SIX EMPLOYMENT RELATIONSHIP PRACTICES FOR SUSTAINING ORGANIZATIONAL PERFORMANCE

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Abstract

Organizations need to develop as well as strengthen their employment relations in order to improve not only their performance, but also their competitiveness. Despite the importance of employment relations to organizations, the literature reveals there is not much information on how companies practice employment relations. The limited information has resulted from lack of emphasis on the important role of employment relations in organizations. This paper specifically attempts to address this issue by providing insights into six important employment relations practices that can help sustain the performance of organizations. The six practices were identified based on the review of the literature and findings of previous studies.

Keywords: Employment relationship practices, organizational performance.

Abstrak


Kata kunci: Amalan hubungan pekerjaan, pencapaian organisasi.
Introduction

Business environment has become more complex, dynamic and uncertain due to various factors such as increasing in competition, new technologies and changing customer demands. These factors are continuously driving organizations to change the way they manage their business operations. In searching for a more effective and efficient way to change the way their manage their businesses, organizations are recognizing employment relations not only as an important means to support their operations but also as a potential source of competitive advantage that can help to sustain their organizational performance (Aminuddin, 2009; Arthur, 1992).

Employment relations as a field of study and good business practice have gained much acceptance as an important priority for organizations. The acceptance and importance of employment relations and employment relations practices have been emphasized in the literature. The increased interest and attention on employment relations have resulted from increasing evidence that suggest companies that practice employment relations effectively are able to perform better in terms of financial as well as non-financial indicators.

The literature has not only highlighted employment relations as an important area of management but has also provided the evidence that suggests the various positive impacts of employment relations on organizations. Evidence from the literature and past studies indicates that effective employment relations practices enhance the performance of organizations in many different ways. For instance, findings from more recent studies suggest that by adopting effective employment relations practices, organizations are able to encourage the involvement, commitment, and increase the competencies of their employees as well as improve their overall performance (Messersmith & Wales, 2011; Razouk, 2011; Sheehan, 2013).

Moreover, effective employment relations practices are also known to assist organizations in maintaining industrial harmony, in particular, the relationships between employers and employees at the workplace. Effective employment relations maintain industrial harmony by emphasizing on the rights as well as the obligations of employers and employees in organisations.
By focusing on the rights and obligations of both the employers and employees, employment relations help not only to avoid distrusts, conflicts and miscommunication, industrial actions but also prevent high turnover, low productivity, low morale and lack of job satisfaction among employees (Aminuddin, 2007b).

In addition, organizations that adopt effective employment relations practices also have the abilities to motivate and retain competent employees as well as attract talented employees. By implementing employment relations practices that emphasize on motivating and encouraging employees to participate in the decision making process, organizations will improve not only their organizational commitment but also allow them to achieve their organizational objectives (Nadarajah, Kadiresan, Kumar, Kamil & Yusoff, 2012).

However, despite the various benefits of adopting employment relations, there is little information and limited attempts made to identify the employment relations practices that are relevant and applicable to organizations. This article attempts to examine this issue. Based on the evidence documented in the literature, this paper identifies and prescribes six employment relations practices that are useful to organizations. For this purpose, the article is divided into the following sections. Section Two below discusses the concept of employment relations, then followed by Section Three focuses on the discussion of influence of employment relations practices on organizational performance. Next, Section Four explains briefly the six employment relations practices that are helpful to organizations. Lastly, Section Five presents a brief conclusion of the paper.

The Concept of Employment Relations

The review of the literature shows that although the term ‘employment relations’ is widely used, to date, however, there is still no one universally accepted definition of employment relations. Different authors may define employment relations in many ways. In other words, the definition of employment relations may vary not only among authors, but also differs from country to country. As an academic area, employment relations also
involve areas such as employment management, labor management, personnel management and administration, labor relations, employee relations, industrial relations and human resources management (Edwards, 2003; Kaufman, 2010a, 2010b)

Various definitions as well as the terms have been presented in the literature to explain employment relations. For instance, Gardner and Palmer (1997: 2) refer employment relations as:

“Employment relations is about the interactions of employees and employers. Studying employment relations involves understanding the differences and overlapping concerns of human resource management and industrial relations. Although personnel and industrial relations are usually taught separately, this separation is not reflected in practice. Indeed, as human resource management and industrial relations have developed, their overlap has become more pronounced. It is now time to integrate more closely these important subject areas.”

