INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

Vol 16, Issue 10, (2026) E-ISSN: 2222-6990

The Role of Work Engagement in the Relationship between HRM Practices and Employee Performance in Malaysian MSMEs A Conceptual Framework Based on AMO Theory

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DOI Link: http://dx.doi.org/10.6007/IJARBSS/v16-i10/29160

Published Date: 27 October 2026

Abstract

Employee performance is an important concern for Malaysian micro, small and medium-sized enterprises (MSMEs), which employ almost half of the country's workforce but contribute a smaller share of national GDP. This conceptual paper develops a framework for explaining how human resource management (HRM) practices may influence employee performance directly and through work engagement. Guided primarily by Ability-Motivation-Opportunity (AMO) theory, the framework brings together training, compensation, performance appraisal and industrial relations. Training is treated mainly as an ability-enhancing practice; compensation and appraisal as motivation-enhancing practices; and industrial relations as an opportunity-enhancing practice. Four propositions are developed: HRM practices are positively related to employee performance and work engagement; work engagement is positively related to employee performance; and work engagement partially mediates the relationship between HRM practices and performance. The paper extends earlier conceptual work on performance appraisal by examining four practices within one MSME framework. It also clarifies that the propositions remain untested and require empirical validation.

Keywords: Hrm Practices, Work Engagement, Employee Performance, Msmes, Amo Theory

Introduction

Background

Micro, small and medium-sized enterprises (MSMEs) are central to economic development, especially in developing economies. Globally, small and medium-sized enterprises account for about 90% of businesses and more than half of employment (World Bank, 2022). In Malaysia, MSMEs contributed RM652.4 billion in value added in 2024, equivalent to 39.5% of GDP, and employed 8.10 million people, or 48.7% of total employment (Department of Statistics

Malaysia [DOSM], 2025). These figures underline the importance of MSMEs to employment, income generation and industrial development (Tahir et al., 2018).

The figures also point to a productivity challenge: MSMEs account for a larger share of employment than of GDP. This comparison indicates lower average output per worker than in non-MSMEs, although it is an inference from aggregate shares rather than a direct productivity estimate. Because MSMEs depend heavily on the contribution of individual employees, improving employee performance is a practical priority. Human capital is also an important source of organisational capability and competitive advantage (Priem & Butler, 2001).

Problem Statement and Research Gap

HRM practices such as training, compensation, performance appraisal and industrial relations shape how employees work and how they relate to their organisation (Armstrong, 2010; Bowen & Ostroff, 2004). Previous research has linked HRM practices and high-performance work systems to employee and organisational outcomes (Aryee et al., 2012; Karatepe, 2013), while AMO-based research argues that performance improves when employees have the ability, motivation and opportunity to contribute (Appelbaum et al., 2000). HRM practices may therefore affect performance through employees' psychological responses, including work engagement, which is characterised by vigor, dedication and absorption (Bakker & Albrecht, 2018; Yao et al., 2022).

Research has examined engagement as a mediator in several settings. For example, Karatepe and Olugbade (2016) examined high-performance work practices and job outcomes in Nigerian hospitality, while Abdul Hamid and Yahya (2016) examined the relationship between person-job fit, work engagement and employee retention among Malaysian semiconductor engineers. The latter study is relevant to the engagement mechanism but does not test an HRM-practice-to-performance pathway. Three gaps remain. First, studies often examine HRM practices as a bundle or focus on one practice at a time. Second, evidence from MSMEs is limited, even though these firms often have fewer resources and less formalised HR systems than large organisations. Third, many studies do not provide a clear theoretical explanation for why particular practices should influence performance through engagement. This paper addresses these gaps by developing an AMO-based framework linking training, compensation, performance appraisal and industrial relations to employee performance through work engagement in Malaysian MSMEs. Jiang et al. (2012) explain HRM outcomes through broad AMO-related mechanisms; Karatepe and Olugbade (2016) examine a practice bundle and engagement in hospitality; and Alabedeen and Rahim (2026) focus on appraisal. The proposed framework specifies distinct AMO roles for each practice, including industrial relations as an opportunity-enhancing practice, and both direct and engagement-mediated paths in Malaysian MSMEs. This allows future studies to compare which practices work mainly through engagement and which retain direct associations with performance.

