THE RELATIONSHIP BETWEEN PERCEIVED SERVANT LEADERSHIP CHARACTERISTICS, HUMAN RESOURCE PRACTICES AND TURNOVER INTENTION IN SMALL MEDIUM ENTERPRISES

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UNIVERSITI TEKNOLOGI MALAYSIA
THE RELATIONSHIP BETWEEN PERCEIVED SERVANT LEADERSHIP CHARACTERISTICS, HUMAN RESOURCE PRACTICES AND TURNOVER INTENTION IN SMALL MEDIUM ENTERPRISES

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A thesis submitted in fulfilment of the requirements for the award of the degree of Doctor of Philosophy (Management)

Faculty of Management
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Dedicated to:

my beloved parents Ng Kam Boon and Fong Ting Choo,
my sister Ng Xin Ying,
my brother Ng Jing Yi, and
my lovely cousin Lee Ruo Lynn.
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ABSTRACT

Employees’ turnover intention is one of the challenges faced by many organisations including small medium enterprises (SMEs) in Malaysia. Thus, demand for an effective leadership style is crucial as it can increase employees’ interest to stay longer in organisations. The relationship between leadership styles and employees’ turnover intention has been widely studied. There are various leadership styles such as transformational, transactional, autocratic and charismatic leaderships. While the concept of leadership has been extensively studied, the role of servant leadership in reducing employees’ turnover intention has not been fully understood. Servant leadership focuses on their followers’ needs in establishing good relationship with followers. In addition, it is associated with characteristics such as standing back, empowerment, ethical, humility, listening and forgiving. This study examined the relationship between servant leadership (independent variables) and employees’ turnover intention (dependant variable). In addition, this study investigated the effect of human resource (HR) practices as the mediating variable since this relationship has received scarce attention in research. HR practices such as training and development, rewards and pay system, performance management, and occupational safety and health management were the focal points of this research. The objectives in this research were to identify the level of servant leadership in SMEs; to investigate which is the most frequently used HR practices; to determine inter-relationships between servant leadership, HR practices and turnover intention; and to examine the role of HR practices as a mediator. Using questionnaires, data were collected from 227 local SMEs' employees in manufacturing sector. The questionnaires were distributed by hand, mails, emails and Google Forms. SPSS version 24 was used to analyze the normality test and demographic factors of the respondents, whereas AMOS version 24 was used for Confirmatory Factor Analysis (CFA) and testing the relationship between variables in the Structural Equation Modeling (SEM). The results showed that the level of servant leadership is moderate and performance management is most frequently used HR practices among SMEs. Apart from that, it was found that there is a significant positive relationship between servant leadership and HR practices, in which good servant leadership and HR practices are found to be significant in reducing employees’ turnover intention. It is discovered that only two dimensions of servant leadership which are listening and ethical behavior showed a significant mediation effect on turnover intention. In short, these findings provided useful insights for practitioners of SMEs in reducing employees’ turnover. It is recommended that leaders not only have to listen to the needs of their employees but to take care of their welfare such as training opportunities and pay rates.
ABSTRAK

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<th>Description</th>
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<tr>
<td>CFA</td>
<td>Confirmatory Factor Analysis</td>
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<tr>
<td>FMM</td>
<td>Federation of Malaysian Manufacturers</td>
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<tr>
<td>HR</td>
<td>Human Resource</td>
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<tr>
<td>OSH</td>
<td>Occupational Safety and Health</td>
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<td>PMR</td>
<td>Lower Secondary Assessment</td>
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<td>SCT</td>
<td>Social Cognitive Theory</td>
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<td>SMEs</td>
<td>Small Medium Enterprises</td>
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<td>SPM</td>
<td>Malaysian Certificate of Education</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
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<td>STPM</td>
<td>Malaysian Higher School Certificate</td>
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CHAPTER 1

INTRODUCTION

1.1 Introduction

Leadership is a concept that has been widely researched and debated in past and recent years (Krekeler, 2010). Leadership approaches, theories, and skills have evolved from placing little concern on employees in the past to forging long-term relationships with them in the present. Despite being well-researched, discussion on one of the relationship-based leaderships − servant leadership in small medium enterprises (SMEs) especially in Malaysia is still lacking. SMEs are an important pillar to the development of Malaysia's economy. Employees are encouraged to be well-trained and be innovative (Arham et al., 2017).

