

# The Impact of High Performance Work Systems' on Firm Performance in MNCs and Local Manufacturing Firms in Malaysia

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**Abstract**—The empirical studies on High Performance Work Systems (HPWSs) and their impacts on firm performance have remarkably little in the developing countries. This paper reviews literatures on the HPWSs practices in different work settings, Western and Asian countries. A review on the empirical research leads to a conclusion that, country differences influence the Human Resource Management (HRM) practices. It is anticipated that there are similarities and differences in the extent of implementation of HPWSs practices by the Malaysian manufacturing firms due to the organizational contextual factors and, the HPWSs have a significant impact on firms' better performance amongst MNCs and local firms.

**Keywords**—Firm Performance, High Performance Work Systems (HPWSs), Human Resource Management (HRM), Multinational Corporations (MNCs).

## I. INTRODUCTION

OVER the past two decades, a series of empirical works has explored the linkages of High-Performance Work Systems (HPWSs) and their impacts on employee outcomes and firm performance. These high-performance work systems consisting of a range of innovative and interactive human resource management (HRM) practices or bundles of HRM practices designed to improve firm performance [1] are also known as “high-involvement management” (HIM) and “high-commitment management” (HCM) [2], [4]. Researchers have found that there is a positive link between HPWSs and organizational performance [2], [6]-[9] based on improvements in firms' current and potential employees' knowledge, skills and abilities (KSAs), motivation and commitment, eventually producing high quality employees [1], [6], [9]. Further, it has been found that, HRM practices, which are consistent with HPWSs, outperform traditional HR systems irrespective of their business strategies [1]-[2], [6], [9]-[12], [14]-[19].

The HPWSs concept emerged particularly in the western countries in systematically addressing the management of production workers [11]. HPWSs are designed to be matched with organizational strategies that concentrate on cost cutting and competitive product pricing [9] and varied by sector and business strategy [2], [6], [9] in different work environment settings [92]. Earlier literatures on HPWSs focused on the technological and market factors influencing HR systems of Japanese manufacturers in 1970s and 1980s, including quality

circle techniques, just-in-time inventory and delivery, and team-based production [133]-[134].

The Japanese manufacturers believe that, these practices provide a degree of control over employees' job performance, increasing motivation levels and commitment towards improved production systems for a better quality of outputs. [11] have claimed that, these kinds of changes to HR systems within production systems have led to major changes in steel making and car production in the western manufacturing through the implementation of a comprehensive recruitment and selection methods as well as better training and development activities. The HPWSs practices are able to produce a high work quality and output through employees' empowerment system in the decision making process. The subsequent improvements in the team and company based performance further increase employees' commitment [134].

## II. HIGH PERFORMANCE WORK SYSTEMS (HPWS) IN THE WESTERN AND ASIAN SETTINGS

Nowadays, support for the perceived importance of High-Performance Work Systems (HPWSs) continues to grow [13], [16], [32]. HPWSs contribute significantly to the firm performance [3], [11], [23]-[24], [32]. The implementation of HPWSs has been proven effective in the Western settings and, of course, in Japan, but questions remain about their practicability in different cultural settings in other parts of East and Southeast Asia [3], [24]. At the same time, American firms have invested heavily in this region and expanded their HPWS practices into their Asian business operations. European and Japanese Multinational Corporations (MNCs) had also implemented HPWS practices in the Asian countries where they operate, and they appear to have had a positive influence on the local firms HR system [25]. Some of the empirical studies carried out have demonstrated that the implementation of HPWSs is effective in Asia [3], [26]-[28]. A study conducted in Korea demonstrated that, the adoption of HPWSs in many Korean firms has increased the firm performance [29]. In contrast, [30] survey involving 222 firms in Singapore found modest support for the hypothesis that the bundle of HR practices surveyed had a positive correlation with firm performance. Nevertheless, another study conducted by [31] consisting of 191 firms in the same country has revealed that HPWSs are significantly associated with firm performance. The impact of HPWSs on firm success has an influence on managerial perspectives as well as governments and economic policy

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makers [3]. They demonstrated that HPWSs have a significant impact on firm performance in the locally owned companies and foreign firms operating in the East and Southeast Asian countries; Thailand, Taiwan, Singapore and Korea. The HPWSs effects are differed amongst the countries. The strongest effects of HPWSs on firm performance are noted in Thailand and Taiwan due to a high level of foreign direct investment (FDI) in those countries. Their further findings revealed that locally owned companies enjoy greater success by implementing the HPWS techniques.