Research Questions and Objectives

This is a conceptual paper. It develops proposed relationships for future empirical testing rather than testing them with original data. It addresses four questions:

RQ1: How can training, compensation, performance appraisal and industrial relations be conceptualised as influencing employee performance in Malaysian MSMEs?

RQ2: How can these HRM practices be conceptualised as influencing work engagement?
RQ3: How can work engagement be conceptualised as influencing employee performance?
RQ4: How can work engagement be conceptualised as mediating the relationship between HRM practices and employee performance?

The corresponding objectives are:
RO1: To explain how the four HRM practices may influence employee performance.
RO2: To explain how the four HRM practices may influence work engagement.
RO3: To explain how work engagement may influence employee performance.
RO4: To propose a framework in which work engagement may mediate the relationship between HRM practices and employee performance, together with propositions for future testing.

Contribution of the Paper

The paper makes three contributions. First, it brings four HRM practices, work engagement and employee performance together in one framework for the MSME context. Second, it uses AMO theory to explain the main role assigned to each practice: training develops ability, compensation and appraisal support motivation, and industrial relations creates opportunity for participation and contribution. Third, it translates the framework into propositions that can be tested in future research. For practitioners, the framework offers a way to think about HRM investment as a connected system rather than as a collection of isolated initiatives.

Structure of the Paper

The paper first reviews HRM practices, work engagement and employee performance. It then presents AMO theory and explains why it is useful for Malaysian MSMEs. The next section develops the propositions and presents the conceptual framework. The discussion and implications sections explain the framework's theoretical and practical value, followed by limitations, directions for future research and a conclusion.

Literature Review

HRM Practices

HRM practices are the activities organisations use to attract, develop, motivate and retain employees. They include areas such as recruitment, training and development, performance appraisal and compensation (Tiwari & Saxena, 2012). This paper focuses on training, compensation, performance appraisal and industrial relations because they address four connected questions: do employees have the skills to perform, do they have reasons to exert effort, do they receive useful feedback, and do they have a voice and opportunity to contribute?

Training gives employees opportunities to develop the knowledge and skills needed for current duties and changing work demands (Arthur, 1994; Pfeffer, 1998; Bature et al., 2013; Obi-Anike & Ekwe, 2014). Compensation refers to the monetary and non-monetary rewards employees receive for their work. Performance-based pay is one form of compensation that links rewards to individual or group results (Fulmer et al., 2023). Well-designed compensation can support motivation, although its effect depends on perceptions of fairness and on how rewards are administered (Quartey & Attiogbe, 2013).

Performance appraisal is a formal process for assessing work and providing feedback (Gravina & Siers, 2011; Delaney & Huselid, 1996). It can identify development needs, recognise contributions and inform decisions about rewards and career development (DeNisi & Murphy, 2017). Industrial relations refers here to the relationship between management and employees, including employee voice, grievance handling, communication, participation and employment negotiations. Constructive industrial relations can support cooperation and reduce conflict, although the evidence cited in this paper comes mainly from non-Malaysian settings (Nwankwo et al., 2023; Zeb-Obipi et al., 2019).

Work Engagement

Work engagement is a positive, fulfilling, work-related state characterised by vigor, dedication and absorption (Schaufeli et al., 2002). Vigor refers to energy and mental resilience at work; dedication involves enthusiasm, pride, significance and challenge; and absorption involves being fully concentrated and immersed in one's work (Karatepe & Olugbade, 2009; Schaufeli & Bakker, 2004). The concept also builds on Kahn's (1990) view of engagement as the expression of physical, cognitive and emotional energy in work roles. Work engagement is related to, but distinct from, job involvement and organisational commitment (Hallberg & Schaufeli, 2006).

