

Recruitment and Selection Practices in Manufacturing SMEs in Japan: An analysis of the link with business performance

Aruna S. Gamage*

**University of Sri Jayewardenepura, Sri Lanka. arunasgamage@gmail.com*

Abstract

Small and Medium Enterprises (SMEs) form the backbone of Japanese economy constituting the lion's share of enterprises in all sectors. More than 99 percent of all businesses in Japan are SMEs. They also employ a majority of the working population and account for a large proportion of economic output. While most of these companies are not well known as Japan's corporate giants, they have been playing a crucial part in economic and social development in Japan. Therefore, the health of this vital sector is very important to up keep the health of the overall economy. However, since the last two decades, this sector does not seem to be dynamic and performing well in achieving their expected goals. Many businesses seem to have gone out of business due to various reasons. The firm entry rate has a downward trend while exit rate has trended upward in recent years and considerably exceeded the entry rate. As some SME advocates argued, one of the reasons for the high rate of business failures among SMEs is due to its lack of attention on the human resources aspect in their business firms. Therefore, the broad objective of this study is to examine Human Resource Management (HRM) practices in SMEs in Japan. Specifically, this study attempts to examine the relationship between recruiting and selection practices and business performances of SMEs shedding some light on the mediating link between these two. A structured questionnaire was developed and sent to 436 manufacturing SMEs in Aichi prefecture and 144 firms responded to the questionnaire resulting in 32 percent response rate. Based on the data analysis, a strong positive relationship between recruitment and business practices and business performance of manufacturing SMEs in Japan was found. Further, the study confirmed statistically significant mediating relationship of HR outcomes in between recruitment and selection and business performance in SMEs in Japan.

Keywords: *business performance; HR outcomes; human resource management; recruitment and selection; small and medium enterprises*

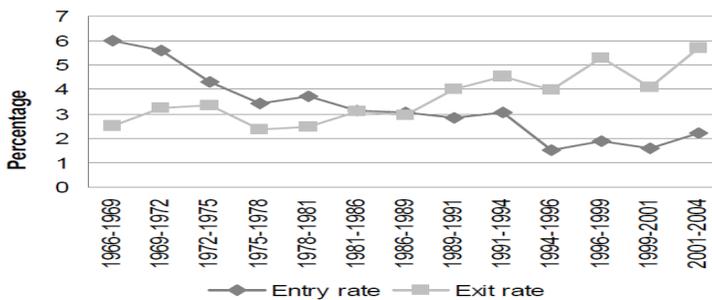
1. Introduction

Small and Medium Enterprises (SMEs) form the backbone of Japanese economy and have been playing a crucial part in economic and social development in Japan. There are 4.69 million SMEs in Japan, constituting 99.7 percent of all enterprises, accounting for 70 percent of all employment (Small and Medium Enterprise Agency, 2013). Although most people are

familiar with large companies such as Toyota, Sony, and Do Co Mo etc., it is the SMEs that drive Japanese economy. Therefore, the health of this vital sector is very important to keep the health of the overall economy. Although their relative importance as a share of the number of enterprises and the number of employees is declining compared with the situation at the beginning of the 2000s, there is no change in the fact that the SME sector still accounting for the vast majority of enterprises and employees in Japan.

Large Enterprises (LEs) such as Toyota, Honda, and Sony originally began as small family businesses (Sato, 2013). The revitalization of SMEs promotes competition in the market and can be the driving force in creating new industries and transforming the industrial structure. The majority of products of LEs are made up of parts produced by SME subcontractors, and therefore, the availability and reliability of Japanese products is supported by the underlying strength of SMEs. Local economies are underpinned by the activities of SMEs particularly those involved in the service industry, the retail industry, and the construction industry. SMEs also play a major role in revitalizing the local economy and increasing employment opportunities (Sato, 2013).

However, over the last two decades, SMEs have no longer been a thriving source of growth. The profitability and investment of SMEs have declined significantly and business registration of SMEs has been on the decline. The number of manufacturing establishments employing four to 299 people steadily declined from 434,754 in 1985 to 254,675 in 2007. The sharp decline in the number of establishments was caused not only by the abolishment of enterprises but also by the lower number of enterprises entering the economy. As shown in Figure 1, the entry rate has experienced a prolonged decline since the 1970s. The main factor behind this appears to be the trend in sole proprietorships, which account for a huge number of Japanese enterprises. This phenomenon, however, should not be regarded entirely as a problem of sole proprietorships because they have the potential to grow and employ more people. However, the firm exit rate has trended upward in recent years, and has risen by a record annual average of 6.0% (based on the number of enterprises) between 2001 and 2004. As a consequence, the firm exit rate has considerably exceeded the firm entry rate despite the slight upward swing in the recent past (METI, 2006).