A review of the literature has indicated that studies exploring the HPWSs practices in non-western countries have been limited [3], [13], [24] especially in the manufacturing firms [3], [32]. A study done by [32] verified a positive relationship between HPWSs practices and firms' operational performance in terms of unit cost, quality, delivery, flexibility and speed of new product introduction and organizational commitment. This comparative study was carried out in the manufacturing plants amongst four countries consisting of Germany, Italy, Japan and the USA in the automobile, electronics and machinery industries. Their research was based on [33] seven HRM practices, which include components such as employment security, selective hiring, self-managed teams, and decentralization of decision making, compensation based performance, extensive training, status differences and information sharing throughout the organization. In contrast, [13] explored the extent of HPWSs impacts on firm performance amongst the manufacturing and services industries in three Asian countries namely Hong Kong, Korea and Malaysia in multiple sectors indicated that there are differences in the number of HPWSs utilized by the industries. In addition, the employee initiatives and performance management are significantly contributed to firms' profitability level as compared to firms' ownership and age of organization. It is also demonstrated that the organizational size has a significant impact on firm performance. A research by [24] further supports the notion that the HPWSs practices in the East and Southeast Asian regions are influenced by local cultures and organizational structures and strategies.

To bring a few examples of relevant research in the context of Malaysia, [87] found out that, the Japanese management practices in electrical and electronics companies in Malaysia are parallel with HPWSs characteristics. They emphasized participatory work system, multifunctional work teams, total quality management, close communication and relationships, decentralization of training and development functions, and management support and commitment. In contrast, a study conducted by [35] in Malaysia concentrating on four functions of human resource management practices namely employee resourcing (i.e. recruitment and selection), employee training and developments, employee appraisals, and employee rewards revealed distinctive differences between domestic firms and MNCs. The locally owned companies' respondents concluded that MNCs have a better standard and well-organized HRM practices as compared to their own system.

The locally owned companies are of the opinion that the adoption of HPWSs, which are commonly practiced by MNCs, will incur high cost to them. The local managers have benchmarked the HRM practices against MNCs but do not adopt the same practices in their firms, as they perceived that MNCs are in a "different league" where most of their concerns are to compete with other local firms [35]. Economic conditions and socio-cultural aspects are two influential factors contributing to the differences in the implementation of HRM practices in both companies. The Malaysian economic growth is driven by exports that contribute to manufacturing outputs with a high employment of local labors. At the same time, the Malaysian government is more concerned to shift the economy from labor intensive, agro-based and commodity intensive sectors to a capital intensive (i.e., high-tech industry based activities). The government is concerned about educating and providing training as well as implementing effective and systematic HR policies and strategies to realize the goals. Malaysian multi-ethnic, multi-cultural and multi-religious society influences the HRM system in order to maintain a harmonious relationship between the ethnic groups [35].

Other studies conducted by [135] revealed that Malaysian respondents scored highest on Power Distance Index, signaling hierarchy that is not consistent with the HPWSs concept. It has revealed that there is unequally in the relationships between manager and subordinates, which sets a boundary on the implementation of an integration of HR practices. The results of research by [24]-[25] support the proposition that the human resource systems practices in the East and Southeast Asian regions are based on hierarchical and non-participative structures. These factors hindered the effectiveness of HPWSs implementation in the Asian cultures.

The HPWSs practices in local and foreign-owned firms (i.e. MNCs) are based on the theoretical arguments that MNCs either adapt to local HR environment in the host country where they establish the business or adopt HR practices from their head office or other overseas establishment [89]-[90]. MNCs need to cope with several issues on how to standardize their HRM systems with other parts of their corporations (i.e. global integration) and how to adapt HRM practices to meet the context of local environment. It appears that MNCs need to comply with different degrees of adaptation of local conditions. This issue arises because of the differences in workforce diversity, cultural values, government rules and regulations, types of employees and geographic location in different setting or countries [27], [36]-[37].

The organizational structure, strategy and culture will create inconsistencies in the HRM systems. These conditions lead to the differences in organizational goals and strategies between the domestic and international firms [38]-[40]. It is claimed that MNCs must design their HR system to meet the local requirement needs as well as global perspective to have the right balance of HR practices to increase firms' performance [39], [41]-[42]. Thus, it is anticipated that there are similarities and differences in the HPWSs practices by

organizations due to organizational contextual factors and its impacts on firms' performance amongst the Malaysian large manufacturing firms and MNCs.

