

ENDORSEMENT

“I hereby declare that I have read through this report entitle ‘The Relationship between Human Resource Management and Innovative Work Behaviour: A Study for Employees in SME Melaka’ and found that it has comply the partial fulfilment for awarding the degree of Bachelor of Technopreneurship”

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THE RELATIONSHIP BETWEEN HUMAN RESOURCE MANAGEMENT
AND INNOVATIVE WORK BEHAVIOUR:
A STUDY FOR EMPLOYEES IN SME MELAKA

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This report submitted in partial fulfilment of the requirement of the award of
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DECLARATION

“I hereby declare this research project entitle ‘The Relationship between Human Resource Management and Innovative Work Behaviour: A Study for Employees in SME Melaka’ is my own research except as cited in the references. This research project has not been accepted for any degree and is not concurrently submitted in candidature of any other degree”.

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DEDICATION

Firstly, I would like to dedicate the appreciation to my parents which is my beloved father, Mr. Yusuf Bin Saidi and my beloved mothers, Mrs. Sahebah Binti Osman who supported me from the beginning. The sacrifices that they made for me to further studies would not be enough by just submitting this research project, but it is beyond that. Furthermore, I want to thank for all the sacrifices that they have made for me while I been studies in this university. Secondly, I would like to express a deep sense of gratitude to my respected supervisor for this Final Year Project, Dr. Amir Bin Aris who have guided and give me endlessly advice throughout the research. Moreover, by his guidance, I managed to finish my FYP successfully. Besides, not forgotten to my beloved friend, Siti Fairuz for always there for me and assisted me through the journey of the research.

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ABSTRACT

In many developed and developing countries, SMEs have been recognized as a key source of innovation. Hence, it is important for them to be more innovative in achieving sustainable competitive advantage due to the increasing number of SMEs being established nowadays can increase the competition rates among them. However, much of the previous research that study on innovation was aimed at identifying external factors and structural effects that are more appropriate for larger firms rather than small and medium-sized enterprises that create empirical gaps. In addition, fewer role of HRM-focused studies that support employee's innovativeness in SMEs. Therefore, the aim of the study is to investigate the relationship between Human Resource Management (HRM) and Innovative Work Behaviour (IWB) of SMEs in Melaka. A total of 170 employees from SMEs were involved as respondents through convenience sampling method. The questionnaires were major research tool for data collection. The analysis method used were multiple regression analysis for hypothesis testing via Statistical Package for Social Science (SPSS). The findings show that there is significant relationship between Human Resource Management and Innovative Work Behaviour. It is believed that this research paper will beneficial to the industry practitioners and academicians for future reference.

Keywords: Human Resource Management, Innovative Work Behaviour, Small Medium-sized Enterprise (SME)

ABSTRAK

Di kebanyakan negara maju dan membangun, PKS telah diiktiraf sebagai sumber utama inovasi. Oleh itu, adalah amat penting bagi mereka untuk menjadi lebih inovatif dalam mencapai kelebihan daya saing yang mampan kerana peningkatan bilangan PKS yang telah ditubuhkan pada masa kini dapat meningkatkan kadar persaingan dikalangan mereka. Walau bagaimanapun, kebanyakan kajian lepas yang mengkaji tentang inovasi bertujuan untuk mengenal pasti faktor luaran dan kesan struktur adalah lebih sesuai diguna pakai kepada firma yang besar berbanding perusahaan kecil dan sederhana di mana ini telah mewujudkan jurang empirik. Tambahan lagi, sedikit sahaja kajian yang memfokuskan kepada peranan PSM yang menyokong inovasi perkerja dalam PKS. Oleh itu, matlamat kajian ini adalah untuk mengkaji hubungan antara Pengurusan Sumber Manusia (PSM) dan Tingkahlaku Kerja Inovatif (TKI) dalam kalangan pekerja PKS di negeri Melaka. Sebanyak 170 pekerja PKS terlibat sebagai responden melalui persampelan convenience. Soal selidik adalah alat penyelidikan utama untuk pengumpulan data. Kaedah analisis yang digunakan adalah analisis regresi berganda untuk pengujian hipotesis melalui Pakej Statistik untuk Sains Sosial (SPSS). Hasil kajian menunjukkan bahawa terdapat hubungan yang signifikan antara Pengurusan Sumber Manusia dan Tingkah Laku Kerja Inovatif. Adalah dipercayai bahawa kertas penyelidikan ini akan memberi manfaat kepada pegamal industri dan ahli akademik untuk rujukan masa depan.

