

**THE IMPACT OF EMPLOYEES' TRAINING PROGRAMME  
ON THE PERFORMANCE OF SMALL MEDIUM  
ENTERPRISES IN NORTHERN MALAYSIA**

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## **ABSTRAK**

Aliran halatuju orientasi pasaran dunia dan perdagangan bebas telah menyebabkan IKS (Industri Kecil dan Sederhana) di Malaysia menumpu kepada putaran hidup produk yang singkat, peningkatan kualiti produk, dan menuju kepada inovasi produk dan proses. Latihan pekerja merupakan salah satu faktor yang mempengaruhi prestasi IKS. Oleh itu, objektif kajian ini adalah menentukan kesan program latihan pekerja ke atas prestasi IKS. Untuk prestasi IKS, kajian ini akan menilai tanggapan responden terhadap produktiviti, pengembangan syarikat, daya persaingan, pulangan pasaran dan peningkatan pasaran dalam masa tiga tahun lalu. Populasi kajian ini adalah kilang IKS di bahagian Utara Malaysia yang disenaraikan dalam direktori Federation of Malaysian Manufacturing Malaysia Industries 2003, dan unit analisis adalah organisasi yang terpilih. Satu soalselidik telah disediakan dan dikirim kepada IKS yang terpilih. Hasil kajian mendapati bahawa terdapat hubungan positif antara pelaburan dalam program latihan pekerja dan prestasi IKS. Tetapi hasil kajian ini telah menolak hubungan antara aplikasi IT dalam program latihan pekerja dan prestasi IKS, dan antara fungsi pembangunan sumber manusia dalam program latihan pekerja dan prestasi IKS.



## **ABSTRACT**

The trend towards global market orientation and trade liberalization requires the SMEs in Malaysia to increasingly emphasize on compressed product life-cycles, enhancing quality improvements, and towards product and process innovations. Employees' training is one of the factors that have the effect on SMEs' performance. Thus, the objective of this study is to identify the impact of SMEs' training programme on SMEs' performance. For SMEs' performance, the study evaluated the respondents' perception about their companies' productivity, company expansion, competitive advantage, return on sales and sales growth for the past three years. The targeted population was the manufacturing SMEs in Northern Malaysia listed in Federation of Malaysian Manufacturing Directory in Malaysia Industries 2003, and the unit of analysis is the organization selected. A set of questionnaire was designed and mailed to the selected SMEs. The findings of the study revealed that there is positive relationship between SMEs' investment in employees' training programme and SMEs' performance. But the findings rejected the relationship between SMEs' application of IT in employees' training programme and SMEs' performance, and between SMEs' HR development functions in employees' training programme and SMEs' performance.

## Chapter 1

### INTRODUCTION

#### 1.1 Introduction

Small Medium Enterprise (SME) is becoming increasingly important to Malaysia's economy and is being considered as the real backbone of the economy. Under the Eighth Malaysia Plan (2001-2005), the Small and Medium Industry Development Plan (SMIDP) is implemented and is expected to contribute to the establishment of the resilient and competitive small- and medium-scale industries that will strengthen inter- and intra-industry linkages in the economy (The Eight Malaysia Plan 2001-2005). In Malaysia, Small and Medium Industries Development Corporation (SMIDEC) is set up to promote the growth and development of SMEs.

Basically, SME is defined based on the employee numbers in the company. Smith, Boocock, Loan-Clarke and Whittaker (2002) defined SME as an organization employing below two hundred employees. Although the small firm has always been seen as the potential large firm, starting up a small firm carries the risk of failure as well as the potential for survival (Cressy, 1996 cited in Day, 2000).

According to Chapman and Sloan (1999), the employee training in SME sector is considered not important. Even though the top management in SMEs realized the importance of employee training, the actual usage of training in these firms is considerably lower. Whereas there are different opinions stating the barriers to SME training participation was the level of bureaucracy involved, the lack of available

employee time and cost all adversely affect employees' willingness to be trained (Kerr & McDougall, 1999). Hence it can be concluded that the failure of SMEs is partly due to the training programme provided to the employees of SMEs.

