

Organizational commitment as a moderator of the effect of training on service performance: An empirical study of small to medium-sized enterprises in Malaysia

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Abstract: This paper seeks to examine the relationship between training approaches and organizational performance among 150 service personnel from 10 Small Medium Enterprises (SMEs) in Klang Valley Malaysia. Formal training approaches used in this study are college education, formal courses run by outside providers, distance learning courses, formal in-house courses, and Internet-based courses, whereas informal training approaches are appraisal, coaching, promotion on a temporary basis, informal seminars. Regression results show that there are positive and significant relationships between both formal and informal training and service performance. When there is a presence of moderating effect of organization commitment to employees, only informal training contributes to the success of the service firm based on a higher adjusted R-square. Senior management of SMEs can benefit from this study through recognition of the role of organizational commitment to employees as a key driver to strengthen the relationship between informal training and service performances further.

Key words: Training, Service performances, Small medium enterprises (SMEs), Organizational commitment to Employees

INTRODUCTION

It is widely known that Small Medium Enterprises (SMEs) are the main engine of growth in most developing economies (Hoq *et al.* 2009). In Malaysia, SMEs can be broadly defined either in terms of the annual sales turnover or the number of full-time employees employed in the company. SMEs can also be categorized in terms of the industry sector they are operating. As far as the service sector is concerned, the sales turnover is between RM 250, 000 and RM 1 million, and the number of full time employees is not more than 50 (SMIDEC 2009).

There are many contributions of SMEs to developing countries. As pointed out by Berry and Mazumdar (1991), these contributions include the development and establishment of large number of SMEs firms, the employability of the number of workers, the increase of the value-added outputs, the utilization of local factors of production, and the redistribution of households' income in the country. SMEs in the service sector contributed steadily to Malaysian GDP growth from 50.7 in 1996 to 53.9% in 2000, and increased further to 58.1% in 2005. Additionally, the service sector accounted of more than half of the total workforce in Malaysia (Department of Statistics 2006). Despite these contributions, there are challenges faced by SMEs in the service sector. These challenges include the shortage of skilled workers, low productivity of workers, limited capacity of SMEs to operate in the globalization era, and intense competition from the firms in China and India (Ting 2004). Therefore, it is certainly crucial for SMEs to improve their organization performances through giving training activities to their human capitals (Valle *et al.* 2009).

LITERATURE REVIEW

Generally, training can be divided into formal and informal training. Formal training refers to initiatives which have a structured mode of delivery, and can be identified by both recipients and deliverers with the purpose of creating new awareness or knowledge of a workplace process or activity (Patton and Marlow 2002), whereas informal training is explained as ad-hoc based, fragmented and flexible which often lack a formal structure and objectives stated (Jayawarna *et al.* 2007). In other words, informal training can be either in the form of assistance given by senior workers (Sicherman 1990) or of not formally planned by an organization (Wu and Rocheleau 2001).

Small firms of SMEs prefer informal training rather than formal training which can lead to formal qualifications (Matlay 2004, Holden *et al.* 2006). There are a variety of reasons to support the fact that formal training approach is not highly demanded by small business firms. These are due to high training cost, high opportunity cost of attending formal training courses, and lack of relevance of the job training (Johnson 2002). Mathis and Jackson (2008) argued that informal training enables employees to learn informally by asking questions, and getting advice from other colleagues and their supervisors which may help establish better working relationships. Some findings also show that informal training is more resonant with the operating environment of SMEs that supports high productivity, profitability, and quality (Doyle and Hughes 2004).

However, Wu and Rocheleau (2001) and Sicherman (1990) have different views on training approaches. They believe that the training acquired via a formal way is considerably easier to measure the effectiveness of training on organizational performances because costs and benefits of training approaches in terms of time and investment are easily calculated and recorded. Additionally, Lynch (1991) supported that formal on-the-job training approaches are more specific to achieve firms' objectives. As pointed by Wong *et al.* (1997), firms are more likely to emphasize formal training only if there is a high degree of structure (standard rules, procedures, and policies) within the firm and the delegation is highly formalized. Similar arguments are presented by other researchers that workers who work in the structured organizations have a higher chance to receive formal training opportunities (Valle *et al.* 2009, Hoque and Bacon 2006). When the organization is less structured and management functions is less formalized, informal training seem to be more appropriate to this type of organization (Macpherson and Jayawarna 2007).