Kata kunci: Pengurusan Sumber Manusia, Tingkahlaku Kerja Inovatif, Perusahaan Kecil Sederhana (PKS).

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LIST OF ABBREVIATIONS

ABBREVIATION	MEANING
IWB	Innovative Work Behaviour
HRM	Human Resource Management
SME	Small Medium-sized Enterprise
H ₁	Alternative Hypothesis
AE	Ability Enhancing
ME	Motivation Enhancing
OE	Opportunity Enhancing

CHAPTER 1

INTRODUCTION

1.1 Introduction

Innovative work behaviour (IWB) is an important part of organizations long-term survival growth. However, with the tough competition and challenging business environment, organization that unable to initiate better and think innovatively will soon become extinct. It is through IWB that will give solution to business problem and challenges, which in turn, impact on sustainable competitive environment. The reason IWB is vital to the success of organizations lies in the individual, who is the main source of all innovations, and it is generally accepted that people are the main asset in the company that has the potential to learn, grow and contribute. Therefore, the focus of this research is the Human Resource Management (HRM) which is regarded as an essential function in the organization which seeks to shape and maximize employee behaviour and performance. Each company has its own human resource management activities to improve and inspire employee innovative work behaviours. However, the human resource management concept is too broad to explore. In order to exert employees innovative work behaviour and ensure the successful functioning of the organization, it is crucial to find out what are the most effective ways to use HRM practices. This chapter will provide the background of the study for broader information, starting with the studies of the problem statement, followed by research questions and research objectives. This chapter also concludes with definition of conceptual and operational the key terms, significance of the study and its limitations.

1.2 Background of study

Today, we live in a world of rapidly changing technologies that is globally competitive. The coming new trends demand on innovative and creative ways of doing business increasingly emphasized and imperative in order to support the transformation of a country. Looking forward to our country, Malaysia also will continue to focus on the transformation process in order to achieve fully developed status and high-income nation. The rise in Small Medium-sized Enterprises (SMEs) with a total of 98.5 percent in Malaysia has played a major role as the backbone of economic growth in the country. In Malaysia, more than one-third of SMEs contribute to the economy. In 2017, SMEs did contribute RM435.1 billion to the economic system, with a 7.2 percent greater GDP development compared with 5.2 percent in 2016. In addition, SMEs employment rate grew as well at 3.4 percent throughout the year, resulting in a 66.0 percent rise in SMEs contribution to employment rate from 65.3 percent in 2016.

Recognizing the importance of SMEs in economic development, innovation in SMEs is widely discussed in past research (Mueller et al., 2013). Although, SMEs have the resource constraint to innovate, however, with small scale SMEs and structures that can respond faster to facilitate innovation activities in SMEs (Prabowo & McDermott, 2013). Therefore, the government has implemented several support programs and incentives called government support programs (GSPs), composed of monetary and loan support, marketing and industry analysis, practical and training support, facilities and infrastructure support, extension and consultancy services for SMEs development towards innovation.

By innovation, company can survive in a long-term of growth but to face the reality that they need to adopt innovative behaviour by encouraging the staff to adopt innovative behaviour is a very hard task. The human factor, identified as its soul and purpose, is the core of all innovation. It's critical to invest in human capital. A strong correlation exists between human resource management and innovative work behaviour from previous research. Improved management of human resource practices can stimulate innovative work behaviour, which in turn will make it more possible to achieve organizational goals. It is through innovativeness that will give a solution to business problems and challenges, which will impact on positive sustainable competitive advantages.

The value of innovation tends to depend strongly on staff who are the primary source of knowledge, skills, and drivers towards innovative work behaviour. In this regard, management of human resources plays an important role in all companies that can influence and shape employee abilities, skills and behaviour (Prieto & Perez-Santana, 2013). Therefore, this research was aimed at finding all possible human resource management practices that significantly shapes innovative work behaviour and as well as how these relationships could be explained.