Work engagement is a plausible mediator for three reasons. First, it is a motivational state that can connect organisational practices with employee behaviour (Schaufeli et al., 2002). Second, research has found engagement to mediate relationships between job resources and proactive behaviour, job resources and performance, and job design and task performance (Salanova & Schaufeli, 2008; Chung & Angeline, 2010; Shantz et al., 2013). Third, studies have used engagement to explain how HRM or high-performance work practices relate to employee outcomes (Karatepe, 2013; Karatepe & Olugbade, 2016; Aboramadan et al., 2020).

Employee Performance

Employee performance is the quality and quantity of work behaviour and results that contribute to organisational goals. It may include task performance, contextual performance and other role-relevant outcomes, depending on the job and the measurement approach. For MSMEs, where employees often perform broad roles and firms have limited slack, the contribution of each employee can be especially consequential. Evidence from SME research also points to working conditions, engagement and autonomy as factors associated with employee performance (Rahaman et al., 2021).

Review of Prior Studies and Research Gap

Table 1 summarises representative studies linking HRM practices, work engagement and employee outcomes. Three patterns stand out. First, studies commonly examine HRM as a bundle or focus on one practice, which makes it difficult to compare the roles of training, compensation, appraisal and industrial relations in one model. Second, engagement is more often studied in hospitality, higher education and other non-MSME settings than in Malaysian MSMEs. Third, the mediators used in HRM-performance research vary, and the theoretical reason for linking particular practices to engagement is not always clear. The Malaysian conceptual study by Alabedeen and Rahim (2026) focuses on performance appraisal. The present paper extends that work by considering four practices within an AMO-based framework. The gap claimed here is therefore specific: the paper proposes, rather than

reports, a combined model of these four practices, work engagement and employee performance in Malaysian MSMEs.

Table 1
Representative studies on HRM practices, work engagement and employee outcomes

Study	Context	Focus
Karatepe (2013)	Hotel employees	High-performance work practices and employee performance; engagement as mediator
Karatepe & Olugbade (2016)	Nigerian hospitality	High-performance work practices and job outcomes; engagement as mediator
Aboramadan et al. (2020)	Higher education	HRM practices and organisational commitment; engagement as mediator
Abu-Mahfouz et al. (2021)	Construction firms, Jordan	HRM practices and employee performance; commitment as mediator
Abdul Hamid & Yahya (2016)	Malaysian semiconductor firms	Person-job fit and retention; engagement as mediator
Alabedeen & Rahim (2026)	SMEs, Selangor (conceptual)	Performance appraisal and employee performance; engagement as proposed mediator

Theoretical Foundation

Ability-Motivation-Opportunity (AMO) Theory

The paper uses AMO theory as its primary theoretical foundation. Blumberg and Pringle (1982) argued that performance depends on three conditions: the ability to perform, the motivation to perform and the opportunity to perform. Appelbaum et al. (2000) applied this logic to HRM, proposing that organisations can improve performance by developing employee skills, encouraging effort and creating opportunities for participation. Meta-analytic evidence supports links between skill-, motivation- and opportunity-enhancing HR systems and organisational outcomes through mechanisms such as human capital and employee motivation (Jiang et al., 2012). More recent scholarship also shows that AMO components are used in different ways and calls for greater clarity in their conceptualisation and measurement (Bos-Nehles et al., 2023; Marin-Garcia & Martinez Tomas, 2016).

Why AMO Suits Malaysian MSMEs

AMO is useful for MSMEs because these firms often operate with limited resources and less formal HR systems. Owner-managers therefore need to decide which practices to prioritise. AMO provides a simple organising framework: training addresses ability, compensation and appraisal address motivation, and employee voice and participation address opportunity. The three components are also complementary. Performance should be strongest when employees are capable, willing and able to contribute, which makes AMO suitable for examining several HRM practices together.

Mapping the HRM Practices to AMO

Table 2 maps the four HRM practices to their dominant AMO component. Training is treated mainly as ability-enhancing because it develops knowledge and skills. Compensation is treated mainly as motivation-enhancing because rewards can encourage effort. Performance appraisal is treated mainly as motivation-enhancing because feedback and recognition can

influence effort and development, while also supporting ability by identifying training needs. Industrial relations is treated mainly as opportunity-enhancing because voice, participation and constructive management-employee relations give employees room to contribute. This mapping is a simplifying device rather than a claim that each practice affects only one AMO component.