The training programmes generally need resources in order to be implemented in a company. O'Connor, Bronner and Delaney (2002) claimed that training resources, like all resources, are limited especially for the SMEs. The challenge is to use them wisely and to create the value to organizations through training programmes. Besides, the application of information technology in training would affect the way contents are presented and minimize the time needed to undertake training. Blanchard and Thacker (2004) concluded that the Internet is not a method of training, but rather a technique of delivering training. On top of these, Human Resource (HR) Development functions in an organization performs a staff support function whereby it assists line management in training and development by providing expertise and resources and sponsoring training conferences and programmes (Anthony, Kacmar & Perrewe, 2002).

Therefore, it is important to look into the factors in employees' training programme that contribute much to the performance of SMEs. Lange, Ottens and Taylor (2000) found that the employee training and education are beneficial and would result in individual gaining skills, also have the effect of increasing adaptability. This adaptability is essential for keeping labour and capital employed and maintaining competitiveness (Booth & Snower, 1996).

## **1.2 Problem Statement**

The small and medium scale enterprises in Malaysia seem to be getting a lot of attention lately. The SME sector is going through tremendous changes and challenges right now and business cycles are also getting shorter. Hence, it is necessary to strengthen the SMEs from various standpoints like technological, skills of employee and support from government, especially after the implementation of ASEAN Free Trade Area (AFTA) / Common Effective Preferential Tariff (CEPT) and the powerful countries like China and Russia entering the World Trade Organization (WTO). As a result of this phenomenon, SMEs in Malaysia will be succumbed to face drastic competition.

Basically SMEs are considered less competitive and difficult to dominate the market. The employees in the SMEs are less skillful, less knowledgeable and unable to compete with big company or multi national company (MNC). Hence, employees' training is necessary for SMEs to gain competitive force and enhance the company's performance.

## **1.3 Research Objectives**

The specific objective of this research is to examine the impact of SMEs' investment in employees' training programme, SMEs' application of information technology (IT) in employees' training programme and SMEs' Human Resource Development functions in employees' training programme on performance of SMEs.

## **1.4 Research Questions**

The questions to be answered by this research are:

- 1) Does SMEs' investment in employees' training programme affect the SMEs' performance?
- 2) Does SMEs' application of IT in employees' training programme affect the SMEs' performance?
- 3) Does SMEs' HR Development functions in employees' training programme affect the SMEs' performance?
- 4) Do SMEs' investment, SMEs' application of IT and SMEs' HR Development functions in employees' training programme significantly explain the variance in SMEs' performance?

## **1.5 Significance of Study**

This study finally will answer the relationship between SMEs' investment in employees' training and SMEs' performance, between SMEs' application of IT in employees' training and SMEs' performance, and between SMEs' HR Development functions in employees' training and SMEs' performance. Besides, the finding will also find out whether the SMEs' performance can be explained by SMEs' investment, SMEs' application of IT, and SMEs' HR Development functions in employees' training programme. Lange et al. (2000) highlighted that the commitment of employers to invest in workplace learning for their employee is important for the performance of a company. The bigger the investment, the more resources are allocated to develop the skill of employees. Besides, the use of information technology could create a framework of different forms of learning, including online learning, which provides employees with access to learning in a more convenient and

timely fashion (Lange et al., 2000). Mazzarol (2003) pointed out that the Development of firm's Human Resource policies is critical to long-term success of a small firm. These Human Resource policies cover a wide range of Human Resource Development functions. One of the functions is related to the employees' training and development.

As a result, this study can be used as a guideline to SMEs to expand their business and compete with other MNC. By knowing the impact of employees' training programme on the performance of SMEs, the management is able to make the necessary adjustment to the training contents and supporting facilities to further improve the training programme.