Since employees are essential organizational assets, their turnover is a significant problem for organizations. Consequences secondary to employees’ turnover include the loss of the resigning employees’ knowledge, expertise, and experience; the cost of training for new employees; and disruptions in production effectiveness during the training of the new employees (Harris et al., 2008). The turnover and retention of employees remain a costly challenge for SMEs as it includes recruitment, induction of new workers, and loss in production (DeNisi & Griffin, 2008; Rubiah, 2012). Thus, organizations are concerned with retaining their
skilled employees. Given the transformation of the Malaysian economy into a knowledge-based economy (Khalique et al., 2011), the mitigation of employee's turnover intention in SMEs has become fundamental (Sin Tan et al., 2010).

Despite the copious literature on the impact of effective leaders on employees’ turnover intention, little discussion has focused on servant leadership in SMEs. Servant leaders focus on employees' needs, which is crucial in today’s organizations. Therefore, within this framework, this research examined the role of servant leadership on the employees’ turnover intention as mediated by human resource practices in SMEs. These encompass not only monetary aspects such as competitive remunerations, but also non-monetary ones such as sufficient training and development, performance management, and occupational safety and health. This chapter presents the background of the research and problem statement. It also focuses on the research objectives, research questions, theoretical foundation and conceptual framework of the study.

1.2 Background of the Research

Leaders differ from managers in that the former are willing to change, but the latter prefer to maintain the status quo (Ricketts, 2009). Over the past century, dramatic changes have been observed in leadership styles in practice (Orr & Sack, 2009). Since the last decade, leadership focus has become more relationship-based towards employees (Boyum, 2012). The concept of leadership is important to an organization, and the lack of any crucial element of it could lead to challenges such as diminished organizational effectiveness, especially in this new era (Raja & Palanichamy, 2012). Gallato et al. (2012) and Arham et al. (2013) have opined that effective SMEs' leadership is important to enhancing their organizations' potential whereas ineffective leadership may lead to organizational failure. Therefore, an effective leadership is emphasized by SMEs wherein the leaders are the ones who
motivate employees and bring innovation to organizations (Choo, 2007; Arham et al., 2013).

All organizations including SMEs require efficient leaders to lead people to the right direction to achieve the organizations' goals (Aziz et al., 2013). Over the decades, various leadership styles have been proposed: transformational, transactional (Burns, 1978), charismatic (Weber, 1920), autocratic and democratic (Lewin, 1939). The different leadership styles are accompanied by different types of characteristics, between which comparisons have been made (Stone et al., 2004; Parolini et al., 2009; Schneider & George, 2011). In fact, different leaders influence their followers differently; for instance, autocratic leaders use coercion, transformational leaders use their charisma and servant leaders influence employees by service.

As stated by Behar (2007), people are more important than profits. This aligns with the concept of servant leadership. In servant leadership, the focus is on serving others and helping followers to grow both professionally and personally (Ebener & O'Connell, 2010). Avolio et al. (2004), Sendjaya et al. (2008) and Gardner et al. (2011) clarified that servant leadership is similar to authentic leadership where authentic leaders not only have a deep awareness of their own and others' perspectives and of the context in which they operate, but also are positive in their outlook. However, servant leadership is spiritual in orientation, and this is lacking in authentic leadership. Servant leaders also contrast with autocratic leaders, who tend to control their subordinates, reward and centralize authority in what is also known as boss-centered leadership (Beaver, 2007). Recent evidence has shown that leaders in this century have started to empower their employees to perform effectively in organizations (Schneider & George, 2011). Indeed, servant leaders not only empower their subordinates, but also possess other characteristics such as being supportive of their followers, exhibiting ethical behavior, humility, being willing to listen, and empathy.

Patterson (2003) listed empowerment as one of the characteristics of servant leadership in her model. Empowerment means that the leaders share power with their followers, and give them chances to make decisions and thereby gain experience.
Support for followers is also one of the main criteria of servant leadership in that it helps followers to be successful and trains them to become leaders in the future (Reed et al., 2011). According to Arham (2014a), since the attainment of organizational success must necessarily derive support from employees, actions need to be taken by leaders: to encourage employees to grow and develop; exhibit emotional support to them; provide them with direction; recognise both individual needs and team requirements; and develop their skills and capabilities.