Researchers have recognized that training activities can be used as an effective way to avoid business failure in SMEs (Ibrahim and Soufani 2002). The survey conducted in UK by Labor Market Survey in 2001 demonstrated that poor training activities could lead to the failure of business. Appropriate training approaches are critical to the performance of the organization (Webster *et al.* 2005). Generally, organizational performance can be conceptualized by using either financial performance, or operational performances, or a combination of both. Financial performance typically include indicators measuring sales in terms of sales volume, and profitability in terms of return on investment (ROI), return on sales (ROS), return on equity ratios (ROE), and earnings per share (EPS) (March and Sutton 1997). Other financial indicators used by researchers are "market" and "value based" measurements. These measurements are more appropriate than accounting-based measurements (Hax and Majluf 1984), such as market-to-book, stock-market returns, (Montgomery *et al.* 1984), and the ratio of the market value of a firm to the replacement cost of assets (Lindberg and Ross 1981).

Unlike financial indicators, the common measurements for operational performance indicators are market share, productivity, new product introduction, product and service quality, marketing effectiveness, value-added manufacturing outputs, and technological efficiency (Venkatraman and Ramanujam 1986). Despite the fact that there are many indicators available to measure organizational performance, this paper is only looking at the operational indicator of SME service firms. Operational performance in terms of service quality is used to determine service firm performance. Stavrou *et al.* (2006) argued that service quality is a good and common operational indicator to measure organizational performances of the service firm.

Service quality has been viewed as a significant issue in the service industry by Bowen and Hedges (1993). Positive relationship between high levels of service quality and improved business performance has been established by Roth and Van der Velde (1991). Similarly, Bowen and Hedges (1993) documented that an improvement in quality of service is related to expansion of market share. There are many models that have been developed in measuring service quality. However, SERVQUAL instrument, which was developed by Parasuraman *et al.* (1988) is the most widely used to measure the performance of the service firms. SERVQUAL framework consists of 5 dimensions which are critical in explaining the construct of service quality, namely Reliability, Responsiveness, Assurance, Empathy, and Tangibles.

There is little empirical evidence to support the relationship between training approaches and organizational performance in terms of service quality performance in Malaysia. It is reasonable to believe that training may contribute positively and significantly to the performance of SMEs in the service sector. Denton (2000) provided the most remarkable illustration on the relationship between training approaches and service quality performance of Merck (a US drug maker). With the existing literature in supporting the relationship between training and organizational performances, several hypotheses are developed:

H1. Formal training approach used by SME service firms is positively related to organizational performance in terms of service quality.

H2. Informal training approach used by SME service firms is positively to organizational performance in terms of service quality.

The relationship between training approaches and service performances may be moderated by organizational commitment to employees. As Likert (1967) mentioned that training approaches along with organization commitment to employees, as defined by organizational support, decision making, communication, and control, can improve the performances of the firms. Russell *et al.* (1985) also mentioned that training approaches are more likely to affect organizational performances if the organization is highly committed to the training needs of workers. Organizational commitment to employees can be reflected through the care of employee well-being and satisfaction, perceived fairness of treatment from management level, and willingness to invest in competence development and reward (Eisenberger *et al.* 1990). The construct of organizational commitment to employees has been made difficult mainly because of lack of agreement concerning how to best measure and conceptualize this construct (Mowday *et al.* 1974). In spite of its difficulty, organizational commitment to employees is very critical to organizational success (Roca-Puig *et al.* 2007). Pfeffer (1998) found that commitment-oriented management practices help reduce time required to produce one ton of steel by 34 percent, and minimize error by 63 percent. Similar results were reported in another study on 200 SMEs banks,

indicating organizational commitment to employees improves financial performance by 30 percent (Schein 1970). A strong commitment to workers from senior management help firms garner workers' loyalty, dedication, effort, and initiative, and also create a sense of community that facilitates collaboration (Eisenberger *et al.* 1990). Roca-Puig *et al.* (2007) further supported the fact that organizations show strong commitments toward their workers are more efficient. As pointed by Huang (2001), a social environment of attention and commitment to workers constitutes a strategic resource for the organization as its value is rooted in a complex network of social relationships between individuals reflected in performance management, recognition, compensation practices or communication programs that are not easily be identified and acquired by competitors.

