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# Integration of Employee Development Practices and Organisational Performance of Local Government

Mohd Nazri Zakaria<sup>a</sup>, Mohd Rushdan Yaso<sup>a</sup><sup>b</sup>, Mohd Safwan Ghazali<sup>c</sup>,  
Mohd Asrul Hery Ibrahim<sup>d</sup>, Mohammad Ismail<sup>e</sup>

**Abstract:** *This study attempts to highlight the relationship between employee development practices and organisational performance of local government in Peninsular Malaysia. It examines the employee development practices, particularly, formal training, informal coaching and empowerment in strengthening organisational performance specifically in the public sector. Information was gathered from 420 selected departments of City Council and Municipal Council in Peninsular Malaysia. The findings of the study showed that employee development practices have significant positive impact on the performance of local government. More importantly, informal coaching extracts higher influence on performance compared to formal training and empowerment. Finally, the study provides practical implications.*

**Keywords:** Employee development practices, local government, organisational performance

**JEL classification:** O15, J24

*Article received: 12 May 2016; Article Accepted: 27 December 2016*

## 1. Introduction

Organisational performance has become a subject of substantial interest in the human resource field. Previous studies have shown that effective employee development practices would contribute to improved organisational performance (Ebimobwei, Felix, & Wisdom, 2012) and it is

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<sup>a</sup> Corresponding Author. Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, 16100 Kota Bharu, Kelantan, Malaysia. Email: mnazri.z@umk.edu.my

<sup>b</sup> Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, 16100 Kota Bharu, Kelantan, Malaysia. Email: rushdan.y@umk.edu.my

<sup>c</sup> Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, 16100 Kota Bharu, Kelantan, Malaysia. Email: safwan.g@umk.edu.my

<sup>d</sup> Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, 16100 Kota Bharu, Kelantan, Malaysia. Email: hery.i@umk.edu.my

<sup>e</sup> Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, 16100 Kota Bharu, Kelantan, Malaysia. Email: mohammad.i@umk.edu.my

a subject of ongoing debate in the human resource management literature and business studies. Previous studies on service and manufacturing sector found that satisfied employees will contribute towards customer satisfaction and increased financial performance of the organisation (Heskett, Sasser, & Schlesinger, 1997; Siguaw & Enz, 1999; Bernhardt, Donthu, & Kennett, 2000). In contrast, the role of employee development practices, especially employees who deal with customers is essential to the organisation by providing the skills and knowledge so that they can provide high quality of service to customers (Goldstein, 2003). Previous studies have examined the link between employee development practices and organisational performance. But few researches have focused on combining all employee development practices and their subsequent impact on performance in the public sector, especially in local government. Thus, it is imperative to study the combination of three aspects of employee development, namely formal service training, informal coaching and employee empowerment which are pertinent and vital in improving organisational performance in the service sector. The public sector must also manage employee development in an organisation more effectively so that they can serve their customers better.

Government administrations in Malaysia have been the target of public criticisms concerning their perceived lack of financial restraint, good governance and responsibility. The local government is among the public organisations that have been severely criticised by the Malaysian public for its lack of efficiency (Ibrahim & Karim, 2004; Mansor & Razali, 2010). Therefore, this study attempts to establish whether the integration of employee development practices is important for the local government in Peninsular Malaysia to increase the latter's performance. Thus, this study examines whether employee development practices, namely formal services training, informal coaching and empowerment practices, influence organisational performance.

## **2. Literature Review**

### ***2.1 Employee Development Practices***

According to Jacobs and Washington (2003), employee development is an integrated planning arrangement provided for a period of time to ensure that all employees in the organisation have the competencies to do their work based on their potential to achieve organisational goals. Employee development is described as the process of enhancing organisational performance and individual learning due to developments in human resources, organisation and career (Jacobs, 2006). Employee development is the process of developing and improving the skills of employees through

organisational development, training and development meant at improving the performance of the organisation (Swanson, 2001). Most researchers have stressed the importance of employee development in an organisation to create an efficient work force.

It is undeniable that employee development practices are one of the most important organisational capabilities as trained employees are a strategic asset to any organisation (Mavondo & Farrell, 2003) and an exceptional source of competitive advantage (Becker & Gerhart, 1996) as well as the most vital element for generating value to customers (Band, 1991). Lado and Wilson (1994) stated that human resource is difficult to be imitated and offers competitive advantages to the organisation.