Wong (2003) has found that servant leaders own a characteristic absent in self-seeking leadership styles (such as autocratic leadership), namely ethical behavior. In today’s society, being ethical is important for leaders to foster long-term relationships with their followers and customers, considering that ethical behavior builds mutual trust between two parties. Furthermore, ethical behavior augments productivity and employees’ job satisfaction (Wong, 2003). Apart from that, Patterson (2003) indicated that both humility and being open to advice are essential today. Furthermore, leaders nowadays should be cognizant of their employees’ needs; thus, the willingness to listen and empathy are likewise crucial for them.

Studies on the styles of leadership in Malaysian SMEs focus on transformational leadership styles. According to Aziz et al. (2013) and Voon et al. (2011), transformational leadership are effective in organizational performance and employees’ job satisfaction, compared to transactional leadership and passive-avoidant leadership. Arham et al. (2013) posited that many leaders in Malaysian SMEs practice transformational leadership than transactional leadership. Furthermore, these leaders are able to gain mutual trust from employees, giving them chances in problem solving highlighting that such leaders display empowerment more in transformational leadership. There are difference and similarities between transformational leadership and servant leadership (Smith et al., 2004). Servant leadership is more concerned with emotional welfare of their employees than transformational leadership (Humphreys, 2005). Parolini et al. (2009) have argued that transformational leaders focus on the needs of the organization whereas servant leaders focus on the needs of the individual. According to Schneider and George (2011), both transformational and servant leadership styles practice empowerment,
and research has shown that both have impact on employees’ turnover intention. Thus, the differences and similarities continue to be of interest for studies on the effect of servant leadership in SMEs Malaysia.

As aforementioned, every organisation needs sound and effective leadership. Acknowledging the important links between leadership and organisational performance, many organisations concentrate on developing effective leaders in their organisations (Arham, 2014b). Many researchers have linked leadership styles to aspects related to management, including cross-cultural management (Pellegrini et al., 2010), motivation and job satisfaction (Hulpia & Devos, 2009; Farris, 2010; Bhatti et al., 2012), commitment (Shastri et al., 2010), and turnover intention (Firth et al., 2004; Maier, 2011; Caffey, 2012). Choo (2007) agreed that effective leaders attract and retain employees. Although studies have been conducted regarding the causes of employee’s turnover intention, many organizations still face retention problems (Mobley, 1977; Whitmore, 1979; Sheridan & Abelson, 1983). Leaders in organizations have vital roles to play as they will affect the employees’ turnover intention. According to Maier (2011), in the hospitality industry, the leader’s knowledge in retaining employees is important for augmenting customer services. The relationship has also been studied between leadership styles and turnover intention in different areas such as the retail market (Firth et al., 2004), communication-related industry (Chen et al., 2008), and education (Engelhart, 2012).

Turnover (the departure from an organization) is common in the industrial milieu (Philip and Philip, 2002). According to Ahlrichs (2000), turnover will be detrimentally costly for an organization because it includes visible and invisible costs. These costs include those of recruiting, training, socialization and disruption. Apart from that, turnover may jeopardize an organization in other manners (Philip and Philip, 2002). The frequent changing of staff due to high turnover rate will decrease the quality of service or product and affect organizational performance. Given the extent of the negative impacts of turnover, many managers place attention on employee retention (Mitchell et al., 2001). In this regard, many organizations have their own strategies to retain employees, such as providing training to employees in order to deepen their commitment to the organizations (Sieben, 2007), and
implementing salary strategies and job enrichment to militate against employees’ turnover intention (Luna-Arcas & Camps, 2007).

Employee turnover is still a perennial problem for organizations that can lead to company loss (Rubiah, 2012). In Malaysia, a turnover report that involved 71 companies and 28028 employees revealed the employees’ average monthly turnover rates in the manufacturing sector: 2.21% in 2010, 1.92% in 2011, 1.94% in 2012, 1.69% in 2013, and 1.72% in 2014 (Malaysian Employers Federation, 2015). Table 1.1 outlines the average monthly turnover rate in Malaysia in the Malaysian Employers Federation's survey.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage (%)</th>
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<tbody>
<tr>
<td>2010</td>
<td>2.21</td>
</tr>
<tr>
<td>2011</td>
<td>1.92</td>
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<tr>
<td>2012</td>
<td>1.94</td>
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<tr>
<td>2013</td>
<td>1.69</td>
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<tr>
<td>2014</td>
<td>1.72</td>
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Source: (Malaysian Employers Federation, 2015)

