



**FACULTY OF TECHNOLOGY MANAGEMENT
AND TECHNOPRENEURSHIP**

**TALENT MANAGEMENT AMONG SMALL AND
MEDIUM ENTERPRISES (SMEs) IN MELAKA
FOR ITS SUSTAINABILITY**

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(SMEs) IN MELAKA FOR ITS SUSTAINABILITY**

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DEDICATION

To my beloved family

ABSTRACT

Abstract of project paper presented to the Senate of Universiti Teknikal Malaysia Melaka in partial fulfillment of the requirements for the degree of Master of Business Administration

TALENT MANAGEMENT AMONG SMEs IN MANUFACTURING SECTOR IN MELAKA FOR THEIR SUSTAINABILITY

By

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Talent management is critical for SMEs who face competition from bigger firm. In this research, review of academic work and attempt to organize the literature by creating a theoretical framework for understanding in talent management among SMEs in Melaka, Malaysia. To guide this research, theoretical framework highlights several level of knowledge in talent management among SMEs in Melaka, Malaysia for its sustainability. This research will also highlight the potential role of human resource activities in addressing those talent management challenges. This research will be conducted by providing true information by random sample without bias. One hundred respondents in random manufacturing SMEs companies participated in this study. An ANOVA test was used to investigate differences in the extent of companies' practices and talent management strategies types. Hierarchical regression analysis was carried out to examine the relationship between market orientation and organizational performance and the moderating effects of market environment variables.

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My appreciation also goes to my family members for putting up with my long hours and for their never ending support and understanding throughout my research period for which I will deeply cherish throughout my days.

DECLARATION

I hereby declare that the case study is based on my original work except for quotations and citations that have been duly acknowledged. I also declare it has not been previously or concurrently submitted for any other degree at UTeM or other institution.

Signature :  _____

Name : TAI YI KWAN

Date : 3/1/2012

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF STUDY

Today's economy has created a more complex and dynamic environment in which most firms must learn to compete effectively to achieve sustainable growth. Workforces around the world have become larger, increasingly diverse, more educated, and more mobile. This environment has not only changed the way business is conducted, it has also created the need for organizations to manage their workforces. One of the major topics of discussion has been around talent management. Talent management refers to the process of developing and fostering new workers through on boarding, developing and keeping current workers and attracting highly skilled workers to come and work for your company. Talent management decisions are often driven by a set of organizational core competencies as well as position-specific competencies. The competency set may include knowledge, skills, experience, and personal traits. Talent management is the recruitment, development, promotion and retention of people, planned and implemented in line with the organization's current and future business goals. A structured talent management process will systematically close the gap between the human capital an organization currently has and the leadership talent it will eventually need to respond to tomorrow's business challenges.

The recent trend in global talent management literature may provide some clarity to defining domestic talent management such as in this research is on Melaka, Malaysia. Regardless of economic and workforce conditions, however, organizations large and small, public and private, have come to the realization

that in order to gain and sustain a competitive advantage they must manage their workforces effectively. And to do so, they must confront the reality of talent management and its many challenges and develop human resource management activities to meet those challenges. There is considerable evidence that organizations worldwide face formidable talent challenges. The ability to attract, develop, and retain a needed supply of critical talent is a challenge facing all organizations. The organizations face greater competition for talent worldwide and face challenging times in attracting, retaining, and developing people they need. So even though there is currently a global economic slowdown, there are major structural conditions in place to ensure that competition for talent will continue to be a significant challenge. More specifically, organizations are and will continue to be searching for individuals who can effectively manage through the complex, challenging, changing, and often uncertain global environment. In other words, most companies worldwide, especially small and medium enterprises (SMEs), are confronting and/or will soon confront many talent management challenges, if left unmet, will impact their business strategies, both in the near term and longer term. In this research, the focus was on small and medium enterprises (SMEs) in Melaka, Malaysia.

1.2 PROBLEM STATEMENT - TALENT MANAGEMENT CHALLENGES

There are plenty of challenges awaits the implementation of talent management. A major topic that has emerged in International Human Resource Management in recent years is the importance of maximizing the talent of individual employees as a unique source of competitive advantage. Identified major challenges in the context of talent management in human resource as: 1) easily getting the right skills in the right numbers to where they are needed; 2) spreading up-to-date knowledge and practices throughout the organization; and 3) identifying and developing talent. The major challenge is when the organization is not enthusiastic in thinking about development solution in talent management. Organizations might be just paying lip service to a talent management strategy. It is easier to be said than done. There might not be a proper guideline or approach to execute talent management in organizations and might merely lead to empty promises or goal. Stephenson & Pandit (2008) have suggested that having the right number of people at the right place at the right time with the right skill sets and levels of motivation are fundamental to talent management.