Meanwhile, Kaufman (2001) defines employment relations to all terms which are related to work, employment and also focuses on relationship between employer and their employees at workplace. Others scholars such as Blyton and Turnbull (1994, 2004), Edwards (2003) and Aminuddin (2007) agreed that the discipline of employment relations as the study of the relationship between employer and their employees, either collectively or individually and this relationship is bound by the regulation, law and rules.

According to Abbott (2006), the concept of employment relations is being defined differently in the United States of America (USA) and United Kingdom (UK). In USA, employment relations term used to explain HRM policies and practices as well as any associated interactions that exist between employer and their employees at workplace level.

However, in UK the concept of employment relations has a wider meaning that goes beyond the micro level (the workplace). This employment relations involves the macro level of interactions where the role of the state, employer associations and trade union are involved in the employment relationship. In the UK context, employment relations involve two important characteristics.
Firstly, the terms of employment relations is used to explain HRM functional activities and the relationship between employer/manager and employees, work organisation, non-union organisation and performance issues. This first concept of employment relations has a similarity with the concept of employment relations in the context of USA.

More specifically, the second characteristic of employment relations involves the process and regulation of employment relations that include trade union recognition and the state intervention in the labour issues through employment law and industrial court or tribunal. Unlike in the USA, employment relations in UK recognizes the plurality of group interests and objectives, the possibility of any conflicts at the workplace, the dispute settlement, the importance of collective bargaining process to determine the workplace’s rules and regulations and informal customs and practices, which govern the employment relationship.

Boselie et al. (2005) proposes that there are three ways on how employment relations practices were defined and measured:

a. Employment relations as a set of employee management activities.
b. Employment relations practices as an organisation ‘orientation’ towards managing employees.
c. The effectiveness of the employment relations practices functions.

Recently, Townsend and Wilkinson (2014) suggest that all matters relating to “people management” (either industrial relations or HRM) were seen under one unifying realm namely employment relations. This is because for many organisations, both industrial relations and human resources management are performed by the same department or functions (Gardner & Palmer, 1997; Harpaz & Meshoulam, 2010).

Eventhough, the employment relations literature provides differing views and definitions of employment relations, a comprehensive review of the definitions presented in the literature suggests that most authors tend to agree and view employment relations as a set of employee management activities which is related to work and employment, as well as the relationship between
employee and employer at workplace. This relationship may be mediated by the two important institutions, the trade union (for unionised firms) and the State through related agencies, for instance Labour Department and the discussion on employment relations covers all aspects of the employment relationship including union and non-union workplace as well as private and public sectors.

**Employment Relations Practices as Identified in Past Studies**

The review of the literature reveals that conceptual and empirical contributions in the area of employment relations have been increasing over the years (Sheehan, 2013; Anyim et al., 2012; Hashim, 2011a; Patel & Cardon, 2010; Paauwe, 2009; Harney & Dundon, 2007; Sels, Winne, Delmotte et al., 2006; Huselid, 1995; and Arthur, 1994). The attention and research interest on employment relations mainly resulted from the increasing evidence that indicate their positive linkage to organizational performance. Numerous previous studies have provided findings that indicate organizations that focus on employment relations and adopt effective practices experienced better performance.

In addition, the review of the evidence from the literature and previous empirical studies also indicate that basically organizations adopt six important employment relations practices. These practices include compensation, training and development, employee participation, safety and health, work-life balance and employment security. Furthermore, according to the literature and findings of past studies, these practices have positive impacts on the financial as well as non-financial aspects of the performance of organizations. Accordingly, the section below explains and discusses briefly each of the six employment relations practices.