Table 2
Mapping of HRM practices to the AMO components

HRM practice	Main AMO component	Mechanism
Training	Ability	Builds knowledge and skills for current and new tasks
Compensation	Motivation	Rewards effort and performance
Performance appraisal	Motivation (and ability)	Gives feedback and recognition; identifies development needs
Industrial relations	Opportunity	Provides voice, participation and a harmonious work environment

Work Engagement as the Mediating Mechanism

AMO explains what HRM practices are intended to build, but it says less about how those practices may become employee behaviour. Work engagement provides a psychological link. Engagement is shaped by job and organisational resources that help employees meet demands, achieve goals and experience support (Bakker & Demerouti, 2008; Schaufeli & Bakker, 2004). Saks (2006) similarly argues that valued organisational resources can elicit greater engagement. In the proposed framework, training, compensation, appraisal and industrial relations are expected to influence vigor, dedication and absorption. Engaged employees can then apply their ability, motivation and opportunity more consistently in their work. The JD-R perspective is used here as a supporting lens, while AMO remains the primary theory.

Proposition Development

This section develops propositions about the relationships between the four HRM practices, work engagement and employee performance. The arguments draw on AMO theory and prior research. Because the paper is conceptual, the propositions are proposed relationships for future empirical testing, not tested hypotheses.

HRM Practices and Employee Performance

Training is expected to support performance because it develops the ability component of AMO. Employees with relevant training should be better prepared to perform their duties accurately and efficiently, and studies in Nigerian organisations have linked training and development with productivity and organisational effectiveness (Bature et al., 2013; Obi-Anike & Ekwe, 2014). Compensation is expected to influence performance through motivation. Rewards can encourage effort, although their effect depends on how employees perceive the reward system (Quartey & Attiogbe, 2013; Fulmer et al., 2023).

Performance appraisal may improve performance when it provides fair, specific and useful feedback. Its effects depend on how employees experience the process; appraisal satisfaction has been associated with motivation and other employee outcomes (Kuvaas, 2006). Industrial relations is expected to contribute through the opportunity component of AMO. Open

communication, grievance handling and employee participation can create conditions in which employees are able to contribute. Evidence from the Nigerian public sector links industrial relations practices with productivity, although this evidence is not directly from Malaysian MSMEs (Nwankwo et al., 2023). More broadly, HRM and high-performance work systems have been linked to employee performance (Aryee et al., 2012; Abu-Mahfouz et al., 2021).

Proposition 1: HRM practices are positively related to employee performance in Malaysian MSMEs. Specifically, (P1a) training, (P1b) compensation, (P1c) performance appraisal and (P1d) industrial relations are each expected to be positively related to employee performance.

HRM Practices and Work Engagement

The job demands-resources perspective suggests that engagement grows when employees have resources that help them meet work demands and signal organisational support (Bakker & Demerouti, 2008; Schaufeli & Bakker, 2004). HRM practices can function as such resources. Training may strengthen competence and signal that the organisation is investing in employees. Compensation may signal that effort is valued. Appraisal can provide feedback and recognition, while employee voice and participation can support engagement (Rees et al., 2013). The Malaysian conceptual study by Alabedeen and Rahim (2026) specifically proposes a link between performance appraisal, work engagement and employee performance. At the bundle level, HRM and high-performance work practices have also been associated with engagement (Aktar & Pangil, 2018; Karatepe & Olugbade, 2016).

Proposition 2: HRM practices are positively related to work engagement in Malaysian MSMEs. Specifically, (P2a) training, (P2b) compensation, (P2c) performance appraisal and (P2d) industrial relations are each expected to be positively related to work engagement.

Work Engagement and Employee Performance

Engaged employees bring energy, enthusiasm and concentration to their work. Meta-analytic evidence links engagement with task and contextual performance (Christian et al., 2011), and other research connects engagement with business and performance outcomes across sectors (Harter et al., 2002; Borst et al., 2020). Studies have also reported positive relationships between engagement and job performance (Chung & Angeline, 2010; Yao et al., 2022). In MSMEs, where employees may cover several responsibilities, sustained energy and focus may be particularly valuable.