This paper examines empirical studies on the importance of HPWSs practices and how these integrated HR practices contribute to the employees various work outcomes which are coherent to the organizational strategic goals. The potential focus is drawn on the aspects of HPWSs practices in achieving this alignment and the effect of organizational contextual factors on HPWSs practices and its relationship with firm performance amongst the selected MNCs and local manufacturing firms in Malaysia. More specifically, the paper illustrates the five components of Huselid's HPWSs practices and their potential impacts on the firm's performance with controlled variables of organizational contextual factors (i.e. firms' ownership and country origin, and size of workforce). These arguments required empirically studies to examine the extent to which High Performance Work Systems (HPWSs) have been implemented in MNCs and local manufacturing firms in Malaysia and their impacts on firm performance and, as well as to determine the extent to which contextual factors mediate the impacts of HPWSs in the Malaysian context.

### III. MANUFACTURING SECTOR PERSPECTIVE IN MALAYSIA

The manufacturing sector plays a critical role in developing Malaysian economy. The sector contributes significantly to Malaysian GDP (i.e. production output, investment, level of employment and exports) [41]. Malaysian manufacturing sector's concern is to move up the value chain by producing and offering high technology of products, carrying out research and development (R & D) activities, enhancing product quality and increasing the productivity index. These strategies are attainable by managing and developing the human capital [40]. The government of Malaysia depends heavily on the Foreign Direct Investments (FDIs) through MNCs investment activities in the manufacturing sector. Business transactions amongst the government, MNCs and the local businesses enhance Malaysia's economic competitiveness in the manufacturing sector [45]. The economic policy of Malaysian Government is to secure a high level of economic competitiveness ranking amongst the Asian countries. As a developing country, the Malaysian Government believes that by improving its ranking, it would trigger higher private investment and Foreign Direct Investments (FDIs) particularly in the manufacturing sector (MITI). This is because the manufacturing sector contributes one third of Malaysian GDP and represents more than 70 percent of Malaysian exports, which makes it one of the main contributors for economic growth. This sector employs 3.5 million of workers out of the 12 million labour forces from the total population of 25.8 million (Malaysia, Ministry of Finance, 2008). The Malaysia Third Industrial Plan (IMP3) (2006-2020) aims to improve the country's global competitiveness ranking by capitalizing its capabilities to position itself as a major manufacturing hub and services

provider in the global supply chain. One of the IMP3 strategic thrusts is concerned on the level of competitiveness and productivity in the manufacturing sector. This transformation is only achievable by developing a high quality and productive human capital (MITI). Previously, the Malaysian industrial development strategy has changed its focus on Human Resource/Industrial Relations Policy from emphasizing on cost management to human resource development [46]. The Human Resource Development Fund (HRDF) has been established which requires the manufacturing firms to pay 1% of their payroll to subsidize the training expenses. This government policy contributes to the development of HPWSs in the Malaysian manufacturing firms.

### IV. HIGH PERFORMANCE WORK SYSTEMS (HPWSs) AND FIRM PERFORMANCE

The HPWSs are a broader aspect of human resource management system that focuses on the importance of multiple practices. These have significant impact on employees' performance [47]. The HPWSs can be seen as a means to enhance employees' knowledge, skills and abilities, decrease staff turnover and improve sales performance, market value and profitability level [1]. Competencies improvement, commitment and motivation enhancement, and employee participation in the decision making process are the three substantial components of HPWSs [6]. Such systems comprise of staff selection, training, performance appraisal, reward and compensation, teamwork and communication [1], [11]. These HRM practices, indeed affect employees' performance by enhancing their knowledge, skills, behaviors and commitment, and empowering them to make a decision while performing their tasks [7], [48]-[49]. The HRM practices yield employee capabilities that, in turn, positively influence organizational performance. It is viewed as a means to develop and sustain the organizational core competencies that are necessary in the implementation of organizational strategy [50]-[51]. Firms captivate their inimitable potential by managing its people effectively in securing competitive advantage to stay robust in the fierce market competition [52]. The development of inimitable HR and workforce management system through a differentiation strategy emphasizes on strategic jobs improves firm's strategic success [55]. Employees have a "strategic value" when they contribute to firm's strategic objectives [54]. The HPWSs in the forms of extensive recruitment and selection procedure, performance management, compensation systems, training and development activities are designed by the organizations to equip, refine and reinforce required skills and behavior towards the firm's competitive strategy [91].