## **1.6 Scope of Study**

The research will be carried out amongst manufacturing SMEs and the research geographical area will concentrate on Northern Malaysia which covers Penang/Butterworth, Kedah and Perak. The research will study the effect of SMEs' investment, SMEs' application of IT and SMEs' HR Development functions in employees' training programme towards the SMEs' performance. For SMEs' performance, the study will look into SMEs' productivity, expansion and competitive advantage, sales growth and profitability (return on sales).

## **1.7 Definition of Key Terms**

Under this section, there are brief definitions to the important terms and variables used in this study.

### *SMEs (Small Medium Enterprises)*

The SMI Development Corporation (SMIDEC), an agency of the Ministry of International Trade and Industry, defines SMEs as companies with not more than 150 employees and not more than RM25 million in annual sales turnover (Tan, 2002).

### *Employee Training*

Goldstein (1993) defined training as a systematic acquisition of skills, rules, concepts or attitudes to improve individual and organizational performance.

### *Investment*

Investment is the amount of effort or money put into certain job or assignment, and normally something is expected from the outcome or result. In this context, the investment refers to the amount of effort or money that top management has put or will put in to improve the employee-training programme. This research also considers the future investment because it is able to indicate the intention to invest and reflect also the vision and objective of the company.

### *Information Technology*

Schlenker and Crocker (2003) defined information technology as the use of management and processing of information, traditionally within the confine of a company or institution. The information system comprises of hardware (computers, telephones, faxes, etc.), software (applications, programmes, data), and human-ware (employees and management that use information).

### *Human Resource Development Functions*

Generally Human Resource Development plays a vital role in improving the organization's effectiveness by providing employees with the KSAs (Knowledge, Skills and Abilities) that will enhance their current and future job performance (Blanchard & Thacker, 2004). The role of Human Resource Development is acquiring, training, developing, motivating, organizing, and maintaining human resources. In this context, the role of Human Resource Development is concentrate on employees' training programme.

### *Performance of SMEs*

SMEs' performance can be defined as notable action or achievement of SMEs. In this context, the performance of SMEs can be measured by productivity, company expansion, competitive advantage, profitability and sales growth.

### *Productivity*

Productivity is defined as the relation of output (i.e. produced goods) to input (i.e. used resources) in the manufacturing transformation process (Tangen, 2003). According to Tangen (2003), there are two types of index productivity measures:

- (1) Partial productivity measures - ratios of output to one source of input, such as labour, capital, material or energy.
- (2) Total productivity measures - ratios of total output to the sum of all input factors.

### *Expansion*

Expansion can be in size, or increase in the number of branches. Besides, product diversification is also one of the examples of firm expansion.



### *Competitive Advantage*

Competitive advantage refers to the ability of a firm to compete in the market place competing on the basis of quality, time, technology advantage, introduction of new production and services fast and timely (Krajewski & Ritzman, 2002).

### *Profitability (Return on Sales)*

Profitability refers to profit margins (also known as return on sales) measure how much a company earns relative to its sales (Tangen, 2003).

### *Sales Growth*

Sales growth is the increase or expansion of product sales volume.

## **Chapter 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

According to Day (2000), SME is more intuitive, more creative, able to network, and operate better under extreme time pressure and without the comfort of being able to make decisions in an ordered and linear fashion compared to large organization. On the other hand, Wyer, Mason and Theodorakopoulos (2000) commented that the response within a small business context should be different, in which small businesses are not a microcosm of a large company; they face unique problems, potentially possess distinctive benefits and sustain development through informal and idiosyncratic management processes. Besides, in the context of employee hiring, the SMEs have the advantages in the extent to which they can use flexible working patterns and they recruit groups of multi-skilled individuals as opposed to single skill. The idea is to have individuals who are able to function in a variety of work settings (Vinten, 1998). Due to the smaller number of employees available in the company, SMEs have the advantages in human resource management. Winch and McDonald (1999) highlighted that the theoretical internal structural advantages are shorter internal lines of communication and faster response times, which allowed speedy problem solving and reorganization.