1.3 Problem Statement

Small and Medium-sized Enterprises (SMEs) essentially generate more occupation opportunities to the people compared to large companies. However, compared to large companies, most of the SMEs were less likely to use an official hiring channels for the applicant to work with them. This seems to be linked to the lower of qualified and specialized personnel that impacted on lower innovative behaviour. This problem occur is due to poor management of human resource in the organizations. Barrett and Mayson (2007) found in a survey focused solely on small business that many of the major challenges facing small business were human resources related to finding the right staff, finding skilled staff and retaining good staff. Moreover, based on Utusan Online reported on 2014, failure factors among SMEs are due to the fact that they are less exposed to human resource management knowledge, which has had an effect on the issue of retaining employees. Other than that, skills to motive the employee also very low. Although, a good management of human resource are shown to improve employee performance thus innovative work behaviour, such emphasis somehow lacking in SMEs sector.

In addition, there is limited empirical evidence explaining the relationship between human resource management and SMEs innovative work behaviour in Malaysia. Several studies have shown that HR activities can foster employee's innovative work behaviour. Research on this relationship, however, is conducted primarily for large firms and not specifically for SMEs, which creating an empirical gap in literature. Therefore, this study is aimed to provides a new understanding and a comprehensive study on this relationship in SMEs sector.

1.4 Research Questions

The purpose of this study is to observe the human resource management relationship in fostering innovative work behaviour among workers. The questions to be dealt with in this study are as follows:

- i. What is the level of Human Resource Management practices in the organizational study?
- ii. What is the level of Innovative Work Behaviour practices in the organization study?
- iii. What is the relationship between human resource management and innovative work behaviour?

1.5 Research Objective

This study's objectives are outlined below:

- i. To identify the level of Human Resource Management practices in the organizational study.
- ii. To identify the level of Innovative Work Behaviour practices in the organizational study.
- iii. To investigate the relationship between Human Resource Management and Innovative Work Behaviour.

1.6 Scope of Study

The respondent was selected among employee who are working in the field Small and Medium-sized Enterprises business around Melaka. Besides that, this study also not only focuses on one sector but includes various sector such as services, retail and wholesale, manufacturing and restaurants. This study aimed to investigate the relationship between human resource management and innovative work behaviour in SMEs sector. Research scope also focuses on HRM practices by using the theory of AMO (ability-enhancing, motivation-enhancing and opportunity-enhancing) as independent variables and innovative work behaviours (opportunity exploration, generation of ideas, championing of ideas and realization of ideas) as dependent variables.

1.7 Limitation of Study

Sample of the study are limited to employee in SMEs around Melaka. This research will be conduct by questionnaires as a research instrument by using electronic survey and physical questionnaire. Besides that, this study only focuses on one management problem which is human resource management. The other problems that encountered by entrepreneur such as in term of financial management and operation is not involved in this study.

1.8 Significance of Study

The significance of the study essentially provides the reader with information on how the study will contribute. In this study, the significance of study will be specifically stated to the contribution of knowledge and practice. Besides that, this will also state that who will benefits from this study.

1.8.1 Contribution to Knowledge

Based on previous research, human resource management positively influences innovative work behaviour. The results showing a stronger relationship between human resource management and innovative work behaviour among employees can demonstrate this. However, the human resource management concept is too broad to explore, and researcher feel that it is better to discover a specific and comprehensive context of the study. The researcher therefore expects this study to provide a better understanding of the current thinking of human resource management that can stimulate employees ' innovative work behaviour. Throughout this study, researcher hope this thesis can be a reference for upcoming research which will give more discoveries and information to readers.

1.8.2 Contribution to Practice

This study also to improve and to diversify research that provide information and support to local and foreign researchers in relation to the HRM and IWB aspect. Through this study, researcher hope to create idea, information, and as a reference in addition to upcoming new research and academic members who may be interested in conducting research on this aspect. At the end of the study, researchers also expected to provide information and guidance on the importance of human resource management to all subordinates in the SME sector in order to stimulate employees innovative work behaviour.

1.9 Definition of Conceptual and Operational

In this part, researcher have provided the definition of conceptual and operational for each of the key words used in this research. It aims to enable the reader to understand the basic key word before reading more details in the literature review.

1.9.1 SME

The concept of SMEs in Malaysia was focused on two categories (total sales turnover / business revenue in one year; or the amount number of full-time staffs in a company). Therefore, the concept of SMEs in Malaysia can be defined as follows: manufacturing industry: sales turnover below RM 25 million OR full-time staffs below 150, while for service and other industries sales turnover below RM 5 million OR full-time employees below 50. The thorough definition of SMEs in three classifications will be presented in Chapter 2 (Literature Review).