In this regard, many studies have found that human resource (HR) practices play a significant role in reducing turnover intention. Employees are one of the important assets of an organization (Gilley et al., 2002; Brewster, 2004). Accordingly, managing human capital is crucial to organizations in order to have competitive advantages (Wright & Kehoe, 2008); it follows that well-developed HR practices must be implemented to ensure that employees are well taken care of (Osman et al., 2011). The HR management department is usually in place to deal with employee issues including turnover (Allen et al., 2003). HR practices include many fields, but can in general be separated into three dimensions: motivation-enhancing practices, empowerment-enhancing practices and skill-enhancing practices (Wright & Kehoe, 2008). Research suggested that various HR practices could be used for retention in Malaysia SMEs, include training and development, recognition, achievement, work and responsibility, company policy, supervision,
working conditions, interpersonal relations, job security and compensation (Zin et al., 2012).

Training can help employees to narrow the gaps between current capabilities in their works, and help them in their future work position (Noe, 2010). Providing training is important to increase the percentage of skilled local employees in Malaysia from 31% to 35% by 2020 as planned in the Eleventh Malaysia Plan (2016-2020) (Lee, 2017). Although training bring benefits such as profitability, productivity and competitive advantages to Malaysian SMEs, many reasons impede the implementation of training such as the lack of time, high costs in training, and underestimation of benefits from training (Yahya et al., 2012). However, a recent study on SMEs in the Malaysian manufacturing sector agreed that training is important to their employees including top management to increase their commitment and motivation in job, especially when facing new technology (Rose et al., 2017).

In addition to training, performance appraisals and reward systems have been rated low by employees, reflecting that these HR practices are still not adequate to meet the requirement of the employees in SMEs and hard for SMEs to gain competitive advantages (Hassan, 2010). In contrast, Cafferkey et al. (2013) have ascertained that HR practitioners in Malaysian SMEs rank the extent of practice of reward systems and provision of formal training as high in their organizations. Apart from welfare, occupational safety and health (OSH) deserve attention too but the lack of concern about it by Malaysia SMEs may arise from the rare occurrence of accidents in these organizations due to their limited workforce. It has been shown that there is still much room for improvement concerning the implementation of OSH in Malaysian SMEs (Surienty, 2012).

The focus amongst researchers in the past on only big organizations has of late started to give way to the new recognition of SMEs as important contributors to the country’s development (Marlow, 2006; Franklin, 2010), as may be evidenced by SMEs’ contribution to as much as 31% of Gross Domestic Product (GDP) of Malaysia. In view of their role, the Malaysian government has employed the New Economic Model and Tenth Malaysia Plan to develop SMEs and foster their
competitiveness in this new era. The government has also aided SMEs to grow through various channels such as establishing the National Human Resources Centre (NHRC) and Human Resources Development Fund (HRDF). NHRC has also attempted to provide training on leadership development for SME leaders (National SME Development Council, 2011).

Optimal HR practices help to retain employees in SMEs (Yahya et al., 2012). Mobley et al. (1979) provided a complex framework for the reasons behind employees’ turnover behavior, including personal characteristics, job satisfaction, job characteristics (i.e. remuneration, promotion, supervision style, formal communication), occupational grouping and external environment. Thus, this is in line with issues mentioned in this section, which are leadership and HR practices. Employees who are less satisfied with their leaders and HR practices are more likely to quit their jobs.

Today, Malaysian economy has transformed to a knowledge-based economy. Thus, Malaysian SMEs need to change their mindset to transform themselves to accelerate the growth of SMEs. To ensure continued SME growth and contribution to Malaysia’s economy, over the next few years Malaysia has to encourage the private sector to adapt to changes, have a pool of skilled employees who can be absorbed in the market and be competitive (The World Bank, 2016). This emphasize again the importance to retain skilled employees in SMEs.