#### **2.2 Employees' Training in SME Sector**

Employees' training is important for SMEs to maintain or improve the performance of individuals and will indirectly boost the growth of the organization. Goldstein (1993)

defined training as a systematic acquisition of skills, rules, concepts or attitudes that result in improved performance in another environment. In fact, training is the responsibility of everyone. Anthony et al. (2002) claimed that the responsibilities of employee training are influenced by top management, human resource development personnel, immediate supervisor and the employee themselves. There are few factors that contribute to training effectiveness, the factors are trainer's capabilities, suitability of methods of delivery used by trainers, location of training, trainee's job characteristics, and appraisal and reward system (Catherine Pau, 2001). However, based on the study carried out by Sazri (2000), there is no relationship between different type of training (technical skills training, conceptual skills training and attitudinal skills training) and training effectiveness.

Employee training is important to the performance of SMEs due to the fact that not all small businesses are one-man (or one- woman) bands and the abilities and skills of their employees will be crucial to their prosperity (MacRea, 1991; O'Brien, 1996 cited in Clarke & Gibson-Sweet, 1998). For SMEs that have fewer than 200 employees, managerial training is more likely to take place outside the organization. However, larger firms (over 200 employees) consider "in-house" training much more important (The West Midlands Business Survey, 1995 cited in Loan-Clarke, Boocock, Smith & Whittaker, 1999). Besides, some small businesses do not consider on-the-job training to be "proper" training and only focus on "formal" approaches, which generally require off-the-job activity (Ross, 1993). Lane and Donegan (1994) highlighted that for the smaller companies, the main emphasis is towards "hands-on" rather than "theoretical" training. Anderson, Boocock and Graham (2001) highlighted that SME preferred the informal training, which dominated SME learning through feedback,

experience, and social interaction between individuals and organizations. Based on the survey carried out by Lange et al. (2000), owners/managers of SMEs are hesitant to engage in regular formal training, IiP (investment in people) and lifelong learning activities. However, SMEs are more willing to participate in on the job and/or more informal training where the direct link between cost and benefit is more visible (Lange et al., 2000).

According to Winch and McDonald (1999), the manager or top management in SMEs seemed lacking in management and planning skills. Besides, Kerr and McDougall (1999) also agreed that there is a lack of management experience in developing and managing employee training.

There are several factors that affect the availability and effectiveness of employees' training and development programme in SMEs sector. Reid and Harris (2002) listed out a few factors that directly and indirectly affect the employee training. One of the factors is the investment or expenditure that SME invests in the training. Furthermore, firm size is likely to be an important factor in training investment. Larger companies tend to invest more money in providing more training to their employees to improve productivity and to lower turnover (Oi, 1983). Menzies and Gasse (1999) suggest that entrepreneurship education and training can be used to enhance the managerial skills of small business owners and managers. On the other hand, the application of information technology in SMEs can also enhance the effectiveness of employee training. According to Chapman, Moore, Szezygiel and Thompson (2000), Internet based information and communication technology also provides the opportunity for small firms to improve their competitiveness with larger organizations. Therefore,

application of information technology in employees' training is important. Nowadays, Internet based information and communication technology is common in Malaysia especially after the launching of Multimedia Super Corridor (MSC).

On the other hand, Human Resource Development functions in SMEs also play a role in enhancing the performance of SMEs even though some of the SMEs do not actually have the Human Resource Department. But it is advisable to have such department to enhance human resource development. Mazzarol (2003) suggested that SMEs must develop HR policies that are geared toward investment in training which is critical to long-term success of the small firms.

### *2.2.1 Investment in Employees' Training Programme*

The investment or expenditure of SME in employee training and development programmes if compared to multi national company (MNC) is limited due to limited capital. The amount of money invested in training programme plays an important role in determining the types of skills, knowledge and abilities employees of SME have. The training programme would help SMEs to achieve organizational goals and bring the tangible outcomes. The outcomes could include an increase in sales, reduced turnover, or higher production levels (O'Connor et al, 2002).

