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Assessing the Moderating Effect of Competition Intensity on HRM Practices and Organizational Performance Link: The Experience of Malaysian R&D Companies.

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Abstract

Nowadays, firms in R&D sector face many challenges in enhancing performance. To perform, these firms need to develop strong internal workforce to address increasing environmental challenges. Based on the contingency theory, this paper examined the moderating effect of competition intensity on the relationship between human resource management (HRM) practices and organizational performance. Using data from 64 R&D companies, the hierarchical regression analysis however failed to show significant moderating effect of competition intensity on such relationship. Several plausible causes are discussed. Given that, this study offers good insights about the practice of HRM in this sector

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Keywords: Competition intensity; HRM practices; Organizational performance

1. Introduction

Since 1996 the R&D sector in Malaysia has been continuously received attention. Several fiscal and non fiscal incentives are provided to support the growth of this sector. These incentives have allowed more local start-ups to grow and more entrepreneurs to enter the sector. Today, Malaysian R&D sector has become more intensified with

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various types and sizes of players. The move that each player presents in order to win the game has created intense competition. This intense competition, unfortunately, has impeded firm's ability to implement its strategic action effectively. Accordingly, to maximize performance, managers need to pursue internal organizational activities that best match the conditions of their firms' external environment. This implies that effective people management is crucial to develop internal strength that can help organization to encounter any possibilities imposed by the environment. The role of environment as a crucial contingency factor has been long advocated by organizational researcher (Dess and Beard, 1984). Environment has been frequently discussed as moderating impact in the strategy – organizational performance relationships (Chang & Huang, 2005; Guthrie, 2001; Hoque, 1999; Khatri, 1999; Liao, 2005; and Shih & Chiang, 2005). In the HRM literature, there are studies which have shown that the relationship between HRM practices and organizational performance is contingent upon environment (Chandler, Keller and Lyon's, 2000; Lundvall and Kristensen, 1997). However, such empirical studies are still limited. As a result, the present study intends to deepen the existing knowledge on such relationship.

2. Literature Review

Studies have shown that the success and probability of survival for a business can be linked to the intensity of competition in a given industry environment (Lichthenthaler, 2009; Ramaswamy, 2001). Competitive intensity refers to the degree of competition a firm faces in terms of competitors' actions and reactions in its attempt to generate returns (Pecotich, Hattie & Peng Low, 1999). High competition is characterized by aggressive competitors that attack each other on promotion, product development and distribution to satisfy various customers' needs. Under greater competition, a firm aggressively seeks for more environmental resources to exceed other competitors (Jaworski & Kohli, 1993). Lichthenthaler (2009) asserted that competitive intensity strengthens the positive effects of outbound open innovation on firm performance. Ramaswamy's (2001) findings indicated that private ownerships enterprises tend to experience better performance than state ownerships during high competitive rivalry due to their ability to be flexible in adjusting to the requirement of a market economy. Payne, Kennedy and Davis. (2009) recommended that to increase performance in high rivalry environment, a firm needs to be more specialized.

Previous studies also have shown that environment influences the practice of human resource management in enhancing firm performance (Chandler, Keller and Lyon's, 2000; Lundvall and Kristensen, 1997). Different environments pose different impacts on the people management. Effective management of human resources is important to develop internal strength that can facilitate organization to deal with intense competition. Lundvall and Kristensen (1997) stressed that the competitive environment has shifted the demand for workforce towards more skilled workers who have the ability to learn to absorb change and can communicate as well as cooperate with individuals with different kinds of expertise. They also asserted that competitive intensified firms tend to focus more on building learning organizations than investing in formal training programs. In other study, Chandler et al. (2000) found that in a competitive environment, formalized HR practices tend to affect financial performance negatively as the implementation of formal HR practices gives negative influence on employee perceptions of innovation supportive culture.

It is expected that managing and retaining R&D people such as scientists and engineers become more challenging in intensified environment. In environment where competition intensity is high, competitors' actions are usually aggressive in all aspects from acquiring and retaining the best employees to attracting and maintaining customers. In this situation, scientists and engineers have a lot of options to choose where they want to work. Unfortunately for R&D companies however, this situation has created a big challenge for them to obtain, manage and retain these R&D professionals. This is because different R&D professional prefer different types of rewards (Kim and Oh, 2002; Lee & Wong, 2006), ways of performing works (Treen, 2001) and types of development programs (Lee, Wong and Chong, 2005; Wang and Horng, 2002).

Studies in the past also have highlighted that the performance of an organization depends on the environment where the organization operates. Richardo and Wade (2001) defined organizational performance as the organization's ability to achieve its goals and objectives. Daft (2000) identified organizational performance as the ability of the organization to attain its goals by using resources in an efficient and effective way. Financial performance is desirable in order to prove the companies' immediate outcomes to fund its activity and attract investors. Profitability has been considered as a measure of improved internal efficiency and value added. This is because in the beginning firms may not enjoy higher net profits to repay investment or fund further investment.