This is just a few examples of challenges in talent management that have been identified so far. Talent management is influenced by two factors as well; exogenous and endogenous drivers. Exogenous drivers refer to forces or drivers external to the firm that are largely beyond management's control but can create challenges that can affect an organization's human resource system. These exogenous drivers can include national culture, economic conditions, political system, legal environment, and workforce characteristics (Schuler et al, 1993).

Endogenous drivers are drivers that are internal to the firm including competitive or strategic position, headquarters' international orientation, organizational structure, and workforce capability (cf., Schuler et al, 1993). Schuler et al., (1993) define human resource activities as both formal policies of the organization and the actual daily practices that employees experience. Due in part to the existence of many drivers of the selected challenges for talent management, there are many possible human resource activities that SMEs can consider as actions or tools to implement to address the many challenges. Matching the possible action with an accurate diagnosis of a SMEs' talent management situation is a first step in gaining and sustaining a competitive advantage that may result from the successful implementation of the correct action. There is a large potential for SMEs companies to be sustainable major players, through understanding the importance of talent management. There is a need to look through the awareness and acceptance level of talent management among Melaka SMEs. Melaka SMEs are facing low domestic production capacity. Principal is discussed to engage SMEs in Melaka for sustainability through talent management.

1.3 SMALL AND MEDIUM ENTERPRISES IN MELAKA, MALAYSIA

This research explores the role and part of talent management in small and medium-sized enterprises (SMEs). SMEs may and may not have a clear concept about the importance of talent management for an organization. The aim of this research is to investigate the level of talent management formality in SMEs in Melaka, Malaysia. SMEs are recognized as a significant part of both developed and developing economies. Talent management is the key to survival and continued growth. In the past, SMEs did not bother much about talent management since they could always find enough people in the job market to fill up almost any position. With increasing globalization and the rise of outsourcing and 24/7 service operations when continuous operations and strict delivery schedules have become the issue of talent management is crucial for survival and success. Strategic talent management initiative enables organizations to identify their current and future needs, and helps them align and develop talent accordingly.

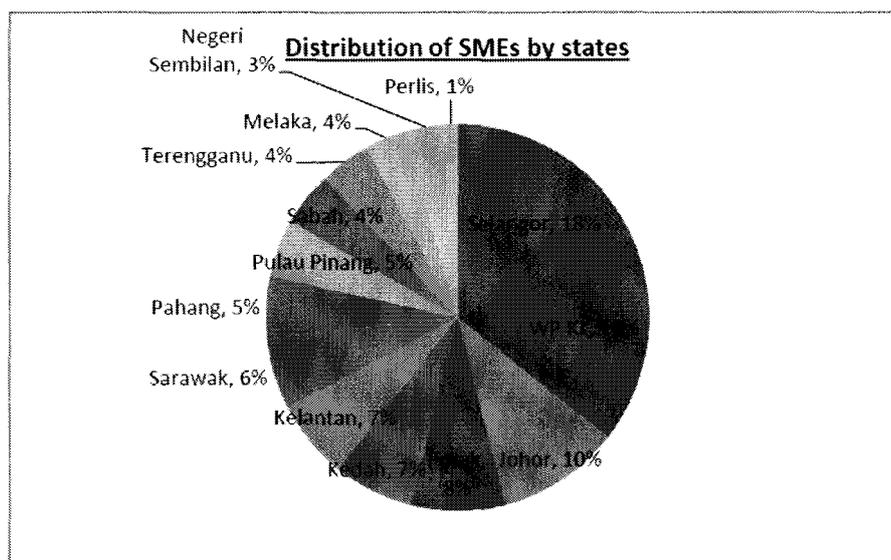


Figure 1: Distribution of SMEs by States (by: <http://www.smeinfo.com.my/>)

Profile of SMEs in Malaysia

Table 1:

Profile of SMEs, breakdown by Size and Sector

Sector	<u>Micro</u>	%	<u>Small</u>	%	<u>Medium</u>	%	<u>Total SMEs</u>	%
Manufacturing	21,516	4.9	15,796	15.7	2,061	16.2	39,373	7.2
Services	381,585	87.7	83,037	82.5	10,084	79.3	474,706	86.6
Agriculture	31,838	7.3	1,775	1.8	575	4.5	34,188	6.2
Total SMEs	434,939	100.0	100,608	100.0	12,720	100.0	548,267	100.0