Before SME carries out or organizes the training programme for their employees, it is necessary for the company to carry out the training need analysis (TNA) to determine whether a deficiency can be corrected through training. According to Blanchard and Thacker (2004), a TNA provides a benchmark (pre-measure) of the skills trainee possesses prior to training. This benchmark can be compared to a measure of the skills required in training (post-measure). With pre- and post- measures, it is possible to

demonstrate the cost savings or value added as a result of training (Blanchard & Thacker, 2004). Although the analysis needs certain amount of money or resources but it would prevent the organization of unnecessary or unsuitable training programmes for employees.

Noe (2000) claimed that upper-level managers are involved in the need assessment process to identify what business functions or units need training and to determine if the company has the knowledge, skills, and abilities (KSAs) in the work force that are necessary to meet its strategy and be competitive in marketplace. Whereas, midlevel managers are more concerned with how training may affect the attainment of financial goals for the unit they supervise. As a result, midlevel manager's organizational analysis focuses on identifying how much of their budgets they want to devote to training (Noe, 2000).

SMEs sometimes might be involved in product transfer or technology transfer to improve their productivity and profitability. Hong (1994) claimed that developing new techniques costs more money, but it makes the greatest contribution to social and economic developments in the long run. He also commented that technology transfer usually requires training, but the technology receiver will never catch up with the provider if the training is inefficient or ineffective.

### *2.2.2 Information Technology in Employees' Training Programme*

The application of information technology in employee training programme not only can improve the individual skill but also can improve their competitiveness with larger organization. According to Blanchard and Thacker (2004), audiovisuals (AVs)

can be useful enhancements for meeting all three types of training objectives (K, S, and A). Audiovisual aids consist of any physical, mechanical, or electronic media used to provide or assist instruction. Besides, SMEs also can apply computer-based training (CBT) which is an umbrella term used to refer to a variety of ways in which the computer is used for learning (O'Connor et al., 2002). The growth of electronic technology and connectivity created alternative training delivery systems and methodologies. Most of the organizations nowadays provide training to employees through the Internet or an intranet (accessible only to those in the particular organization) (Blanchard & Thacker, 2004).

The implementation of information technology especially Internet, has very low technological barriers and is easy to access due to low costs, social push, and it represents an important opportunity of development for SMEs (Quelch & Klein, 1996). Although it is easy to set up, Winch and McDonald (1999) stated that the fundamental transitions might well pose a particular challenge to the small or medium enterprise (SME) due to the limited abilities to maintain their position against larger competitors in rapidly changing business environments. But Chapman et al. (2000) commented that this problem could be overcome with the use of turnkey systems. The lack of skills amongst the workforce to use them can be resolved by following up the implementation with a programme of training and provision of ongoing, helpdesk support. Besides, the system also needs IT experts in the company to do some periodic maintenance and provide support to the system.

### *2.2.3 Role of Human Resource Development Functions in Employees' Training*

Human Resource Development functions in SMEs sector also plays an important role in employee training and development. Rocha and Khan (1985) claimed that there was a positive relationship between effective Human Resource Management (HRM) and successful business performance. Under Human Resource Management Strategy, there are four critical factors, namely human resource acquisition, development, compensation, and maintenance which are contributed to productivity improvement and business performance of an organization (Chen, Liaw & Lee, 2003).

Little (1986) concluded that as the number of staff employed within the firm increases, the need for a formal Human Resource Management manager or process also becomes necessary. The firm with less than 100 employees can probably operate successfully without a full-time personnel or Human Resource manager. However, if the number of employee in a company exceeds 150, a professional manager may be required and if the number over 200, a dedicated Human Resource Development Department might become necessary (Caudron, 1993).

Reid and Harris (2002) summarized that smaller firms that adopt more Human Resource practices (e.g. the existence of a Human Resource Department, specific formal Human Resource policies, and appraisal systems) are also more likely to spend more on training.

Blanchard and Thacker (2004) concluded that there are three strategic alternatives which are each labelled in terms of the Human Resource (HR) Development function's role. In the primary provider strategy, HR Development provides all



training. The manager/ intermediary strategy uses the HR Development functions as a purchaser, manager, and monitor of training provided by outside sources. The mixed strategy is a combination of the two.