**Compensation**

Compensation is considered as one of the most important employment relations practices. It is also the most common practice investigated in previous empirical studies. This practice is considered important to organizations because it plays an important role in driving and motivating employees to perform their jobs in organizations.
The literature indicates not only various definitions of compensation but also the term has been defined in various different ways. Different authors tend to use different definitions. For instance, Vlachos (2009) defined compensation as the straightforward practices consists of financial and non-financial elements used by employers to reward their employees in return for their efforts.

However, Bryson and Forth (2008), viewed compensation as the outcome and relatively straightforward, private, economic transaction in which employees receive pay in return for their efforts. More specifically, according to Goergen and Renneboog (2011), a compensation package may consist of base salary/wages, the annual bonus, stock and stock options, insurance, and other benefits as pension benefits. However, studies by Vlachos (2009) and Anyim et al. (2012) further suggested the need for organizations to include other components of compensation such as a mix of commissions, profit sharing and incentives.

As far as compensation is concerned, management theorists have indicated that it is necessary for organizations to plan as well as develop an attractive package for their employees. This is because a good compensation package can help the employers to attract, retain as well as motivate employees to perform well (Chiang & Birtch, 2010; Bryson & Forth, 2008; Carlson, Upton & Seaman, 2006; Rajkumar, 1985).

With regard to the impact of compensation on organizational performance, the analysis of the study conducted by Carlson et al. (2006) indicated that high performing organizations are most likely to offer better compensation to their employees. According to the findings of this study, the difference between low performing organizations and the high performing organizations is that the latter offered cash incentives, non-cash incentives and other benefits to their employees.

Over the years, various other studies have also attempted to examine the linkage between compensation and performance. Findings of these studies further provide the evidence that suggests attractive compensation packages are positively related to performance of employees and organizational
performance. (Sheehan, 2013; Messersmith & Wales, 2011; Chiang & Birtch, 2010; Vlachos, 2009; Baptiste, 2008; Stajkovic & Luthans, 2001; Pfeffer, 1998; Delaney & Huselid, 1996).

**Training and Development**

Apart from compensation, training and development have been identified as another essential employment relations practice in organizations. More specifically, both scholars and practitioners viewed training and development as the heart of a continuous effort designed to improve employee competency and organizational performance (Harel & Tzafrir, 1999; Hiltrop, 1996; Liu, Combs, Ketchen, & Ireland, 2007; Nadarajah et al., 2012; Pfeffer, 1998).

Organizations need employees with skills, knowledge and abilities to perform effectively, identify and solve problems, focus on quality work and adapt to changes in the working as well as business environments. They can increase the skills, knowledge and capabilities of their employees by adopting effective training and development practices. By emphasizing on training and development practices, organizations will also be able to retain their employees and develop the competitive advantage that they need to increase their productivity as well as profitability (Harel & Tzafrir, 1999; Koch & McGrath, 1996; Kotey & Folker, 2007; Liu et al., 2007; Magableh, Kharabsheh & Al-Zubi, 2011; Messersmith & Wales, 2011; Pfeffer, 1998; Subramaniam, Mohd Shamsudin & Ibrahim, 2011).

In an earlier study that examined the training and development practices in 138 firms, Wong et al. (1997) found two major improvements among these firms. First, within their organizations, these firms experienced better management communication and integration, improved planning and organization, increased ability to manage change in business and enhanced individual performance. Second, these firms also improved their organizational performance in terms of better customer care, quality of product, use of new technology, external image and financial control.

According to Pfeffer (1998) and Liu et al. (2007), previous studies in the field of employment relations tend to view training and development as an
important area of research. In addition, these authors indicated that findings of past studies that investigated this area of research showed significant positive relationships between training and development practices and organizational performance as well as found training and development to be one of the seven practices that can accelerate success in organization.