There is little doubt of the role of employees in influencing organisational performance, especially in service organisations. However, employee development practices will ensure the effectiveness of services provided as a result of formal service training, informal coaching and empowerment to employees (Ellinger, Ketchen, Hult, Elmadag, & Richey, 2008). Thus, this study examine three employee development practices in order to identify their relationship with organisational performance of local authority under study.

### *2.1.1 Formal service training*

Training exposes employees to the services provided by the organisation. Training services are considered management strategies to meet high customer demand and market needs (Harel & Tzafrir, 1999). Most of the training activities offered by the human resources management are via experts hired by the organisation to provide training to its employees.

Training is defined as a formal and systematic process that aims to develop the competencies, knowledge, and skills of employees in all aspects of the organisation (Davis, J. & Davis, A., 1998). It is also a medium to deliver the organisation's strategy, values and new styles of leadership and management to employees (Kassicieh & Yourstone, 1998). Thus, training not only provides employees the skills and knowledge, but is also a medium to communicate internal and external expectations of the organisation.

### *2.1.2 Informal coaching*

Coaching is a continuous process that involves the guidance and support given to employees to enhance their knowledge, skills as well as abilities (Orth, Wilkinson, & Benfari, 1987). Ellinger A.D., Ellinger, A.E., and Keller (2003) define coaching as a day-to-day guidance to help employees resolve their problems. In other words, coaching is an aspect of live training given to employees in their workplace that are carried out continuously and in

informal situations. Coaching is done by the management (supervisor or senior) during working hours as part of the relationship between supervisors and workers as on-job training activities. The experience gained from coaching will be helpful for employees in their work place (Phillips, 1994).

Coaching is still in the initial phase of implementation in many organisations. Most organisations have begun to use this coaching practice informally to assist employees in performing their work more systematically and effectively. Coaching has shown to have a positive influence on the overall performance of organisations.

### *2.1.3 Employee empowerment*

Empowering employees refers to the level of employee discretion in making decisions about activities related to the work done (Conger & Kanungo, 1988; Bowen & Lawler, 1992; Lashley, 1995). An employee must have the responsibility and authority to make decisions related to the customer if there is no manager available and other staff are unable to solve the problem (Gronroos, 1990; Rust, Zahorik, & Keiningham, 1996).

Empowering employees enable them to respond quickly to customer demand, to be courteous when interacting with customers and provide feedback to improve services (Bowen & Lawler, 1992; Hubrecht & Teare, 1993; Morrison, 1994). According to Conger and Kanungo (1988), empowered employees are usually diligent and hardworking and empowering them enables these workers to make quick decisions on customer satisfaction (Hartline & Ferrell, 1996).

## **2.2 Organisational Performance**

Researchers in the past have examined factors that influenced organisational performance in the public sector. It is recognised that performance is a multidimensional paradigm, comprising judgmental performance and objective performance e.g. ROA (Agarwal, Erramilli, & Dev, 2003). Studies have noted that while judgmental measures of performance are important for profitability, objective measures of performance offer the connection to profitability in service organizations (Heskett & Schlesinger, 1994; Agarwal et al., 2003). Most researchers have suggested that judgmental measures of performance, that include customer satisfaction, employee satisfaction, and service quality, are essential fundamentals for profitability and objective measures of performance (Day & Wensley, 1988). Heskett and Schlesinger (1994) trace the association between financial profitability and customer satisfaction, service quality, and employee satisfaction in the service industry. This study uses balance score card approach to measure performance of the local authority under study (Kaplan & Norton, 1996).

The measurement consists of customer complaint, financial performance, employee performance and internal process.

### ***2.3 Hypotheses Development***

Studies have acknowledged that employee development practices are core competencies for organisations to achieve competitive advantage based on their resources and capabilities (Clardy, 2008). Findings of previous works show that employee development practices have a positive relationship with organisational performance (Delery & Doty, 1996; Huselid, Jackson, & Schuler, 1997).