In conclusion, employee turnover is a challenge for many leaders and organizations including SMEs. An effective leadership is able to grapple with the problem of employees’ turnover intention. Furthermore, SME leaders should ensure the establishment of effective HR practices to retain employees. Thus, it is useful to investigate the role of servant leadership on HR practices and its effect on turnover intention among SMEs' employees in the manufacturing sector.
1.3 Problem Statement

There are many types of leadership; and an effective leader is one who is able to continually and progressively lead and direct his subordinates to the agreed destination defined by the whole group (Bhatti et al., 2012). An effective leadership style will lead the organization to success. According to Schwantes (2015), an estimation of 30% of the top 35 organizations on the Fortune list 2014 practiced servant leadership. Conversely, a poor leadership style will lead to problems. Jobstreet (2015) reported a survey on job satisfaction that involved 631 employees, 71% of whom opined that poor leadership was a major factor that would lead to job dissatisfaction. A survey has evidently indicated that employees prefer servant leadership followed by transformational leadership (Ahmad & Fontaine, 2011). However, a paucity of the knowledge on servant leadership persists, especially in SMEs in Malaysia. Most of the research on SMEs leadership in Malaysia focuses on transformational and transactional leaderships (Arham et al., 2013; Aziz et al., 2013; Arham, 2014a). In other words, recent findings have shown that there is still no clear understanding of servant leadership behaviors among SME leaders in Malaysia.

Furthermore, according to Hasnah et al. (2010), one of the challenges faced by Malaysian SMEs is the lack of expertise in management. The knowledge about leadership among SMEs’ leaders is still insufficient (Sam et al., 2012). In terms of research, there have been only limited studies on leadership in SMEs, such as investigations on the importance of leadership styles of the owners of manufacturing companies in organization innovation (Jones & Crompton, 2009), the impact of servant leadership in SMEs (Franklin, 2010) and the determination of the optimal of leadership style that could enhance organizational outcomes in SMEs (Just, 2011). Given the history of Western colonization of Malaysia, the management styles and practices among Malaysian companies are westernized, especially in those that report directly to their foreign partners. However, Malaysian leaders are still are not expected to be self-serving such as placing their own interest ahead of the group because their behaviors are still governed by their key cultural and religious values (Lo & Ramayah, 2011). Employees nowadays seek greater authority and more
support from leaders; understanding this phenomenon will help to reduce employees’ turnover intention (Harris et al., 2008). However, the prevalence of servant leadership among SME leaders to retain employees is still unknown. Thus, the first research question is to investigate the prevalence of servant leadership as practiced by leaders of the manufacturing sector.

It is noteworthy that HR practices have changed over time to deal with globalization and to compete in the labor market by treating employees as a valuable inventory (Vani, 2011) or talent and by giving them decision-making power (Boudreau & Ramstad, 2004). In Malaysia, a survey by MEF has shown that organizations are moving towards performance-based reward systems and that the Malaysian government also provide various training opportunities for Malaysians to enhance their skill and knowledge (Osman et al., 2011). However, studies on HR practices in SMEs are limited in Malaysia. Not all SME have their own HR department, and some of them even outsource their HR matters to a third party (Osman et al., 2011). It is even worse when leaders hardly pay attention to HR matters. Many researchers have confirmed that the implementation of sound HR management may increase employees’ commitment to the organization and militate against their turnover intention (Batt & Valcour, 2003; Sieben, 2007; Rondeau et al., 2009; Altarawneh & Al-Kilani, 2010; Gardner et al., 2011; Kwon & Rupp, 2013).

Against this backdrop, however, SMEs have been found to be less concerned about HR practices than multinational companies (Osman et al., 2011). Studies on the influence of HR practices (i.e. performance management) in SMEs in the manufacturing sector in Malaysia are still limited and inconclusive.

Effective HR practices will be able to increase not only employees’ knowledge, skills, and abilities (KSAs) to help organizations to meet their targets, but also their productivity, competitive advantages, and retention (Wheeler et al., 2012). According to Juhdi et al. (2013), Malaysian employees agreed that the rewards-and-pay systems are one of the factors that decrease their turnover intention, because rewards may increase the employees’ motivation and commitment to their job. Teh (2015) reported that many Malaysian employees prefer Singapore, given the difference in remunerations: a fresh graduate employed in Singapore earns a monthly salary three times more than a counterpart employed in Malaysia. Tang (2015)
reported that many organizations in Johor have encountered difficulty in recruiting employees because of the prospective employees’ preference of Singapore. However, interestingly, a survey from Jobstreet, an online recruitment organization, indicated that the main reason that an employee leaves is an offer of higher pay, but the employee will stay if he loves his current job (Jobstreet, 2013). Apart from remunerations, other factors such as performance management, effective training programs, and a safety workplace are criteria that lead to employee retention (Batt & Valcour, 2003; Rondeau et al., 2009; Altarawneh & Al-Kilani, 2010).