The literature also reveals that over the years, prior studies have emphasized not only on the importance of training and development practices to organizational performance but also the need for organizations to focus on these practices in order to strengthen the capabilities of their employees in terms of acquiring information, skills, knowledge, and changing their attitudes. Business organizations, in particular, need new talents, information, skills and knowledge to cope as well as survive in the business environment that is becoming very uncertain and competitive (Magableh et al., 2011; Schein, 2005).

**Employee Participation**

More recent evidence from the literature suggests that employee participation is increasingly being recognized as the other important employment relations practice adopted by organizations. Similarly, researchers and practitioners involved in this area of employment relations have used different terms to describe this practice. Among the other common terms used to describe employee participation include; ‘participation’ and ‘involvement’, ‘employee voice’, ‘empowerment’, ‘engagement’ and ‘industrial democracy’ (Budd, Gollan & Wilkinson, 2010; Wilkinson & Fay, 2011; Wilkinson, Townsend & Burgess, 2013).

Employee participation involves activities that encourage employees to participate in the decision making process in organizations. Findings of previous studies have provided evidence that suggests organizations that adopt employee participation practices tend to perform better that those organizations that do not. The literature also indicates that encouraging employees to participate in organizational decision-making are likely to enhance their motivation and satisfaction. Organizations with motivated and satisfied employees are often able to perform better as well as increase their productivity.
The increasing opportunities for direct communication between owner-managers and employees have also made employee participation as an essential employment relations practice in organizations. With direct communication and through employee participation, owner-managers have better chances as well as ways of dealing with their employees, particularly in terms of determining their interests, strengthening cooperation and increasing commitment (Baptiste, 2008; Bryson, Charlwood & Forth, 2006; Wilkinson & Fay, 2011).

In addition, employee participation not only encouraged direct communication but also upward problem solving and individually as well as face to face interactions between owner-managers and employees. According to findings of past studies, due to open communication, informal approach, flexible employment practices and family atmosphere, owner-managers in organizations were more likely to consult their employees over changes at the workplace (Bryson et al., 2006; Budd et al., 2010; Dundon, Wilkinson, Marchington & Ackers, 2005; Forth, Bewley & Bryson, 2004; Kim, MacDuffie & Pil, 2010).

Furthermore, in organizations such as small and medium-sized enterprises (SMEs), employees usually get to know their owners and managers on a personal basis. If good relationships are established between them, the employees will develop not only a strong feeling of personal loyalty to the owners and manager but also have a stronger sense of responsibility as well as participation. In such cases, owners-managers of SMEs should strongly consider developing effective employee participation practices in their organizations. From the employees’ perspective, effective employee participation practices that provide the opportunities for them to contribute ideas and opinions before the owners-managers not only add dignity to their jobs but also encourage them to perform as well as improve the overall organizational performance (Bryson et al., 2006; Rotenberry & Moberg, 2007; Hashim, 2011; Wilkinson & Fay, 2011).
Safety and Health

Safety and health as an important practice in employment relations has been emphasized by scholars and practitioners such as Kongtip, Yoosook and Chantanakul (2008), Arocena and Nunez (2010), Ibrahim et al. (2012), Champoux and Brun (2003), Hasle et al. (2011) Aminuddin (2009) and Danna and Griffin (1999).

Findings of the earlier research by Smallman and John (2001) underscore the importance of safety and health as an employment relations practice. According to the study, organizations with good track record of safety and health management reported having experienced better organizational image and reputation. However, the study suggests that organizations with higher rates accidents faced not only many legal actions but also bad reputation.

In addition, organizations also need to adopt effective safety and health practices for several other important reasons. First, effective safety and health practices can help improve the well being of employers and employees in organizations. Second, effective safety and health practices help to prevent accidents from happening in organizations, particularly among employees who are required to use tools, operate machineries and equipments and also use dangerous chemicals in their work. Third, in the Malaysian context, matters concerning safety and health are also included in the employment contract (MEF, 2010). Fourth, according to the Occupational Safety and Health Act 1994 (Akta Keselamatan dan Kesihatan Pekerjaan, 1994), all organizations are required to comply with the safety and health guidelines as presented in this Act.