There is growing awareness among employers that training has a positive effect on organisational performance in terms of sales and productivity, quality and market share, cut-rate turnover, absenteeism and disagreements (Salas & Cannon-Bowers, 2000). Aragón-Sánchez, Barba-Aragón, and Sanz-Valle (2003) reported that extensive training undertakings are positively associated with productivity, minimise staff intention to leave and organisational efficiency. According to Bartel (1994), formal trainings increase employee productivity by 6% annually. Study conducted by Huang (2000) discovered that the trainings provided by organizations have positive results on sales, profit, return on investment, turnover and market share. Therefore, the following hypothesis is suggested:

***Hypothesis 1: Formal training practice enhances organisational performance of local government***

Coaching conveys clear organisational goals and expectations to employees, deliver responses and ideas to increase performance and help employees deal with work related problems (Heslin, Vandewalle, & Latham, 2006). Coaching also helps in the growth of employees and gain knowledge of a firm's product, customers, work processes and skills to successfully manage customers, counter their demands and provide quick, efficient service (Liu & Batt, 2010). A study by Mulec and Roth (2005) have revealed that a dialogue-based coaching leads to positive performance among employees (in terms of efficiency, creativity, and work climate) by improving relationships between colleagues and enabling employees to exchange collective knowledge. Several studies have discovered a positive association between coaching and job performance (Agarwal, Angst, & Magni, 2009) which leads to increased organisational performance. Hence, the following hypothesis was proposed:

***Hypothesis 2: Informal coaching practices increase organisational performance of local government***

Empowering employees can enhance their performance to have a positive and direct effect on organisational performance (Awamleh, 2013). Many researchers have reported that employee empowerment leads to enhanced organisational performance (Meyerson & Dewettinck, 2012). Dobre (2013) asserted that employment practices increase employee satisfaction and motivation levels which contribute to organisational performance leading to improved profits. Hechanova, Regina, Alampay, and Franco (2006) examined the relationship between psychological empowerment, job satisfaction and performance among Filipino service and discovered that psychological empowerment correlated positively with performance. Wood (2007) found that employee empowerment was central to improve performance and promote innovation among manufacturing firms in Ireland. Additionally, he reported that empowerment had significant positive effect on performance of all the companies studied. He found that performance of companies that empowered their employees was 7% higher compared with companies that did not empower their employees. Thus, this study suggested the following hypothesis:

***Hypothesis 3: Employee empowerment practices improve organisational performance of local government***

### **3. Methodology**

#### **3.1 Research Design**

This research has attempted to examine the local government which offers public service and whose role is to enhance community well-being. A survey was conducted between September and November 2013 and the unit of analysis of this study was the City Hall and Municipal Councils in Peninsular Malaysia. Data were collected through questionnaires distributed to heads of department of local government. Heads of department was targeted as respondents due to their close relationship with their staff and their role as decision makers at the department level.

Questionnaires were distributed to 420 department heads of the City Hall and Municipal Councils as listed by Ministry of Urban Wellbeing, Housing and Local Government Malaysia. Questionnaires were distributed personally to the Corporate Department or Human Resource Department after a short briefing on the purpose of the study. Out of the 420 questionnaires distributed to the department head, 223 completed the survey, resulting in a response rate of 53%.

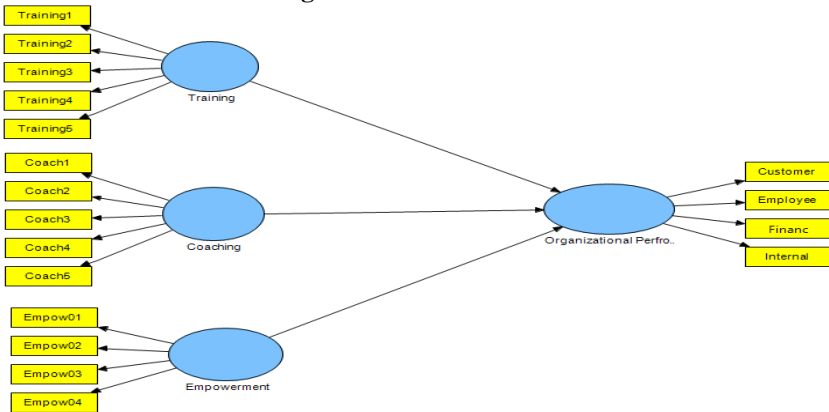
The questionnaires measure formal training, informal coaching, empowerment and organisational performance. The first part of the questionnaire required the respondents to rate 17 items on employee development practices implemented in their department using a 5-point Likert Scale (Ellinger et al., 2003; Ellinger et al., 2008; Hartline & Ferrell, 1996; Hayes, 1994). Every component of employee development practices such as formal training, informal coaching and empowerment was measured. Some of the items were dropped in the final analysis.