Proposition 3: Work engagement is positively related to employee performance in Malaysian MSMEs.

The Mediating Role of Work Engagement

The preceding arguments imply an indirect pathway: HRM practices are expected to influence engagement, and engagement is expected to influence performance. This logic is consistent with studies in which engagement mediated the relationship between HRM or high-performance work practices and employee outcomes (Aboramadan et al., 2020; Karatepe, 2013; Karatepe & Olugbade, 2016). It is also consistent with the Malaysian study by Abdul Hamid and Yahya (2016), although that study examined person-job fit and retention rather

than HRM practices and performance. The present framework proposes that engagement may carry part of the effect of HRM practices, while some practices may also influence performance through more direct routes, such as the skills developed through training. Whether the mediation is partial must be tested empirically.

Proposition 4: Work engagement partially mediates the relationship between HRM practices (training, compensation, performance appraisal and industrial relations) and employee performance in Malaysian MSMEs.

Proposed Conceptual Framework

Figure 1 presents the proposed framework. The four HRM practices are the independent variables, each linked to a dominant AMO component. Work engagement, represented by vigor, dedication and absorption, is the proposed mediator, and employee performance is the dependent variable. Proposition 1 represents the direct path from HRM practices to performance. Propositions 2 and 3 represent the indirect pathway through engagement, while Proposition 4 states that engagement may carry part of the total effect. The framework is intended for future empirical research with employees of Malaysian MSMEs.

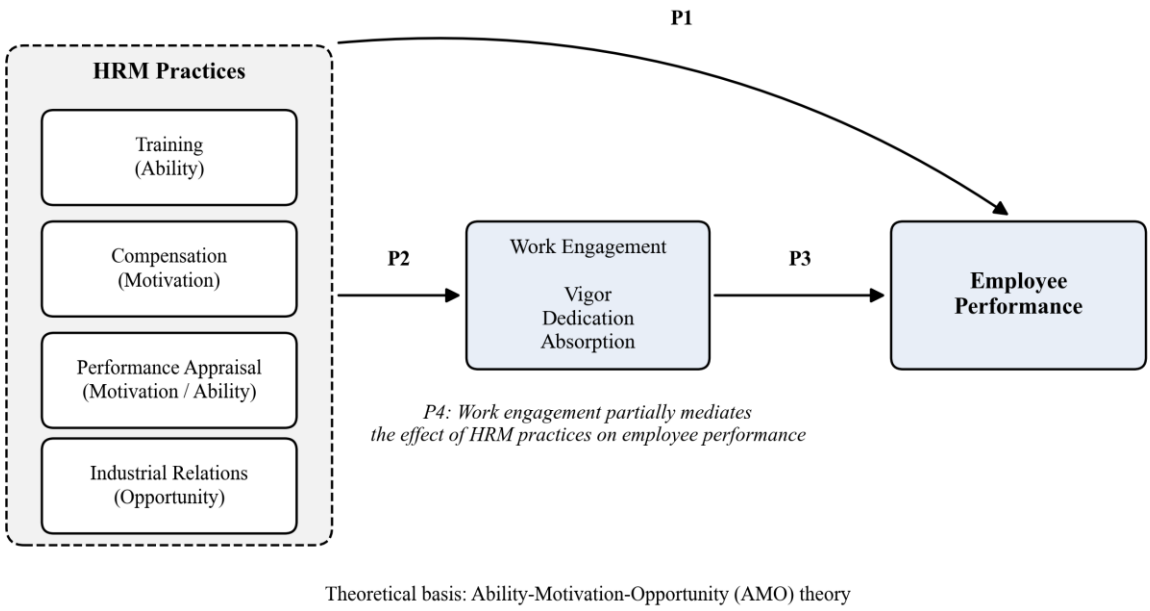


Figure 1. Proposed conceptual framework

Discussion

This paper developed a conceptual explanation of how HRM practices may influence employee performance in Malaysian MSMEs, both directly and through work engagement. In response to RQ1 and RQ2, training, compensation, performance appraisal and industrial relations were mapped to the ability, motivation and opportunity components of AMO and were proposed to influence performance and engagement. In response to RQ3, engaged employees were expected to perform better because they bring more energy and concentration to their work. In response to RQ4, engagement was proposed as a possible partial mediator, subject to empirical testing.

