have on firms' performance, previous researches may have underestimated the impact of HRM on firms' performance.

HRM and firm performance have become the foundation of a new era of managing a diversified workforce in the advent of globalised world. Sarawak, a state located in East Malaysia, has gone through rapid transformation from primary sector such as agriculture and mining to a highly skilled manufacturing sector in the 1990s. Thus, understanding the relationship between HRM and firm performance would serve as a platform for companies' managers, to assist them in achieving better performance. Hence the main purpose of this study is to investigate whether certain components of HRM such as training, incentives, performance appraisal and information technology influence