The second part of the questionnaire measured organisational performance dimension using 4 items adopted from Kaplan and Norton (1996), Weerakon (1996), and Chan (2004). This instrument to measure performance was tested and resulted in satisfactory reliability and validity. The final part of the questionnaire was developed to acquire the demographic profile of the respondents.

### 3.2 Data Analysis

Partial Least Square (PLS) method was used examine the link between employee development practices and organisational performance. Additionally, the bootstrapping approach was used to inspect the standard error of the estimate and *t*-values (Chin, 1998; Wetzels, Schroder, & Oppen, 2009). The research model for this study is seen in Figure 1.

**Figure 1: Research model**





## 4. Findings

### 4.1 Measurement Model Assessment

In evaluating the measurement of the model, confirmatory factor analysis (CFA) was performed to gauge reliability, convergent validity and discriminant validity of the scales. Table 1 shows that all the item loadings were greater than 0.5 (Hair, Black, Babin, & Anderson, 2010).

**Table 1:** Loading and cross loading

	Coaching	Empowerment	Organizational Performance	Training
<b>Informal</b>	0.816	0.345	0.548	0.462
<b>Coaching</b>	0.845	0.504	0.558	0.417
	0.844	0.477	0.491	0.353
	0.813	0.505	0.572	0.420
	0.866	0.441	0.529	0.393
<b>Organisational</b>	0.403	0.317	0.710	0.257
<b>Performance</b>	0.525	0.387	0.837	0.299
	0.586	0.483	0.867	0.415
	0.532	0.386	0.777	0.441
<b>Empowerment</b>	0.344	0.690	0.316	0.315
	0.528	0.865	0.527	0.402
	0.366	0.708	0.248	0.206
	0.368	0.762	0.331	0.242
<b>Formal</b>	0.417	0.399	0.385	0.892
<b>training</b>	0.430	0.344	0.393	0.911
	0.406	0.360	0.377	0.905
	0.469	0.363	0.423	0.910
	0.479	0.343	0.440	0.884

Table 2 displays the AVE and the composite reliability (CRs) for the studied variables. All the AVEs surpassed 0.5, as recommended by Bagozzi and Yi (1988). The composite reliabilities (CRs) surpassed 0.7 (Gefen, Straub, & Boudreau, 2000) while the cronbach alpha value was greater than 0.7 (Nunnally, 1978). Therefore, convergent validity was attained.

**Table 2:** Results of measurement model

Model constructs	Measurement item	Loading	CR <sup>a</sup>	AVE <sup>b</sup>
<b>Informal Coaching</b>	Coach1	0.816	0.921	0.701
	Coach2	0.845		
	Coach3	0.844		
	Coach4	0.813		
	Coach5	0.866		
<b>Empowerment</b>	Empow01	0.700	0.844	0.577
	Empow02	0.865		
	Empow03	0.708		
	Empow04	0.762		
<b>Formal training</b>	Training1	0.892	0.955	0.811
	Training2	0.911		
	Training3	0.905		
	Training4	0.910		
	Training5	0.884		
<b>Organisational Performance</b>	Customer	0.710	0.876	0.640
	Employee	0.837		
	Finance	0.867		
	Internal	0.777		

<sup>a</sup>Composite Reliability (CR) = (square of the summation of the factor loadings)/{(square of the summation of the factor loadings) + (square of the summation of the error variance)}.

<sup>b</sup>Average Variance Extracted (AVE) = (summation of the square of the factors loadings)/{(summation of the square of the factor loadings) + (summation of the error variance)}.

The *t*-values for corresponding measurement items are displayed in Table 3 where it was shown that all the values have surpassed 1.96 significant levels, therefore, indicating that the measurement items describe the particular constructs.