Based on empirical studies analysis done, there is a broad component of HRM practices in the form of HPWSs. Amongst others are staffing (recruitment and selection, compensation and benefits (rewards), flexible job assignments, teamwork, communication, performance

management (performance appraisal), training and development, employee initiatives and innovation, employment security, career opportunity, organizational structure, flexibility of rules and practices, employee involvement and participation, promotion policy, grievance procedure and status distinction [1]-[3], [7], [11], [13], [18]-[19], [32], [92]. Latest development of the HPWSs performance dimension focuses on 'strategic jobs' in achieving the organizational strategic goal. [54]- [56] made a point that firms need to distinguish job performance that has an impact on firms' strategic success and contributes to their competitive advantage. They further claimed that not all job has a strategic value.

These components have been extensively used, broadly expanded and empirically validated as the basis components of HPWSs by scholars and well accepted by academicians [2], [3], [6], [7], [9], [10] [11]-[17], [19], [22]-[24], [26]-[29], [31]-[32], [49], [59], [57]-[58] [60]. These empirical studies provided evidence on HPWSs practices in improving organizational performance. Nevertheless, the five (5) components of HPWSs specified by [1] are the basic components of the discussion. The details of Huselid's five components of HPWSs are discussed further;

**1) Staffing, or recruitment and selection** is the process of choosing the best-suited candidates for a particular position ([61]-[64], [79]). Several sophisticated selection methods such as interviews, work tests, work sample, personality test, job knowledge test, assessment centre, etc. are designed by firms for effectively conducting compatibility assessment of the candidates for specific positions based on the job specification. It is proven that staffing selectivity is positively related to firm performance [59], [60], [92]. The extensive recruitment and selection procedures have a substantial influence on the quality and type of skills possessed by potential employees and has the ability to enhance the firm's ability for maximizing performance output [1], [59].

**2) Compensation and benefits** are financial and nonfinancial disbursement offered by organization in exchange of employee contributions [61]-[62], [64]-[65], [79]. Workforce pay level plays a critical role in the relationship between HPWSs and firm performance [92]. Firms can exploit their pay level to attract and select the quality candidates with superior skills and in return may enhance firm's ability to produce greater output [1], [59]. [7] and [1] asserted that, a group-based performance is a component of HPWSs. The group-based performance pay increases the firm's ability to retain employees, improve employee performance and motivational level for better results [59]. Employees perceived they are valued by organizations that providing a fair and equitable pay [60]. Furthermore, pay level will attract the best-job-fit-employees with superior performance and increase retention rates of employees [59]. Thus, compensation decisions play a critical role in motivating employees to perform better [65]-[67], [92], [124].

**3) The organization's performance management (i.e. Performance Appraisal System (PAS))** is a critical method

for developing employees' effectiveness and efficiency in performing their jobs [69]. It is a periodical process for managing employee's performance. PAS is "activities conducted by organizations to assess and develop employees' competencies, enhance individual and group performance where score is assigned as a performance indicator for distributing rewards" [69], [70]-[73]. The main objective of a Performance Appraisal System is to manage people performance in order to increase their skill, knowledge and ability for a high level of performance which contributes to an increase of productivity level as well as minimizing cost to gain business competitive advantage [61]-[64], [69], [79]. The uses of performance appraisals (PAs) in assessing individual and work group performance, linking the PAS with compensation systems, promotion from within focusing on employee merit and other forms of incentives will further enhance employees' performance and in turn directly improve the firm performance [1], [69], [71]. The establishment of performance goals for most jobs and providing continuous feedbacks on employee performance will further enhance firm performance [1], [13].

**4) Training & Development** are the activities designed to permit employees to acquire knowledge and skills needed for their present and future jobs, and financed by the organizations [13], [61]-[64], [79]. Training and development are the component of HPWSs [1]-[2], [14], [92]. The components of training and development activities including formal training [1]-[2], [18], [92], develop employee skills and impart knowledge beyond the current position [7], off the job training [19]. induction training program for new comers and training programs for present employees [18]. Formal and informal training provided by organizations can influence employees' development of both new and old employees [1] and enhance their competencies to control their works [60]. [9] found significant relationship between human capital development and operational better performance. Other supporting study by [14] found that, training is positively contributed to organizational performance.