According to The Associated Chinese Chamber of Commerce and Industry of Malaysia (2012), SMEs face difficulties in employing workers. In active industries, this problem is the most serious in the hotel industry with a shortage of 79%, followed by the agriculture, farming, timber, fishery and the gardening industry with 76% and by the manufacturing industry with 72%. Most of the industries lack skilled workers (30%) and general workers (30%). The industries that need skilled workers are mostly construction (59%) and manufacturing (42%). In elucidating the average yearly turnover rate of executives, Lisa (2012) found that a turnover rate of 18.84% was observed for manufacturing companies have and one of 20.88% for non-manufacturing companies. The author also stated that every employee has a different perspective on work: while some seek more authority, others prefer better remuneration. Anvari et al. (2014) showed that Malaysians are retained for less than three years in an organization, but the variety of HR practices contributes to retaining knowledgeable workers. Thus, possessing the knowledge of HR practices in SMEs may help in understanding the phenomena underlying the employees’ turnover intention.

Good leadership behaviors can lead to a good organizational climate even with poor HR policies, but good HR policies with undesirable leadership behavior could lead to an unsatisfactory organizational climate (Purcell & Hutchinson, 2007). Evans (2016) agreed that leaders play the crucial role in enacting effective HR practices, and García-Carbonell et al. (2016) stated that one of the ways for them to do so is through effective communication with employees. Patterson et al. (2003) and Liden et al. (2008) indicated that servant leadership is concerned with employees’ welfare and is unconditional. Furthermore, they care about their employees without
bias (Andersen, 2009). Servant leaders provide opportunities for employees in learning and growth for enhancing their capabilities (Reed et al., 2011). Servant leaders also become role models to employees and their caring will encourage safety in workplace (Clarke, 2013). In this regard, it is meaningful to examine the roles of servant leadership in influencing HR practices in SMEs in the manufacturing sector.

Much literature has been published on the relationship between leadership and turnover intention. Servant leadership that empowers their employees will increase their employee willingness to stay (Caffey, 2012). Support from servant leaders are essential for not only helping employees during work but also decreasing their turnover intention (Hunter et al., 2013; Kang et al., 2015). Furthermore, effective communication, trust, empathy and willingness to serve are likewise important to decrease turnover intention (Joo, 2010; Duffield et al., 2011). A Malaysian study has revealed that employees have higher commitment to their job if leaders practice servant leadership. It also showed that characteristics of servant leadership which are support and empathy are critical to employees’ commitment (Goh & Zhen-Jie, 2014).

Despite the abundance of literature on leadership and on turnover intention, uncertainties have remained on the presence of a relationship between leadership and employees’ turnover intention and that between HR practices and turnover intention. (Purcell & Hutchinson, 2007; Rondeau et al., 2009; Brown et al., 2010; Cottini et al., 2011; Mueller, 2012; Guan et al., 2015; Dello Russo et al., 2016; Verbeke et al., 2016), few studies have been conducted to examine the relationship between the three variables simultaneously (Kuvaas & Dysvik, 2010; Tymon Jr et al., 2011). Thus, ascertaining whether HR practices mediate the leadership-turnover intention relationship could add new understanding of the direct and indirect relationships between servant leadership and turnover intention in the context of SMEs in Malaysia.
1.4 Research Questions

1) Do the leaders of SMEs in the manufacturing sector practice a high level of servant leadership?

2) What HR practices are frequently used in SMEs manufacturing sector?

3) Is there any relationship between servant leadership style and turnover intention in such SMEs?

4) Is there any relationship between servant leadership style and HR practices in such SMEs?

5) Is there any relationship between HR practices and turnover intention in such SMEs?

6) Do HR practices mediate the relationship between servant leadership style and employees’ turnover intention of such SMEs?

1.5 Research Objectives

1) To identify the level of servant leadership practice in the manufacturing sector among leaders of SMEs.