O'Connor et al. (2002) claimed that the training programmes must be based on the training philosophy and mission which is set by the organization. A philosophy is a system of values. On the other hand, a mission is an activity that is to be carried out. A corporate philosophy for the training department originates at the executive level.

### **2.3 SMEs' Performance**

There are many ways to measure the performance of an organization. Performance measurement has been described as the development of indicators and collection of data to describe, report on and analyze performance (Marshall, Wray, Epstein & Grifel, 1999). Besides, performance measurement had been considered as the process of quantifying action, and more specifically define it as the process of quantifying the efficiency and effectiveness of action (Neely, Gregory & Platts, 1995). They defined a performance measure as a metric used to quantify the efficiency and/or effectiveness of an action.

According to Tangen (2003), the success of a manufacturing system or company can be evaluated by the use of financial measures and it could appear in several forms, for example profit margins (also known as return on sales), Return on assets (ROA) and Return on equity (ROE). Furthermore, the performance of an organization can be measured through productivity (Tangen, 2003).

Maskell (1991) recommended performance measures by listing six factors he identified as the key elements of manufacturing strategy: quality, cost, delivery reliability, lead time, flexibility, and employee relationships. According to White (1996), the performance of manufacturing company can be measured through quality (conformance to specifications, reliability and durability), cost, flexibility (volume and process), delivery dependability, and speed (delivery speed and lead time). Hence, low cost operations allow the company to sell their products at a competitive price, and increase profitability (Tangen, 2003).

### *2.3.1 Productivity*

One of the measures used to reflect the performance of a company is productivity. Productivity has been defined as the application of the various resources (inputs) of an organization; industry or country, in order to achieve certain planned and desired results (outputs) (Baines, 1997). Besides, Helms (1996) claimed that productivity covers worker output as well as investment in tools and machines and the education and training of human resources. Productivity index is the measurement for productivity and is calculated based on the formula of output/input ratio.

There are several ways to increase the productivity of an organization. According to Helms (1996), productivity can be increased as a result of the growth in workers' abilities, the amount of investment capital, the number and quality of product and process inventions, new ways of organizing production, and the desire to work towards increased productivity. Hence, employees training can be used to enhance the growth in workers' abilities.

By enhancing the growth in productivity, it can bring higher profit to an organization because higher productivity means reducing waste or defects. Furthermore, it can also increase wages of employees, buying power of customers, and returns on investments for the organizations.

### *2.3.2 Expansion*

According to Krajewski and Ritzman (2002), there are two strategies of firm's expansion. There are expansionist strategy and wait-and-see strategy. Expansionist strategy involves large, infrequent jumps in capacity. This strategy always stays ahead of demand and minimizes the chance of sales lost due to insufficient capacity. Expansion may result in economies of scale and helping a firm reduce its cost and compete on price. On the other hand, wait-and-see strategy involves smaller, frequent jumps in capacity. This strategy lags behind demand, relying on short term option such as use of overtime temporary worker, subcontractors, and postponement of preventive maintenance to meet any shortfalls.

### *2.3.3 Competitive Advantages*

Basically, there are three factors that all firms emphasize on competing and these are on the basis of quality, time, and technology advantage (Krajewski & Ritzman, 2002). Whoever can provide products and services of high quality at reasonable prices will survive and succeed in the business. Krajewski and Ritzman (2002) also commented that a firm is more competitive when it is able to introduce new products and services to the market first. According to Portal (1985), there are two types of competitive advantages namely cost leadership and differentiation. Those companies which can

offer lower product/service cost and differentiate product/service can win in the market competition.

#### *2.3.4 Profitability (Return on Sales)*

In the organizations, training is often expected to produce a return on sales (Mathis & Jackson, 2003). According to Hallowell (1996), a company is able to get profitability if the company can achieve customer satisfaction and customer loyalty. Normally SMEs are unable to achieve large amount of profit compared to larger firms. Glancey (1998) concluded that a positive relationship between size and profitability could be expected if larger firms benefit from economies of scale. On the other hand, firms which grow at a rate faster than the entrepreneur can manage, may experience diseconomies of scale which reduce profitability.