**5) Teamwork and Communication;** Communication is essential for the internal smooth running of a company because it integrates the managerial functions of planning, organizing, leading and control [33]. It is also a means by which people are linked together in an organization [33]. It is a formal process for employer-employee to communicate work-related issues, whereby employees are able to express their opinions through the formal communication channel (i.e. formal grievance procedures), information-sharing program and profit-and-gain sharing programs [1]. Sharing of information with employees helps them understand the management actions and subsequently motivates them to apply their knowledge to perform at their fullest capacity [33]. Participation is reported to have a positive relationship with employees' job satisfaction, commitment and productivity as well as organizational and market performance [75]-[76]. Participation improves the quality of supervisor-employee relationships and as well as the unity amongst the group

members [60]. In addition, working in a team will enhance employees' responsibilities towards their own jobs and each other's job. Studies have shown, employee participation practice permits employees with greater autonomy and control over their jobs, reduces negative behavioral outcomes such as turnover and absenteeism and motivates them to work harder because of fair and equitable treatments perceived by them [77]. According to [1], the designs of organizational structures encourage employees' participation and provide certain discretion in performing their jobs influence the firm performance. Some of the examples of such structures are cross-functional teams, job rotation, quality of work life programs and quality circles [1]. On the other hand, teamwork establishes ties amongst individuals in organization in managing work processes effectively [57]. There is a positive relation between self-directed teams and firm performance based on research conducted in the service firms in United Kingdom [78]. Self-directed teams are able to enhance employees' skills and behavior, and employees' motivation in performing their work-related activities by speed-up the work process [78]. Self-managed teams and flexible job create opportunities to build up networks amongst the units in organization are likely to improve organizational effectiveness [57].

Thus, the above explanations based on theoretical literatures demonstrated that HRM practices are highly related to two performance dimensions: 1). HRM practices increase employee's discretionary efforts and, 2). HRM practices enhance firm performance [1]. These HPWSs practices are mutually supporting each other where the application of one practice normally required the insertion of another practices [33], [60], [92].

HPWSs supports in generating employee greater output through the integration of HRM practices by selecting, developing and retaining individual workforce with superior abilities and motivating them to exert their superior abilities in performing work related activities [1], [18], [47], [92]-[93], [125]. However, [10] and [122] claimed that there is lack of consistency concerning the HRM practices included in the studies in the linkages between HPWSs and employee output. HR researchers indicated this problem is considered as the "black box phenomenon" in terms of what HR practices contribute to the desired organizational performance [21], [54], [80], [83], [94], [134], [137]. Most of the published researched emphasized on the association between HRM and firm performance rather than causation [54], [82]. It is still vague on how to effectively measure HR practices and HR implementation, and remain uncertain which HR practices or combinations of HR practices have most impact on firm performance, and still in no position to affirm that good HRM has an impact on organization performance [83]. Thus, it is practicable to conduct more research works that are empirical in order to fill this gap by exploring the HR practices in the form of HPWSs and their significant impacts on to firm performance especially in the different work settings.

## V. THE CONCEPTUAL FRAMEWORK: THEORY AND HYPOTHESES

The development of the conceptual framework is to examine how the HPWSs work as well as to hypothesize their impacts on people and firm performance. HPWSs are an integration of HR practices which have a significant impact on employees' performance [47] and positively influence organizational performance [7], [13], [47]. The organizational contextual factors are important control variables in the HPWSs-firm performance relationship. It has been empirically proven that, the differences in HRM practices are resulted from the country's stage of industrial and economic development (i.e. organizational size), operational environments and technology configuration [13], [35], [95]. Larger firms basically possess greater market power and larger resources to compete in the market by capitalizing their resources to gain a competitive advantage [52] which can be enhanced by HPWSs practices [1]-[2], [7], [18], [33]. Industries vary in terms of their business opportunities and threats that in turn affect the firm performance. Large firms have more advantage of the firm's resources to compete against their rivals [84] and practicing different manufacturing strategies, which have an implication on HR practices [9]. Firms with different ownership differ in terms of accessibility to financial capital and market exposures [84]-[85] and [96] assert that the external environmental factors in which the firms operate have an impact on firm performance and implication on HR practices. Globalization puts a pressure on firms to have the best practice of HR system to stay resilient in the competitive market [95].

Other supporting studies by [13] revealed that, ownership, unionization status and organization size (i.e. number of workforce) significantly contribute to the differences of HPWSs practices in the three selected Asian economies amongst Malaysian, Korean and Hong Kong firms. In Malaysia, [126] demonstrated that Japanese Management Practices are similar with HPWSs and Resource-Based View (RBV) approach which emphasize participative system, multifunctional work teams, close communication amongst staff, decentralization of training and development activities, systematic job classification, high commitments on the part of management and quality focused (i.e. total quality management). Locally owned firms in Malaysia are reported to not put emphasis on the importance of HR policies and practices as compared to MNCs [35] and MNCs are superior compared to local enterprises as they have imported, adopted and replicated the best HR practices from their head-office [88]. Thus, it is predicted that, the implementation of HPWSs in MNCs and local manufacturing firms are differed significantly due to organizational contextual factors (i.e. firm's ownership and country origin and size of workforce) and have an impact on firm performance in the Malaysian perspectives. These notions generate the following research questions;

- What are the significant components of HPWSs practiced by MNCs and locally owned firms in Malaysia?