2) To identify the HR practices that are frequently used in SMEs manufacturing sector.

3) To examine the relationship between servant leadership style and employee’s turnover intention in such SMEs.
4) To examine the relationship between servant leadership style and HR practices in such SMEs.

5) To examine the relationship between HR practices and turnover intention in such SMEs.

6) To examine whether HR practices mediate the relationship between servant leadership style and employees’ turnover intention in SMEs manufacturing sector.

1.6 Scope of the Research

This research concerns respondents who are full-time skilled employees in Johor, the southernmost state in Malaysia that is geographically the closest to Singapore. The respondents are employed by employers under contracts of service (Perkeso, 2013). It is also noteworthy that this research has included only the respondents of the Malaysian nationality and involved no foreigner employees.

Secondly, the scope is limited to only SMEs. Such enterprises in the manufacturing sector in Malaysia include enterprises with sales turnover not exceeding RM50 million or full-time employees not exceeding 200 (National SME Development Council, 2013). The sector encompasses manufacturers of all kinds of merchandises, for example, metal-product manufacturers, food-and-beverage manufacturers, paper-and-printing manufacturers, et cetera.

The independent variable is servant leadership, which is not discussed much in Malaysia. Characteristics of servant leadership are abound, of which six are chosen based on previous studies, given their importance to servant leadership and relevance to HR practices and turnover intention. The six characteristics thus chosen for elucidation in this study are: standing back, empowerment, ethics, humility, listening and forgiving. Perceptions of servant leader characteristics in positional
leaders as well as those who may have leadership influence in their work unit were measured. The six chosen characteristics focus on serving employees' need, developing employees, becoming a role model to employees to follow, listening and receiving what employees say and be empathy which are important for a leader nowadays. The dependent variable for this research is employees’ turnover intention. In this study, turnover intentions refer to skilled employees' desire to leave their organization in the near future. There is only one mediator in this study i.e. HR practices, whose criteria that are tested in this research include training and development, rewards and pay system, performance management, and occupational safety and health.

Lastly, as regards the data collection method, this research used the quantitative method to collect data. A questionnaire was developed based on previous studies.

1.7 Significance of the Research

This research contributes to the body of knowledge in several ways. This research explores the impact of servant leadership on HR practices and employees’ turnover intention among skilled workers of SMEs in the manufacturing sector in Johor. From an academic perspective, the results of this research could provide insights into the relationship between servant leaders, HR practices and employees’ turnover intention. This, in turn, will determine whether this concept generated in a western context might be applicable to Malaysia.

In addition, previous studies have focused at the impacts of leaders' support on employees’ turnover intention with HR practices as the mediator (Kuvaas & Dysvik, 2010; Tymon et al., 2010; Tymon Jr et al., 2011; Kuvaas et al., 2014). However, as the context of the research is on employees’ turnover intention, this study used HR practices as mediator which the characteristics of HR practices have
not been studied previously that focus on relationship between servant leadership and turnover intention.

Furthermore, it is hoped that the findings of this study can shed light on the reasons underlying employees’ turnover intention. Leaders in SMEs can improve their understanding on such reasons by paying attention to the HR practices and their needs.

Given the lack of a universally accepted combination of characteristics for servant leadership, this research contributes to the existing body of knowledge with its new set of characteristics of servant leadership, especially for enhancing HR practices and mitigating against employees’ turnover intention. Thus, this knowledge will also be useful and important for companies to identify the best characteristics for effective leaders. This will enable leaders to be cognizant of the importance of characteristics of servant leadership in helping organizations become more effective and retaining knowledgeable workers.

1.8 Conceptual and Operational Definitions

1.8.1 Servant Leadership

Many scholars have believed that leaders play the role of influencing people or a team in order to meet their targets (Vijayaraghavan, 2007; Gibson et al., 2009; Robbins & Coulter, 2009; Hughes et al., 2012). The past few decades have witnessed many types of leadership styles employed by leaders, one of which is servant leadership that has first been proposed by Greenleaf (1977). The heart of servant leadership is based on serving others by identifying the followers' needs. However, due to the lack of specific clarifications of the characteristics of servant leadership, a diverse range of characteristics and measures have been proposed (Laub, 1999; Dennis, 2004; Sendjaya et al., 2008). However, in this study, the
dimensions used to measure servant leadership are standing back, empowerment, being ethical, humility, listening and forgiving of leaders.