According to the Occupational Safety and Health Act 1994, there are several obligations that employers are required to fulfil. According to the act, employers general duties include ensuring that the workplace and systems of works are safe and without any risks to employees’ health. They are also required to provide information, instruction, training and supervision to employees in matters regarding safety and health issues. The act also specifies that employers offer a safe work environment that is free from risks as well as furnish adequate facilities to employees such as rest rooms, toilets, canteen
and other facilities. In addition, the acts stipulates that employers formulate safety and health policy, employ a Safety and Health officer and establish a Safety and Health Committee at their workplace.

Apart from the important reasons to adopt effective health and safety practices, findings of past studies have also indicated how organizations are affected if they do not follow these practices. For instance, organizations have to incur various financial costs when accidents occurred at their workplace. The costs of accidents include compensation paid to the injured parties and the destruction of properties as well as other valuable fixed assets involved in the accidents. Organizations also faced legal actions when they failed to comply with the safety and health practices as prescribed in the OSHA 1994 (Bakri, Zin, Misnan & Mohammed, 2006; Surienty, Hong, Kee & Hung, 2011).

More importantly, evidence from previous studies indicates organizations that adopt effective health and safety practices are able to gain various benefits from these practices. According to the findings of the past studies, effective safety and health practices at the workplace is very important to improve organizational performance, especially in terms of financial performance and competitiveness (Ali, Abdullah & Subramaniam, 2009; Bakri et al., 2006; Danna & Griffin, 1999; Loeppke et al., 2007; Miller & Haslam, 2009; Smallman & John, 2001).

**Work and Life Balance**

Work and life balance are considered as a more recent employment relations practice. Increasing numbers of employers and employees are regarding work and life balance as another essential aspect of employment relations that need more serious attention. Importantly, work and life balance has been identified and emphasized as an important practice to engage employees meaningfully in organizations (Beauregard & Henry, 2009; Coopers, 2007; Hyman & Summers, 2004; Ko, Hur, & Smith-Walter, 2013; Muhamad Noor & Abdullah, 2012).

According to Perry-Smith and Blum (2000), Coopers (2007) and Guest (2011), in the 21st century, increasingly, employees in organizations are seeking
for better quality of life. Based on their own experiences, many employees have discovered that to achieve better quality of life, they need to balance their work and family lives. With regard to this, organizations that carefully manage their employees in a way that allows them to achieve a balance between their work and personal lives are able to maintain a higher degree of job and personal satisfaction among their employees. Employees with higher levels of job and personal satisfaction are more focused and effective. Importantly, by having employees who are more focused and effective, organizations are able to perform better.

Findings from past studies suggests that organizations that do not emphasized on work and life practices faced various kinds of problems that affect their employees as well as their organizational performance. For instance, the studies by Baptiste (2008) and Coopers (2007) found that work pressures in organizations not only affect the health, well-being, job performance of employees but also resulted in lower organizational performance as well as higher costs of doing business. Furthermore, according to the earlier study by Hyman and Summers (2004) organizations that failed to adopt effective work and life balance practices faced various problems related to their employees such as high absenteeism, increase turnover rate, lower job satisfaction and decrease job performance.

The more recent study by Ko et al. (2013) indicated that this particular employment relations practice include; flexible work schedule, telework, job sharing, dependent care services, parental leave and maternity leave arrangement. Earlier on, Forth et al. (2004) found that the work life balance practices adopted by firms in Britain involved activities such as flexible working arrangement (such as flexitime, increased hours, compressed hours, change working pattern, job share etc.) and arrangements to support employees with caring responsibilities (childcare facilities and financial support, maternity leave, paternity leave and other assistance for careers).