#### *2.3.5 Sales Growth*

According to Nickels, McHugh and McHugh (1996), the sales growth can be achieved by using the sales promotional tools like advertising. Besides, they also conclude that sales promotion can be both internal (within the company) and external (outside the company). The internal sales promotion is concentrated on salesperson or other employees which can be improved through sales training.

### **2.4 Theoretical Framework**

The proposed framework is different from previous studies conducted on training effectiveness. The past research looked into the factors like trainer's capabilities, location of training, and different type of training that will affect the training effectiveness. Adapting to the local environment and relevance of the study, the key

determinants used in this framework are investment in employees' training programme, SMEs' application of information technology (IT) in employees' training programme and SMEs' Human Resource Development functions in employees' training programme. This research attempts to investigate the relationship between factors in employees' training and performance of SMEs in Northern Malaysia. As stated in the literature review, the application of information technology (IT) in employees' training, amount of investment spent in training programme, and the Human Resource Development functions in training programme have an impact on the performance of SMEs.

Figure 2 shows the theoretical framework which is proposed to establish the relationship between independent variables and dependent variable.

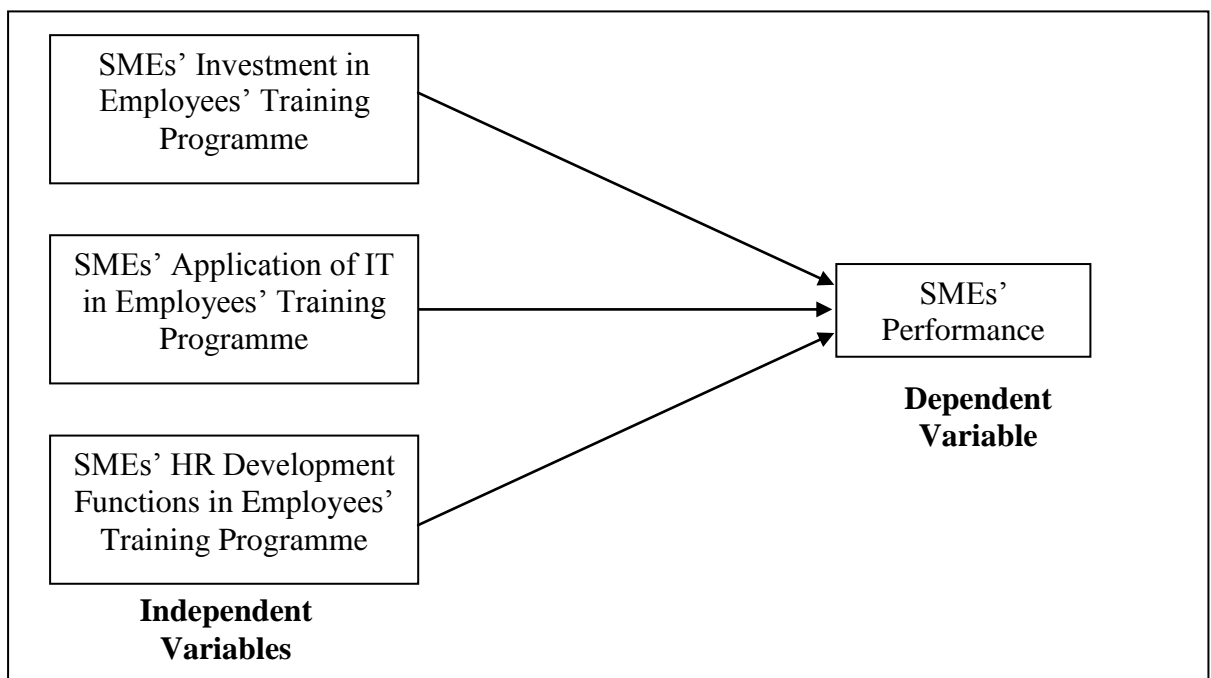


Figure 2.1 : Conceptual Framework.