Many researchers have agreed that there is a positive link between organizational commitment to employees and training participation. Eisenberger *et al.* (1986) pointed out employees are keen to attend the training provided by the organizations if they find that the organization pays a lot of attention to the skill development and enhancement of workers. Sahinidis and Bouris (2008) discovered that employees who are committed to the training are prepared well for the challenges in the future. Additionally, they can perform much better than less committed ones in the organization (Mowday *et al.* 1974)

With this background information, hypotheses are developed to examine the moderating effect of organization commitment to employees on the effect of training approaches on organizational performances.

H3. Organizational commitment to employees moderates the relationship between formal training approaches and organizational performances, and the relationship will be positive and stronger with the presence of this moderator.

H4. Organizational commitment to employees moderates the relationship between informal training approaches and organizational performances, and the relationship will be positive and stronger with the presence of this moderator.

METHODS AND DATA

In this paper, the total respondent of this survey is 150 employees from 10 SMEs in Klang Valley, Malaysia. These employees have gone through certain amount of training programs (either formal or informal) in the organization. The questionnaires were designed based on a 5 point-likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The respondents were required to assess the performances of their organizations in terms of service quality performance. Even though the use of perceptual performance measures is not optimal, however previous research has discovered measures of perceived organizational performance are positively correlated to objective measures of business performance (Powell 1992). Hence, it is considered to be acceptable and consistent to employ employees' perceived organizational performance in this study (Perry-Smith and Blum 2000, Stavrou *et al.* 2006).

In general, scales used to measure the research constructs are drawn from the available literature discussed above earlier. The study explores five formal training approaches which are adopted from Jayawarna *et al.* (2007), and Macpherson and Jayawarna (2007). All five formal approaches of training are universities/ colleges, formal courses run by outside providers, distance learning courses, formal in-

house courses, and Internet based courses. Informal training approaches include appraisal, coaching, promotion on a temporary basis, informal training seminars/ meeting. As mentioned earlier, this paper is only focused on operational performance in term of service quality which is perceived by other researchers as useful and relevant in measuring the performance of service firms (March and Sutton 1997). The SERQUAL battery developed by Parasuraman *et al.* (1988) was used in this study. Service quality dimensions were measured by 14 items. In order to meet the purpose of this paper, 5 indicators of organizational commitment to employees are taken from the study of Roca-Puig *et al.* (2007). They strongly believed these indicators are the common characteristics in measuring organizational commitment. All the reliability values are above 0.7 (ranging from 0.709 to 0.831), indicating sufficient reliability of the measurement used.

RESULTS

Table 1: Formal Training Approaches on Services Performances

	<i>B</i>	<i>Sig</i>	<i>B</i>	<i>Sig</i>
Constant	2.119	.000	2.238	.007
Formal Training (FT)	.119	.003	.085	.710
Organizational Commitment to Employees (OCE)	.356	.000	.324	.143
FT*OCE			.009	.881
R ²	.436		.436	
Adjust R ²	.428		.424	
F	54.188		35.880	
Sig	.000		.000	

Dependent variable: Service Quality Performance (SQP)

Table 1 exhibits the regression results of the formal training approaches and organizational commitment to employees on service performance. In line with the previous literature (Denton 2000, Huang 2001), there is a positive and significant relationship between formal training approaches and service performance. In line with the previous works of Pfeffer (1998), and Schein (1970), the relationship between organization commitment to employees and service performance is significantly and positively reported. As shown in Table 1, 42.8 percent (Adjusted R Square) of the variation in service performance is significantly explained by formal training approaches and organization commitment to employees. However, the relationship between formal training and service performance is not statistically significant after the moderating role of organization commitment to employees is taken into consideration. Thus, hypothesis H3 is rejected.

Table 2: Informal Training Approaches on Services Performances

	<i>B</i>	<i>Sig</i>	<i>B</i>	<i>Sig</i>
Constant	1.797	.000	.197	.801
Informal Training (IF)	.178	.001	.617	.004
Organizational Commitment to Employees (OCE)	.370	.000	.806	.000
IF*OCE			-.118	.035
R ²	.482		.498	
Adjust R ²	.475		.487	

F	66.547	46.965
Sig	.000	.000

Dependent variable: Service Quality Performance (SQP)

Regression analysis was also carried out to test the relationship of informal training approaches, and organization commitment to employees on service performance. In support of previous studies (Doyle and Hughes 2004, Bartel 1994), informal training approaches are significantly and positively related to service performance. Results also indicate that organization commitment to employees is highly significant to service performance. Table 2 shows that 47.5 percent (Adjusted R Square) of the variation in service performance is explained by informal training approaches, and organization commitment to employees.