Table 1: Profile of SMEs in Malaysia, breakdown by Size and Sector

Table 2:

Profile of SMEs, breakdown by Size and State

State	<u>Micro</u>	%	<u>Small</u>	%	<u>Medium</u>	%	<u>Total SMEs</u>	%
Selangor	73,273	16.8	22,396	22.3	2,854	22.4	98,523	18.0
WP KL	60,835	14.0	33,069	32.9	2,914	22.9	96,818	17.7
Johor	45,630	10.5	9,485	9.4	1,356	10.7	56,471	10.3
Perak	37,872	8.7	5,567	5.5	691	5.4	44,130	8.0
Kedah	33,531	7.7	3,066	3.0	432	3.4	37,029	6.8
Kelantan	34,075	7.8	1,528	1.5	198	1.6	35,801	6.5
Sarawak	25,377	5.8	6,601	6.6	1,081	8.5	33,059	6.0
Pahang	24,917	5.7	2,742	2.7	399	3.1	28,058	5.1
Pulau Pinang	21,422	4.9	4,527	4.5	803	6.3	26,752	4.9
Sabah	18,915	4.3	4,901	4.9	978	7.7	24,794	4.5
Terengganu	22,112	5.1	1,415	1.4	207	1.6	23,734	4.3
Melaka	16,520	3.8	2,696	2.7	407	3.2	19,623	3.6
Negeri Sembilan	14,911	3.4	2,275	2.3	369	2.9	17,555	3.2
Perlis	5,549	1.3	340	0.3	31	0.2	5,920	1.1
Total SMEs	434,939	100.0	100,608	100.0	12,720	100.0	548,267	100.0

Table 2: Profile of SMEs in Malaysia, breakdown by size and state

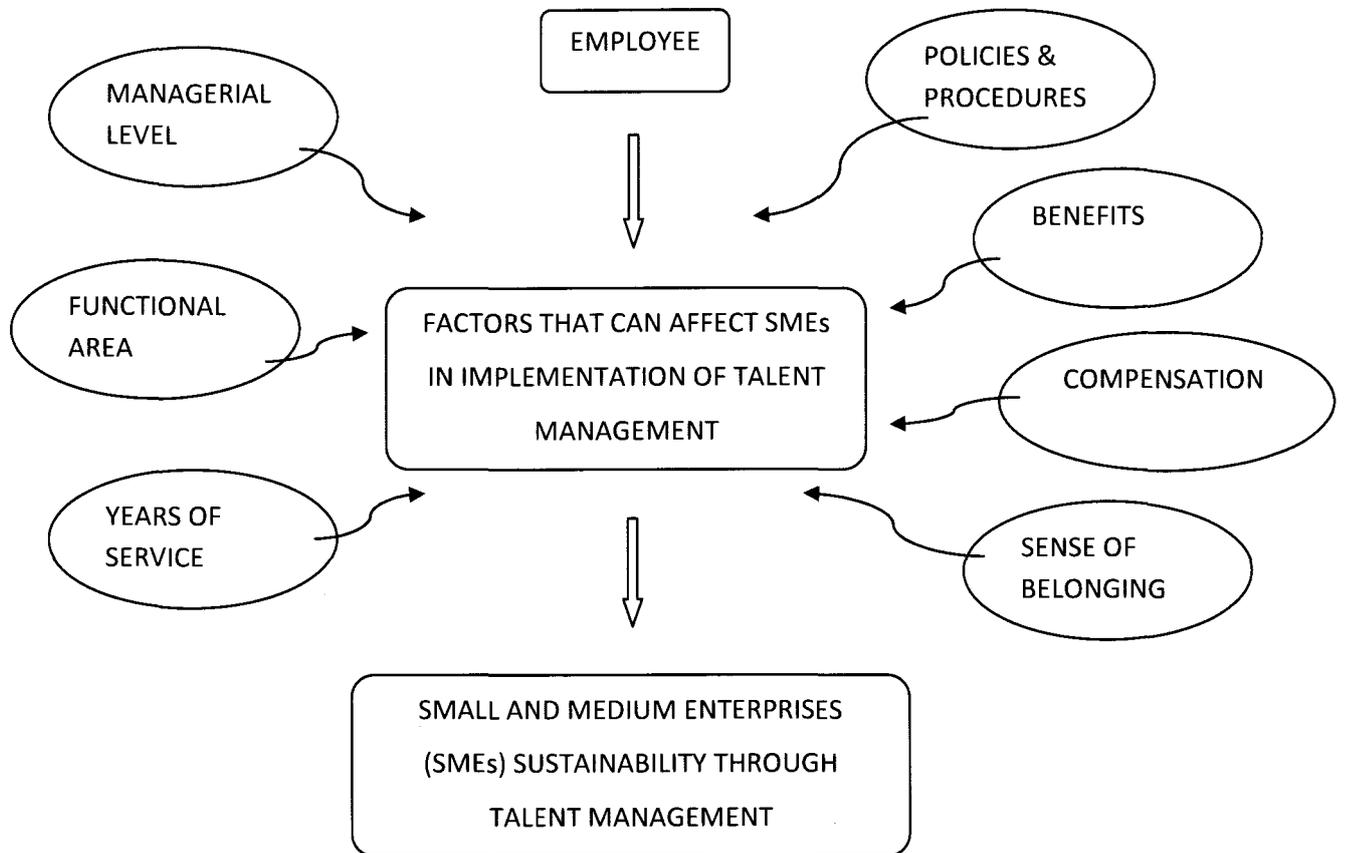
(By: <http://www.smeinfo.com.my/>)