The independent variables consist of SMEs' investment, SMEs' application of information technology and SMEs' Human Resource Development functions.

Although all the independent variables are related to employee training in SMEs but they are not interrelated with each other. The reason is this research wants to find out the relationship between these three independent elements and dependent variable. On the other hand, the dependent variable is the SMEs' performance, in which this study we will look into SMEs' productivity, expansion, competitive advantages, sales growth, and profitability (return on sales).

## **2.5 Research Hypotheses**

The purpose of this study is to see the impact of SMEs' investment in employees' training programme, SMEs' application of IT in employees' training programme and SMEs' HR Development functions in employees' training programme on SMEs' performance in Northern Malaysia.

According to Reid and Harris (2002), one of the factors that affect SMEs' performance is the investment or expenditure that the SME invests in employees' training programme. The training programme then would help SMEs to achieve organizational goals and bring the tangible outcomes (O'Connor et al., 2002). Thus, the hypothesis is postulated as below:

*Hypothesis 1: There is a positive relationship between SMEs' investment in employees' training programme and SMEs' performance.*

On top of this, the relationship also exists between the application of information technology in employees' training programme and the performance of SMEs. Blanchard and Thacker (2004) recommended the use of audiovisuals (AVs) in training to achieve the training objective. Besides, SMEs can also apply computer-

based training (CBT) to enhance the effectiveness of training programme (O'connor et al., 2002). Hence, the application of information technology in employees' training will improve the SMEs' performance. Therefore, the hypothesis is postulated as below:

*Hypothesis 2: There is a positive relationship between SMEs' application of IT in employees' training programme and SMEs' performance.*

Although Human Resource Development functions play different roles in an organization, its commitment in determining the performance of SMEs is considered important. The Human Resource Development functions have positive relationship with the performance of SMEs. Devins and Johnson (2002) also agree with this statement and pointed out that there was positive relationship between the existence of Human Resource practices and the incidence of training in the SME context. It represented a powerful lever in the design and delivery of interventions aimed to increase Human Resource Department practices and training in the SME context. Chen et al. (2003) claimed that Human Resource Development contributes to the productivity improvement and business performance of an organization. Hence, the hypothesis is postulated as below:

*Hypothesis 3: There is a positive relationship between SMEs' Human Resource Development functions in employees' training programme and SMEs' performance.*

Besides, the relationship validity of model also needs to be evaluated. Hence the hypothesis is postulated as below:

*Hypothesis 4: The three independent variables of SMEs' investment, SMEs' application of IT and SMEs' HRD functions in employees' training programme will significantly explain the variance in SMEs' performance.*

## **2.6 Summary**

Based on the literature, SME is still facing some problems in achieving the growth in productivity, expansion, competitive force, sales growth and profitability (return on sales). One of the factors that will improve the performance of SME is identified as employees' training. Under the employees' training, there are three variables (investment, application of information technology and the roles of Human Resource Development functions) that will affect the performance of SME. Thus, existing SME or newly set up SME needs to look into these variables in order to achieve competitive advantage in the ever-competitive business environment especially everyone now is looking at China or Vietnam for manufacturing investment opportunities.



## Chapter 3

### METHODOLOGY

#### 3.1 Introduction

This chapter discusses the research design and measures used in the research. The questionnaire design and the data analysis procedures are also discussed in this chapter.

#### 3.2 Research Design

Under the research design, the methods and procedures for getting and analyzing the required information will be discussed. The component of a research design includes the type of study, unit of analysis and population, and sampling technique.

##### 3.2.1 *Type of Study*

This research is a hypothesis testing study. It explains the factors in employees' training that have the influence on the performance of SMEs in Northern Malaysia.

##### 3.2.2 *Unit of Analysis*

The study concentrates on manufacturing SMEs in Northern Malaysia (Penang/Butterworth, Kedah and Perak). The targeted respondents are the top management such as the manager /owner of the company who actually runs the company. Thus, unit of analysis is the organization.