Despite similar findings showed in both tables, the value of Adjusted R Square in Table 2 is comparatively higher than the value of Adjusted R Square in Table 1; therefore, it can be said that informal training approaches have a greater positive effect over formal training approaches on the performance of SME service firms. As indicated earlier, there are many reasons to support why SMEs favor informal training approaches (Johnson 2002). Informal training provides as a cost effective solution through getting advice from other colleagues. Additionally, the continual provision and availability of formal training is a great challenge to SMEs as they constantly face financial and resource constraints. The Adjusted R Square of 0.475 in Table 2 implies that informal training approaches with the main effect of organization commitment explain about 47% of the variation in service performance of SMEs. In contrary to previous table, organization commitment to employees moderates the relationship between informal training approaches and service performance. The adjusted R square increases further to about 49%. In other words, the moderating effect of organization commitment to employees explains nearly 2% more of variance in service performance. Thus, hypothesis 4 (H4) is supported.

DISCUSSION

The need for training becomes increasingly significant as employees face the need to upgrade their skills constantly and to develop an attitude that permits them not only to adapt to rapid environmental changes, but also to increase productivity to remain competitive. The direct link between training approaches and service performance has been established in the context of Malaysian SMEs. There is a widespread agreement that training activities provided by employers are important to the performance of SMEs as employees would gain concrete skills and strategies to improve job performance, and build greater confidence and self-esteem (Valle *et al.* 2009). The result from the survey shows that informal training activities seem to be more effective among SMEs workers in Malaysia even though formal and informal training approaches are very connected and integrated at the workplace. Informal learning generally happens in a face-to-face encounter. Common examples of informal training include asking questions, getting advice from a superiors or experienced co-worker, and watching a superior demonstrate a working process and procedure. Informal learning also occurs through workplace practices such as discussion through social networking sites. Workers in the survey commented that they are likely to learn informally by interacting with workers, receiving feedback among workers, coaching, listening at meeting, and using social networking sites for discussion.

The second objective of this paper is to examine the role of organizational commitment to employees in moderating the relationship between training and service performance among SMEs in the service sector. The result shows that success and participation in the workers' training are affected by the level of employer commitment to employees. Training must have top management's full support. This support should be communicated to the entire organization. The support is further strengthened when top executives take part in the training (Mondy and Noe 1996).

The main implication of this study is that top management should be committed to offer a broad spectrum of training courses and other skill-building opportunities to meet the varying needs of workers. Commitment to workers begins with the provision of training and development programs for workers at every level. Training provided by top management should be designed to ensure the right person is on the right job, which could promote long-term employee job satisfaction. Additionally, top management of SMEs should be committed to create a continuous and collaborative learning environment by having a trust and open communication and relationship among workers. This can be achieved with top management commitment in giving supports to the members of the organization for dissemination and sharing essential and subtle knowledge of the workplace in the organization.

CONCLUSION

It is vital to study the relationship between training approaches (formal and informal) and service performance among SMEs in the service sector, Klang Valley, Malaysia since training approaches, if managed properly, will aid SMEs firms to overcome severe challenges, particularly human capital related issues. This study provides strong evidence to the existing literature that training approaches have positive and significant influences on firm performance. The study also found that informal training approaches have a stronger effect on service performance as compared to formal training approaches.

Although formal and informal training approaches by themselves show positive effects on organizational performances, when there is a presence of moderating effect of organizational commitment to employees on relationship between training approaches and service performance, only informal training approaches contribute to the success of the service firm. Senior management of SMEs can benefit from this study through recognition of the role of organizational commitment to employees as a key driver to strengthen the relationship between informal training approaches and organizational performance further. It is reasonable for the researcher to propose that managers of SMEs firms in the service sector need to be committed to training approaches. The rationale of this is obvious in which employees are motivated to take training activities seriously if they are able to receive effective support from their committed senior management. As a result, the presence of commitment from senior management to training approaches is likely to produce more desirable organizational performance.

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