Table 4 shows the results of the discriminant validity of the constructs where AVE was square rooted to affirm in contradiction of the inter correlations of the construct together with other constructs in the model. This is basically to determine the discriminant validity (Chin, 1998, 2010; Fornell & Larcker, 1981). It was initiated that every part of the square root of the AVE surpassed the correlations with other variables. Table 5 discusses the reliability of the model. All the scores are within the expected values which is reasonable to conclude construct reliability.

**Table 3:** Summary results of the model construct

<b>Model constructs</b>	<b>Item</b>	<b>Standardized estimate</b>	<b>t-value</b>
<b>Organisational Performance</b>	Customer	0.710	15.296
	Employee	0.837	29.238
	Finance	0.867	49.509
	Internal process	0.777	20.164
<b>Formal training</b>	Training1	0.892	47.955
	Training2	0.911	47.449
	Training3	0.905	44.483
	Training4	0.910	59.513
	Training5	0.884	43.941
<b>Informal coaching</b>	Coach1	0.816	27.562
	Coach2	0.845	31.603
	Coach3	0.844	31.839
	Coach4	0.813	28.318
	Coach5	0.866	31.637
<b>Empowerment</b>	Empow01	0.690	10.365
	Empow02	0.865	37.433
	Empow03	0.708	9.739
	Empow04	0.762	14.599

**Table 4:** Discriminant validity of constructs

	<b>Coaching</b>	<b>Empowerment</b>	<b>Organizational Performance</b>	<b>Training</b>
<b>Coaching</b>	<b>0.837</b>			
<b>Empowerment</b>	0.544	<b>0.760</b>		
<b>Org. Performance</b>	0.647	0.498	<b>0.800</b>	
<b>Training</b>	0.491	0.402	0.450	<b>0.901</b>

Note: Diagonals represent the square root of the average variance extracted while the other entries represent the correlations.

**Table 5:** Result of reliability test

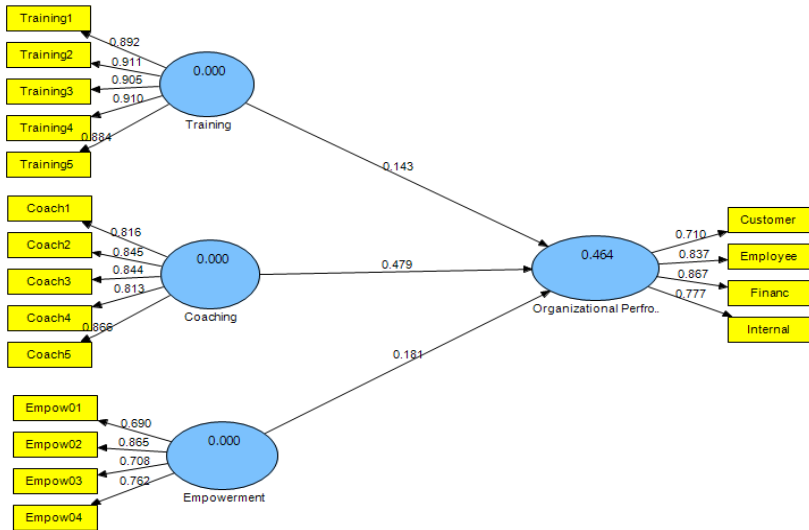
Model constructs	Item	Cronbach's $\alpha$	Loading range	Number of items
<b>Organisational performance</b>	Customer	0.811	0.710-0.867	4(4)
	Employee			
	Finance			
	Internal process			
<b>Formal training</b>	Training1	0.941	0.892-0.911	5(5)
	Training2			
	Training3			
	Training4			
	Training5			
<b>Informal coaching</b>	Coach1	0.893	0.813-0.845	3(3)
	Coach2			
	Coach3			
	Coach4			
	Coach5			
<b>Empowerment</b>	Empow01	0.762	0.690-0.865	4(4)
	Empow02			
	Empow03			
	Empow04			

**4.2 Assessment of the Structural Model and Findings**

Figure 2 shows the loading for each item and beta values for the inspecting variables. A global fit measure (GoF) assessment was conducted to investigate the global validation of a PLS model. The result showed that the GoF value of 0.563 (R2 was 0.464) for the research model was achieved, which beats the cutoff value 0.36 for the large effect sized of R2. Thus, it confirms the PLS model globally (Wetzels et al., 2009).