Numbers signify the importance as SMEs form a fundamental part of the Malaysian economy, comprising over 98% of total establishments and contributing to over 65% of employment as well as over 50% of the gross domestic product (GDP) (by: <http://www.smeinfo.com.my>.) SMEs play a critical role in poverty reduction through employment generation. Although the numbers might be lower in Malaysia, SMEs have the potential to contribute substantially to the economy and can provide a strong foundation for the growth of new industries as well as strengthening existing ones, for Malaysia's future development. Common issues among SMEs are insufficient focus on critical positions, do not fully integrated employee career plans insufficient encouragement of proactive and actionable development plans and do not have evaluated depth and cohesiveness of technology solutions. Talent management in developing a group of diverse and competitive small and medium enterprises (SMEs) in Melaka, Malaysia is a central theme towards achieving sustainable economic growth. SMEs are crucial to the economic growth process and play an important role in the country's overall production network.

1.4 RESEARCH OBJECTIVE

- To evaluate the effect of **managerial level** towards talent management.
- To evaluate the effect of **functional area** towards talent management.
- To evaluate the effect of **years of service in employment** towards talent management.
- To evaluate the effect of **employees' personal sense of belonging** towards talent management.
- To evaluate the effect of **organisation's policies and procedures** towards talent management.
- To evaluate the effect of **employee's benefits** towards talent management.
- To evaluate the effect of **compensation** towards talent management.

1.4.1 RESEARCH OBJECTIVES FRAMEWORK



1.5 RESEARCH QUESTION

The research questions of this study are:

1. Does employees' managerial level gives significant effect towards talent management in an organization?
2. Does employees' functional area gives significant effect towards talent management in an organization?
3. Does employees' year of service in employment gives significant effect towards talent management in an organization?
4. Does employees' personal sense of belonging gives significant effect towards talent management in an organization?
5. Does organisation's policies and procedures gives significant effect towards talent management in an organization?
6. Does employee's benefits gives significant effect towards talent management in an organization?
7. Does an organizations' compensation gives significant effect towards talent management in an organization?

1.6 SIGNIFICANCE OF STUDY

The study gives significance benefit to small and medium enterprises (SMEs) in Melaka, Malaysia in term for both employees and employers. Small and medium enterprises (SMEs) in Melaka, Malaysia can have a good exposure about what they can do to attract and retain their high achievers of the firm where as employees can have a good ground to sound out their valuable and honest feedback on how the firm that they are working for can achieve a higher ground in a win-win situation. The new implementation can be done before they hire or fire an employee such as:

1. Managerial level can be one of the important arguments to be measured in talent management. There significant to train and develop employees accordingly to their rank and position.
2. The importance of functional area towards talent management. There are certain vacancy in position which is hard to fill and only specific qualified person are eligible (e.g. mechanical engineers)
3. Years of service in employment towards talent management is crucial as to retain firms' best long serving employees who is faithful and taken the company as a part of their life. Employees' personal sense of belonging will flourish towards talent management as they are willing to give it all it takes for the firms' growth and sustainability.