With regard to the impact of work and life balance practices on organizations, past studies provide several important findings. These findings suggest that organizations that adopt these practices gained various advantages. For instance, the findings indicated that work and life balance
practices that focus on providing appropriate working condition to employees increase their commitment, reduce level of stress, burnout, turnover intention and improve their involvement as well as participation in various activities in organizations (Eby et al., 2005; Ibrahim, 2013, 2015; Muhamad Noor & Abdullah, 2012).

In addition, findings of other studies suggest that the several other benefits derived from work and life balance practices help to improve organizational performance. Among the benefits that improve organizational performance include; cost effectiveness (Hyman & Summers, 2004), better performance (Hudson, Smart & Bourne, 2001), boost image of organizations (Muhamad Noor & Abdullah, 2012), prevent serious problems related to employees health and well-being, help employees to achieve a better fit between their professional and family lives (Bae, Chuma, Kato, Kim & Ohashi, 2011; Beauregard & Henry, 2009).

**Employment Security**

The sixth employment relations practice that is useful to organizations involved employment security. Employment security which has been defined as “freedom from the fear dismissal or jobless” is also currently viewed as one of the desirable key features of the employment relations practices (Aminuddin, 2009; Ye, Cardon & Rivera, 2012).

As an essential employment relations practice, there are scholars who viewed employment security beyond the fear of dismissal. For instance, McConnell, Brue and Macpherson (2006) considered this practice as one of the nonwage aspects of jobs as well as a source of compensating wage differentials. According to these authors, employment security should also include other important aspects such as whether the jobs are able to provide regularity of earnings, job advancement and job promotion. In reality, all jobs are not created equal in terms of security. For instance, some jobs in certain types of organizations are able to provide employment security for long periods. However, positions in businesses such as construction, consultancy and sales in general do not offer long term employment security and these jobs are characterized by variability of employment as well as earnings.
The literature reveals that the emphasis on employment security as an important employment relations practice resulted from the increasing evidence that suggest job security provide various benefits to employees as well as organizational performance. Organizations that are able to provide employment security are able to not only create a more secured working environment but also encourage their employees to perform well. Through employment security, organizations are able to build employee’s confidence, motivate them, improve their commitment and increased their job satisfaction (Nadarajah et al., 2012; Subramaniam et al. 2011; Yousef, 1998).

Over the years, findings of previous studies indicate organizations that provide jobs with employment security to their employees significantly improve not only the performance of their employees but also enhance their organizational performance (Pfeffer, 1998; Delaney & Huselid, 1996; Ichniowski et al., 1997).

According to the earlier study by Yousef (1998), the more employees perceived the jobs offered by organization as secured, the more they are committed to their organization and at the same time, their performance increased as well. More specifically, the more recent study by Ye et al. (2012) found that employment security has a positive effect on the performance of non managerial employees rather than managerial employees’ performance. Past studies by Pfeffer (1998) and Subramaniam et al. (2011) have also suggested employment security as one of the most important predictors of organizational performance as perceived by non-managerial employees.

Conclusion

This paper attempted to explain not only the importance of employment relations to organizations but also highlights the need for organizations to develop as well as manage their employment relations by adopting effective employment relations practices. The paper begins by focusing on the relevance and applicability of employment relations to organizations. Following this, the paper explains the six employment relations practices that are useful for improving organizational performance.
The six employment relations practices presented in the paper were identified from the literature and previous studies. The six practices involve; compensation, training and development, employee participation, safety and health, work and life balance and employment security. This paper prescribed the six practices based on the evidence found in previous studies that indicated the financial and non performance of organizations improved when they embraced these practices.

Organizations would have the ability to attract not only better quality employees but also be able to retain them as well as maintain harmonious relationships between managers and employees through the adoption and implementation of the six employment relations practices. With quality and loyal employees as well as having the ability to maintain harmonious relationships between managers and employees, organizations would become more sustainable. More importantly, by knowing, understanding, learning and adopting the six practices as presented in this paper, organizations would be able to sustain their competencies, competitiveness and performance as well.

References