- Does the extent of implementation of HPWSs practices differ between MNCs and locally owned firms in Malaysia?
- Are the HPWSs practices effective in improving firm performance in MNCs and local manufacturing firms in Malaysia?
- Do the variations in contextual factors (i.e. firms' ownership and country origin, and size of workforce) influence the High-Performance Work Systems (HPWSs) practices and firm performance in MNCs and local manufacturing firms in Malaysia?

## VI. HYPOTHESES FORMULATION

Based on the reviewing of recent empirical studies, four hypotheses have been generated linking HPWSs and firm performance. HRM practices of selecting, developing, motivating, rewarding and retaining workforce who possesses superior skills, knowledge and ability in performing their work-related activities will result firms achieving a high level of performance and sustain its competitive advantage [1], [7], [20]. A combination of HRM practices in the form of HPWSs lead to positive performance results [1], [3], [6]-[7], [32], [27], [58] and enhance firm's financial performance [1], [7], [11], [20], [60], [67].

Reference [123] studied determinants of firm performance integrating two models that included the economic perspectives (i.e. industry profitability, firm competitive position and firm size) and organizational paradigms (i.e. characteristics of communication flows, employees pay and recognition and systematic HR management, decision-making practices, organization of work, job design and goal emphasis). Their findings revealed that both models are highly significant whether together or alone in relationship to firm performance. They have also indicated that organizational factors explain twice as much variance in firm profits as economic factors. Thus, it can be concluded that building effective and systematic organizational practices yield economic performances of firms. Reference [99] revealed that the organizational type and cultural context have an impact on HRM practices in the state-owned enterprises (SOEs), private companies and international joint ventures (IJVs) in Vietnam. In contrast, [100] demonstrated a strong relationship between greater use of HPWSs, labour turnover and profit per employee in the manufacturing and service sectors amongst 366 UK companies. Unfortunately, it has shown no association between HPWSs and productivity in both sectors. Evidence has demonstrated that host country origin, environmental conditions and organizational contextual factors have a significant impact on HPWSs [3], [27], [101].

Other empirical works have ascertained the effects of HRM practices in the form of HPWSs on organizational better performance [1], [11], [67], [92]. [58] proved that, there is a positive relationship between recruitment and selection, training, promotion, employee involvement, incentives, and safety and health with firm performance. Consistent with the

above studies, [27] established that training and compensation contributes to firm high performance. [97] provided additional support that HPWSs practices; effective recruitment and selection (i.e. staffing), competitive compensation and incentives, effective training and development have a positive relationship with financial performance (i.e. profitability level, return on assets and growth in stock values). Other studies by [7] ascertained that HPWSs have a significant impact on firms' profitability and employee turnover in New Zealand. [98] have further demonstrated that training, employee involvement and motivation are the most significant contributing factors to firm better performance in Taiwan. Based on path analysis, they have specified that, a set of HPWSs contribute directly towards firm high performance. These notions lead to the development of Hypothesis 1;

**Hypothesis 1:** In Malaysian context, firms that implement HPWSs will be more successful in terms of firm performance than those that do not.

In understanding the effects of HPWSs and firm performance, a study conducted in publicly listed companies in Taiwan by [98] has demonstrated that a number of organization contextual variables such as industry environment, degree of internalization, firm size (i.e. numbers of employees) and size of HR department, and previous past performance yield good economic performances of firms. Empirical studies have revealed that firm ownership and size of workforce have direct impacts on a firm's performance [13]. The foreign-owned firms (i.e. MNCs) are more productive as they have advantages on firm-specific tangible assets, technology, product design capability and know-how skills which contribute to a higher level of total factor productivity (TFP) as compared to domestic-owned firms (i.e. local firms) [102]. The firm ownership is the most contributing factor towards the firm's high level of efficiency in the foreign owned firms [102], [104], [110] and [127]. Most of MNCs are large corporations with publicly traded shares which constitute a large amount of foreign investment have an implication on the HR practices and firm performance. Nevertheless, another study conducted by [105] consisting of 5,829 Korean firms has indicated a similar positive impact of level of ownership structure on firm performance.