4. The effect of organisation's policies and procedures to attract new talent and retain current employees. It is about what a firm can do to bring in new breath in the firm and at the same time giving a fair compensation to existing employees. The effect of employee's benefits and compensation towards talent management is undeniable.

For employees, from this research, they will gain new information that they might not aware off, such as:

1. The significance in the employees' personal sense of belonging towards talent management. This is for their personal growth and building career path of their own.
2. The effect of organisation's policies and procedures towards talent management that employees can be benefited from it. For example, training and development programme and courses to up skill the employees.
3. The employee's benefits that maybe they are not aware off such as insurance coverage and retirement plan. Besides that. Employees can evaluate and once refresh their memory on the compensation package that they are receiving at the moment.

1.7 SCOPE OF STUDY

This study will be carried out in three main industrial areas in Melaka, Malaysia, namely; Kawasan Perindustrian Krubong, Kawasan Perindustrian Cheng and Kawasan Perindustrian Bukit Rambai where there are located with plenty of small and medium enterprises (SMEs). There is no attempt to conduct this research out of these three industrial areas as the sample size is only 110. These three industrial areas consists more than 25 small and medium enterprises (SMEs) each. Therefore, it is already very sufficient as the respondents are evenly scattered and randomised.

1.8 LIMITATION OF STUDY

1.8.1 TIME CONSTRAINT

The time frame given to finish up this research is quite limited as the researcher only had time frame of three months. At the same time, the researcher is working full time as well in CIMB Bank Berhad, Taman Cheng Perdana, Melaka which make the time to find and collect all the data is limited. The workload of the respective respondents of the small and medium enterprises (SMEs) also contributes to the time constraint as they have their job function to perform at the same time.

1.8.2 COST INCURRED

In completing this research, the researcher needs to bear all the cost and expenses such as photocopy, transportation, internet sources, print, tokens and material used in the research report. The respondents will be given a token on their willingness in answering the questionnaire. A CIMB Bank Berhad ball pen was given for each respondent as a token of appreciation for their time and participation as well as to persuade the respondent to answer the questionnaire honestly.

1.8.3 INFORMATION GATHERED

The researcher needs to find the entire source to help on understanding about the topic. To finish up the study, the researcher need to engaged with the small and medium enterprises (SMEs) employees and the person in charge to collect the questionnaire data. In some small and medium enterprises (SMEs) firm, some face to face feedback was given as well by the employees.

1.9 HYPOTHESIS OF THE STUDY

Hypothesis testing consists of null hypothesis and alternative hypothesis. Null hypothesis is statement in which no differences or effect is expected. If the null hypothesis is not rejected, no changes will be made. Alternative hypothesis is a statement that some differences or an effect is expected. Accepting the alternative hypothesis will lead to changes in opinion and action.

1.9.1 HYPOTHESIS 1: MANAGERIAL LEVEL

- | | |
|----------------|---|
| H ₀ | There will be no significant relationship between employee's managerial level towards talent management. |
| H ₁ | There will be significant relationship between employee's managerial level towards talent management. |

1.9.2 HYPOTHESIS 2: FUNCTIONAL AREA

- | | |
|----------------|---|
| H ₀ | There will be no significant relationship between employee's functional areas towards talent management. |
| H ₁ | There will be significant relationship between employee's functional areas towards talent management. |

1.9.3 HYPOTHESIS 3: YEARS OF SERVICE

- | | |
|----------------|---|
| H ₀ | There will be no significant relationship between employee's years of service towards talent management. |
| H ₁ | There will be significant relationship between employee's years of service towards talent management. |

1.9.4 HYPOTHESIS 4: SENSE OF BELONGING

H₀ There will be no significant relationship between **employees' personal sense of belonging** towards talent management.

H₁ There will be significant relationship between **employees' personal sense of belonging** towards talent management.

1.9.5 HYPOTHESIS 5: POLICIES AND PROCEDURES

H₀ There will be no significant relationship between employee towards **organisation's policies and procedures** in talent management.

H₁ There will be significant relationship between employee towards **organisation's policies and procedures** in talent management.

1.9.6 HYPOTHESIS 6: EMPLOYEES' BENEFIT

H₀ There will be no significant relationship between **employee's benefits** towards talent management.

H₁ There will be significant relationship between **employee's benefits** towards talent management.

1.9.7 HYPOTHESIS 7: COMPENSATION

H₀ There will be no significant relationship between **compensation** towards talent management.

H₁ There will be significant relationship between **compensation** towards talent management.