The framework differs from earlier work in three ways. First, it keeps the four practices separate instead of treating HRM only as a single bundle. This makes it possible to examine whether the practices have different relationships with engagement and performance. Second, the AMO mapping provides a reason for including each practice. Third, the framework focuses on MSMEs, where limited resources and informal HR systems make HRM choices especially important. It also extends Alabedeen and Rahim (2026), which focused on performance appraisal, by considering four practices within one model.

The framework also has an important boundary. Its propositions assume that employees experience HRM practices as useful and fair resources. A poorly implemented practice, such as an appraisal process perceived as unfair, may reduce motivation rather than increase it (Kuvaas, 2006). Implementation quality should therefore be treated as a condition that may strengthen or weaken the proposed relationships.

Implications

Theoretical Implications

The paper contributes to theory in three ways. First, it uses engagement as a psychological mechanism connecting AMO conditions with performance. AMO identifies the conditions practices are intended to build, while engagement offers a possible process through which those conditions may become employee behaviour. Second, it uses the JD-R perspective as a supporting explanation for why HRM practices may foster engagement (Albrecht et al., 2015; Bakker & Demerouti, 2008). Third, it provides practice-specific propositions that future research can test in the MSME context.

Practical Implications

For MSME owner-managers, the framework suggests balancing investment across ability, motivation and opportunity. Training can address skill gaps; compensation and appraisal should be fair and clearly connected to contribution; and open communication and employee participation can create opportunity at relatively low cost. Managers can also monitor energy, enthusiasm and concentration as indicators of how employees are experiencing HRM practices. For policymakers and organisations that support MSMEs, DOSM's figures show that MSMEs account for 48.7% of employment but 39.5% of GDP in Malaysia (DOSM, 2025). Support for people-management capability, including training and HR guidance, may therefore complement financial and technology support.

Limitations and Future Research

This conceptual study has several limitations. First, the propositions have not been tested and require empirical validation. A survey of MSME employees combined with structural equation modelling could examine the proposed relationships and compare the relative effects of each practice. Second, the framework covers only four HRM practices. Recruitment and selection, career development and employee participation may also matter. Third, work engagement is the only proposed mediator. Future studies could compare engagement with organisational commitment and job satisfaction or examine them together (Abu-Mahfouz et al., 2021; Aktar & Pangil, 2018).

Fourth, the framework is limited to Malaysian MSMEs, so its relevance to larger firms and other countries remains uncertain. Studies could compare firm size, industry and ownership

because HRM practices may differ between a family-owned microenterprise and a medium-sized manufacturer. Fifth, the model does not include moderators such as owner-manager leadership, HR system formality or psychological capital (Yao et al., 2022). Finally, the AMO mapping is deliberately simplified because a single practice may influence more than one component. Future research should test whether the components have additive or interactive effects. Where possible, performance should be measured with supervisor ratings or organisational records as well as self-reports, and longitudinal designs should be used to clarify the direction of the relationships.

Conclusion

MSMEs are central to the Malaysian economy, yet they account for a larger share of employment than of GDP. This makes employee performance an important concern. The paper proposed an AMO-based framework in which training, compensation, performance appraisal and industrial relations may influence employee performance directly and through work engagement. Four propositions were developed: HRM practices are expected to relate positively to performance and engagement, engagement is expected to relate positively to performance, and engagement may partially mediate the relationship between HRM practices and performance.

The paper brings four HRM practices, a psychological mechanism and a primary theoretical lens together in one model for Malaysian MSMEs. It also offers practice-specific propositions for future testing. The next step is empirical research that can determine which relationships hold, how strong they are and under what implementation conditions they are most likely to appear.

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