Consistent with the above studies, [103] examined the intermediate linkage on HPWSs and organizational effectiveness in 76 business establishments in Japan in various industries. The findings reveal that HPWSs are positively correlated to the level of collective human capital in those organizations. Their study supports that resource based view model of human capital have a significant impact on firm performance. On the other hand, [125] claimed that, knowledge, skills, abilities and motivation link up HR system to labor productivity. Other study has indicated that, HPWSs are significantly correlated to the level of collective human capital in most organizations [133]. Other supporting study by [103] indicated that the relationship is significant when human capital is firm specific, and concluded that operational performance mediates the relationship. The findings of these

studies supported the notion that investing in human capital yield a positive employees' behavioral and organizational level performance outcomes [1], [3], [6], [7], [11], [27], [32], [52], [54], [58], [67], [103], [128]. The values of human capital are able to sustain through an integration of HPWSs [9], [60], [103], [106]. Thus, it is essential to acquire, nurture and invest in human capital due to its significant determinant towards the firm success [103]. More studies are needed to establish the contributing factors why some firms perform better than another does.

Reference [32] demonstrated that HRM practices differ in different industries (i.e. automobile, electronic and machinery) particularly on the extent of their implementation in the manufacturing plants in Germany, Italy, Japan and USA. [13] Concluded that organizations in different working environments differ in terms of formation and structures of HPWSs. Her comparative studies amongst Asian companies provided evidence that HR practices and their efficacies depend on the level of fit between those practices and organizational environmental factors in the manufacturing and services sector. Another supporting study by [35] concluded that HR practices in Malaysia are influenced by the local socio cultural and economic conditions, and government policies. Hence, the following hypothesis is posited:

**Hypothesis 2:** Extent of implementation of HPWSs will be a function of firm ownership and country origin, and workforce size.

Human resource practices depend to some extent on contextual factors such as firm's strategic direction, local environment, culture and country of origin [1]. Previous studies have demonstrated that companies in different countries differ in their applications of HR practices and policies due to (i) types of business [42] (ii) employment rules and regulations [107], (iii) HRM capability and administrative [109] and (iv) local culture and geographic location [39], [108]. Furthermore, the firm ownership of foreign operation is likely differed in terms of HRM systems and the complexity of the organizational competitive strategy from its domestic operation leads to a broader and more complicated HR practices [89]. Evidence indicates that host country origin, environmental conditions and organizational contextual factors have a significant impact on HPWSs [3], [27], [101]. Optimal utilization of human resources contributes to an effective and successful implementation of HPWSs [13]. A firm's workforce is claimed as a source of sustainable competitive advantage [81], [125]. Thus, firms must enhance their HR systems and human resources with unique and imperfectly imitable skills and knowledge to gain a competitive advantage towards their rivals [96].

Most studies on firm size present a positive relationship between foreign ownership and firm performance, particularly on productivity level amongst different countries [102], [111]. As asserted by [102], productivity efficiency may vary by industry according to the firm size in local and foreign-owned firms. Their study relied on 395 manufacturing firms with different levels of foreign ownership operating in Greek

where firm size was measured by number of employees. They utilized a number of variables to examine the relationships between number of employees, firm ownership, profit and sales, tangible and intangible assets, working capital and liquidity ratios. Their result demonstrates that size of firms, productivity level and firm performance are positively related, whereas total factor productivity, efficiency change and technological change differ according to firm size. Small foreign firms produce higher levels of productivity compared to medium and large firms [102]. Other supporting studies by [112] on the relationship between Foreign Direct Investment (FDI), diversification and firm performance revealed that geographic diversification improves firm performance and shareholder values. [13] revealed that firm ownership, size of the firm, employee initiatives and performance management have a significant impact on firm performance (i.e. profitability level) amongst foreign firms and locally owned-firms in the three Asian societies (i.e. Malaysia, Korea and Hong Kong). In addition, there are unique features and different configurations of HR practices in these countries in the aspects of staffing, training and development, employee initiatives, flexible rules, performance management and reward system [13]. Thus, it is hypothesized that;

**Hypothesis 3:** Firm ownership and country origin, and workforce size will also directly affect firm performance.

A number of researchers have also examined factors that moderate the relationship between HPWS and firm performance. [113] revealed that the effectiveness of adoption of HPWSs varied across firms with different resources. The study was conducted amongst a wide range of firms in various sectors operating in New Zealand. In addition, HPWSs components (i.e. staff training and performance pay) had a causal impact on firm outcomes. The strength of the relationships was influenced by firm size and years of establishment. Consistent with the above studies, [114] indicated a direct positive effect of HPWSs on export performance. The relationship was tested using a sample of 145 exporting firms in Spain's food processing sector with the effect moderated by perceived environmental uncertainty. However, a number of recent studies have also demonstrated mediating effects on the relationship between HPWS and firm performance. A study by [115] revealed that most of HPWSs (i.e. teams, training, employment security and information sharing) have significant effect on workplace performance. These effects are mediated by employee attachment behavior. Other supporting empirical studies have demonstrated the mediating role of information technology quality [115], internal social structure [57], knowledge management capacity [76] and trust in management [60] between HPWSs and organizational outcomes. It is therefore hypothesized that:

**Hypothesis 4:** Firm ownership and country origin, and workforce size will also mediate relationship between extent of HPWSs and firm success.