1.8.2 Human Resource Practices

Human capital is an important asset to organizations (Ahmad & Schroeder, 2003) as it is able to help organizations grow by using their skills, knowledge and experiences (Snell & Dean Jr, 1992). Thus, the effectiveness of HR practices becomes an important factor in organizational performance (Belout & Gauvreau, 2004). Various HR practices have been suggested by scholars to improve firm performance. The HR practices chosen in this study are: occupational safety and health management, training and development, rewards and pay systems, and performance management of SMEs in the manufacturing sector in Johor. Occupational safety and health management refers to the provision of proper safety practices such as mandating safety training and establishing health and safety committees. Training and development involve the systematic improvement of employees' knowledge, skills and attitudes beneficial to their current job tasks (Gilley et al., 2002; Aguinis & Kraiger, 2009; Blanchard & Thacker, 2010). Rewards and pay systems concern a fair system for remuneration whereas performance management helps leaders and employees to jointly improve work performance.

1.8.3 Turnover Intention

Turnover refers to the departure of an employee from an organization (Mobley et al., 1979); the intention for turnover refers to the desire in employees to leave their companies in the near future (Sheridan & Abelson, 1983) and has been found to be related to turnover behavior (Sheridan & Abelson, 1983; Khatri et al., 2001; Lambert et al., 2001; Coomber & Louise Barriball, 2007). Generally, SMEs
need to be concerned with the avoidable turnovers because these turnovers are subjected to control by the organization. Furthermore, there will be serious consequences to the organization if a knowledgeable worker leaves. In this study, respondents were asked to answer questions related to their intention to leave their current organizations (SMEs in the manufacturing sector in Johor).

1.8.4 Small Medium Enterprises

The definitions of small medium enterprises (SMEs) differ by countries. In Malaysia, an SME is defined based on the annual sales turnover and the number of full-time employees in an organization. In 2014, the new definition for an SME in Malaysia comprises of the following (National SME Development Council, 2013).

- Manufacturing: Not exceeding RM50 million sales turnover or not exceeding 200 full-time employees.
- Services and other sectors: Not exceeding RM20 million sales turnover or not exceeding 75 full-time employees.

In this study, SMEs refer to SMEs in the manufacturing sector in Malaysia with not exceeding 200 full time employees.

1.8.5 Skilled Employees

Generally, an employee can be defined as a person employed by an employer under a contract of service or apprenticeship contract (Perkeso, 2013). Skill is defined as knowledge that employees proficiently apply in appropriate situations to perform a job (Sleezer et al., 2014). The joint term of “skilled employees” is, however, defined variously by scholars. Hansson (1996) believed that employees' skill is mostly related to their education level, on-the-job training and working experience. Barrett et al. (2000) defined skilled employees as those who have at least finished their high school education. However, Rothwell (2015) opined that it would be unfair to base the definition of skilled employees entirely on the education level.
because having low education level does not necessarily equate to their being unskilled. Thus, the author defined skilled employees as those who have a high level of knowledge in a technical domain with or without a high level of education such as a bachelor’s degree (Rothwell, 2015). Specifically, local skilled employees in this study refers to Malaysian employees having attained at least PMR or an equivalent education level with more than one year of working experiences in same field. Employees working less than one year were not included as respondents. Furthermore, for respondents who had achieved PMR or SPM (or equivalent level) only, they must have professional certificates or technical certifications in the related field. Based on the list of skilled occupations (InterNations, 2015), the occupations included in this study are engineers, technicians, mechanics, carpenters, accounting-related occupations, HR-related occupations, marketing and sales, purchasing-related occupations and designers.

1.9 Summary

The focus of this study is threefold: to develop an understanding of the relationship between servant leadership and employee retention that are mediated by HR practices; to identify the extent and prevalence servant leadership; and to investigate the HR practices commonly performed in SMEs. This research can assist leaders to develop an understanding of the criteria influencing employee retention, especially to compete with bigger organizations to retain knowledgeable employees.

This chapter has discussed the background of the research variables and SMEs, followed by the problems faced by them in Malaysia. Subsequently, the objectives, research questions, significance and the scopes were also described in this chapter. Lastly, the conceptual and operational definitions of this study were stated. The following chapter concerns the literature review.
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