Table 6 presents the results of the hypothesis testing. H1 tests the relationship between informal coaching and organisational performance. It was found that coaching significantly contributes to organisational performance ( $\beta = 0.479, p < 0.01$ ). As for H2 which investigates the relationship between empowerment and organisational performance, it was found to be significant ( $\beta = 0.181, p < 0.05$ ). The results also show that H3 is significant with ( $\beta = 0.143, p < 0.05$ ). Thus, all the hypotheses H1-H3 are supported.

**Figure 2:** Results of the path analysis



Note: All coefficients are significant at 1 % level respectively.

**Table 6:** Path coefficients and hypothesis testing

Hypothesis	Relationship	Coefficient	t-value	Decision
H1	Coaching → Organizational Performance	0.479	5.946	Supported
H2	Empowerment → Organizational Performance	0.181	2.425	Supported
H3	Training → Organizational Performance	0.143	2.264	Supported

Note: All coefficients are significant at 1 % level respectively.

This research has examined the link between employee development practices and organisational performance, in the context of local government authority. The results of this study indicate that employee development practices implemented by the local government are significant contributors to organisational performance. This research has contributed in three aspects. First, it studied a less understood and explored issues, namely employee development practices in local government. Second different employee development practices have been studied to see their effectiveness in improving organisational function. Third, the research provided significant insight into the area of employee development and organisational performance in an academic setting. The outcome of this research validates the view that employee development practices will enhance the competency

and skills of the employees to achieve better organisational performance. Certainly, this study provides affirms the importance of employee development practices by improving the antecedent knowledge of organisational performance. This has led to greater understanding of the factors that are central to work related attitudes and behaviours in employees to improve organisational performance. This study is an inspiration to examine in depth employee development factors as future research. The findings suggest that various employee development practices have further improved the understanding of organisational performance. Hence, this study has demonstrated that importance and success of the integration of employee development practices. The finding highlights the importance of employee development as an important contributor of organisational performance.

## **5. Implications**

Studies have shown that employee development practices are important for predicting organisational performance. The current work has confirmed this finding supporting the importance of formal training, informal coaching and empowerment in public sector organisation, especially local government. This study has implication both theoretical as well as practical for scholars and practitioners.

This research has established a framework that examined the how employee empowerment can contribute to improved performance in a public sector organisation. The contribution of this study is the integrative aspects of various employee developments to improve organisational performance. It is therefore fair to believe that the findings from this study can be disseminated easily and executed by most practitioners in public establishments. In a similar vein, the research indicated that if employee development is implemented successfully, it enhances organisational performance. Thus, the management of any organisation should shape its employees' behaviour, promote their skills and competencies to inspire better performance via integrated trainings. For public sector organisations, employees are rewarded based on their annual performance. Employee performance is appraised based on objectives or goals set by the organisation and every employee is responsible in accomplishing this. Rewards or incentives are usually in the form salary increase and certificates as recognition for excellence achievement.

## 6. Limitations and Future Study

This study has some limitations. It considered local government, which is a public sector and not-for-profit organisations and thus, the findings cannot be generalised to the other sectors. Furthermore, this research studied organisational performance from an internal perspective only and did not examine external measures of performance, for instance, from the view of suppliers or customers. Although the findings of the research have underscored the importance of employee development, future research must compare these outcomes with similar predictors and norm in other sectors. Future research to study the relationship between employee development practices and organisational performance or employee performance in other areas or regions is recommended.

## 7. Conclusion

Research on employee development practices and their influence on organisational performance are still lacking in developing countries. Therefore, this research contributed to the literature by integrating employee development practices and their effects to organisational performance. Considering the possible impact of employee development practices on organisational performance, earlier studies may have undervalued their effects on organisational performance and employee performance.

In human resource context, employee development has proven to be significant contribution to organisational performance and this research has empirically verified the effects of formal training, informal coaching and employee empowerment on organisational performance. The findings revealed that employee development practices played a critical role in improving organisational performance, especially for a public sector organisation. The findings of this research contribute to the literature on how the integration of employee development practices influence organisational performance of public sector especially for the local government in Malaysia and in developing countries generally.

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