## VII. APPROACH AND METHODOLOGY

The above notions require empirical works to establish the extent of implementation and effectiveness of the HPWSs practices in the Malaysian work settings. Practically, data are needed to empirically validate those hypotheses that can be gathered by distributing questionnaires to large manufacturing firms i.e. locals and MNCs.

This project is potentially to be sampled from 200 MNCs and local manufacturing firms registered under the Malaysia Productivity Corporation (MPC) with an approximate respondents of 600 (200 firms @ 3 respondents in each firm) involving Chief Executive Officers (CEOs), Human Resource Directors/Managers and Operations Managers from different division/department. The sample is restricted to large businesses only. In Malaysian perspectives, large firms are defined as those employing more than 150 workers (SME CORP). These categories of respondents are familiar with HR policies and practices in both organizations in order to explore their perceptions on HPWSs practices and its association with firm performance for crosschecking to get a justifiable source of information. Cluster and convenience sampling (i.e. two stages cluster sample) will be employing to collect the required information from these MNCs and local manufacturing firms located in Kuala Lumpur, Pulau Pinang and Johor Bharu in Malaysia. Based on literature review, response rates of 15% to 25% in the Malaysian context is adequate and acceptable [129]-[130]. The survey questionnaire is to assess the five (5) components of Huselid's High Performance Work Systems (HPWSs). The measures of construct of each component is adapted from the sample questionnaire from a similar study conducted by [1] and other empirical studies [2], [8], [14], [59]. Respondents will rate the items on a 7-point scale (1 = strongly disagree and 7 = strongly agree). The organizational contextual factors included in this project are firms' ownership and country origin, and size of workforce [1], [39], [49], [89], [117], [118]. The dependent variable (i.e. firm performance) includes three outcome measures; profitability, productivity and market growth; a subjective measure of firm performance. The measure of perceived organizational performance (i.e. perceptual judgment) is based on 7 points Likert Scale (1=Excellent to 7=Worse) [1]-[2], [14]-[15], [18]-[19], [67], [82]. The respondents are required to rate firm performance relative to competitors in the industry ranging from 1 = the lowest and 7 = the highest on three aspects of firm performance: (a) profit, (b) market growth and (c) labor productivity. The productivity as firm's performance indicator measurement is significantly relevant to the Malaysian manufacturing environment, as Malaysian manufacturers have been adopting the Productivity-Linked Wage System (PLWS), which linked employee's salary and efforts through a wage system and tied to the productivity performance (MPC). In addition, some reviews of research on human resource management and its relationship with firm performance illustrated that objective and subjective measures

of company performance have been treated as equivalent [5], [7], [67], [100], [121]-[122]. Previous studies verified statistically significant correlations among the subjective, accounting and market-based factors in measuring firm's performance ([119]-[120]). Latest development on the usage of subjective measures of company performance proven that subjective and objective measures are positively associated [131].

## VIII. CONCLUDING REMARKS

The field of High Performance Work Systems (HPWSs) has had a remarkable influence in the Asian business operations on the academic literatures as well as the management practices. This paper reviews empirical studies on HPWSs and their impacts on firm performance in the Western and Asian countries. A critical assessment of existing empirical studies finds that, the extent of implementation of HPWSs practices varies in different work settings and contributes significantly to firms' performance. Countries differences in terms of organizational contextual factors have further impact on the implementation of HRM strategies and practices. The HPWSs practices in the manufacturing setting cannot be denied their significant contributions to firm better performance in the way how the jobs are designed, self-managed teams and teamwork, employees participation and empowerment, group based performance and incentive compensation, TQM systems and organizational learning, extensive training and comprehensive staffing policy with various performance measures and HR outcomes. Thus, empirical works are viable in the developing countries in order to examine the extent of implementation of HPWSs practices (i.e. by utilizing the Huselid's five components of HPWSs) and their implications on firm performance, specifically in Malaysia as studies exploring the HPWSs practices in non-western countries have been limited [13], [24]-[25].

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