Source : Small and Medium Enterprise Agency, 2007

Figure 1 : Trends in Entry and Exit Rates of SMEs in Japan

Nevertheless, successful business management of SMEs largely depends on the quality of human resource that supports companies (Jasmec, 2001). Securing and training high quality personnel are, therefore, key factors for the growth of SMEs, which often have limited opportunities to utilize managerial resources. But, it is argued that SMEs are paying less attention to Human Resource Development (HRD) practices when compared with their

counterparts of large enterprises (Kok, 2003; Wong, Marshall, Alderman, & Thwaites, 1997; Gamage, 2007). Therefore, the prime objective of this study is to develop and test a conceptual model linking recruitment and selection function to business performance that fit SMEs. This study specifically, attempts to examine the relationship of recruitment and selection practices with business performance shedding some light on the process through which this linkage is occurring.

2. Literature Review

In this section, an overview of research on HRM in SMEs is presented and briefly presents main conclusions of studies which have been previously conducted on the relationship between recruitment and selection and business performance within SME business context.

HRM in SMEs

HRM is the function within an organization that focuses on the recruitment, management, and providing direction for the people who work in the organization for effective and efficient utilization of human resources to achieve organizational objectives (Opatha, 2010). HRM is the human aspect of the organizational management. It is mostly responsible for the attraction, selection, training, assessment, and rewarding of employees for obtaining maximum contribution toward the organizational success. Stone (2005) defined human resource management as the productive use of people in achieving the organization's strategic business objectives and the satisfaction of individual employees. This definition clearly indicates that the organizations' objectives are dependent on their work force productivity. The effective use of HRM practices is able to link these practices with organization's goals and objectives. In order to accurately measure human resource practices, a number of HR functions may need to be evaluated. The importance of these practices may differ from firm to firm. One of the most comprehensive and widely used measures for human resource practice was presented by Dessler (2008) and Fisher, Schoenfeldt, and Shaw (2006). In their studies, HRM practices are characterized as multidimensional and it has four major facets, namely, recruitment and selection, human resource development, employee performance evaluation, and compensation management of employees.

Given the importance of SME employees to the economy, it is disheartening to note that scanty attention in SME research is given to the study of HRM. In reviews of literature (e.g., Good, 1998), and in empirical studies (Heneman & Berkley, 1999), scholars are lamenting over the dearth of information about HRM practices in SMEs. Proper management of a company's human resources is the key to business survival in today's world. The organizational effectiveness of the firm (Huselid, 1995; Terpstra & Rozell, 1993) and its ability to create a sustainable competitive advantage (Pralhad, 1983; Pfeffer, 1994) can hinge upon whether HRM practices are properly thought out and successfully implemented. The human potentials in a company are generally far more difficult for competitors to duplicate than the plant, equipment or even products that a company produces (Flanagan & Despanade, 1996). Consequently, the nature and well being of a company's employees can become its main strength in carving out a profitable existence in the industry. HRM practices can be particularly important for small firms (Marlow & Patton, 1993) since they tend to be so dependent on human capital. Research indicates that inadequate and insufficient management of employees in small firms has resulted in low productivity and high turnover rates (Mathis & Jackson, 1991) and is one of the leading causes of small business failures (McEvoy, 1984).

The overall goal of HRM is to ensure that the company will be able to achieve success through people. HRM aims to increase the effectiveness and organizational skills, which means

the ability of an organization to achieve its goals using the available resources in the best way possible. Some authors in their studies have found that HRM systems can be the source of firms' organizational capabilities that allow one to learn and benefit from new opportunities.

The generic purpose of HRM is to generate and retain an appropriate and contended workforce who gives the maximum contribution to the organizational success (Opatha, 2010). Therefore, a highly qualified, motivated and happy staff is the main factor for the success of SMEs. And also, an effective HRM system helps organization attract and hire suitably qualified people and keep their knowledge, skills and attitudes updated. Therefore, they become capable of performing what they are supposed to perform. On the other hand, an effective HRM system helps the organization to retain a contended work force. It means that HRM system helps keep employees motivated. A motivated workforce is a happy workforce. This brings many benefits to the firm. For example, if the work force is happy, they always give their maximum contribution to the organization by means of producing quality products or services. If the product or service is good in terms of its quality, customers buy these products or service and they become happy customers. If customers of the firm become happy, they become loyal customers to the organization thereby increasing the propensity to buy more and more in time to come and making a positive impact on the others to become new customers through word of mouth. Good service is a key factor that explains why a potential customer chooses a particular firm or why existing customers stay with it or leave another. Best impressions of a service, expressed from a friend or relative, have an effect on choosing a firm. Moreover, a bad impression on a service will send customers to other competing firms. High customer service gives all firms a sustainable and long term competitive advantage. This service will be difficult to duplicate and surpassed by competitors in the short run. A good service could not be reached immediately; it takes many months, if not years, of investment in the training and dedication to achieve it.

Research suggests that when customers are more satisfied with a firm, they increase their loyalty to the firm which results in reducing price elasticities, lowering market costs, and decreasing transaction costs, thereby improving overall financial performance (Anderson, Fornell, & Lehmann, 1994; Fornell, 1992; Reichheld & Sasser, 1990). However, firms must depend upon their employees to improve customer satisfaction. Specifically addressing this issue, the management literature finds a direct link between employee attitudes and customer satisfaction (Schneider & Bowen, 1985; Schneider et al., 1992). When employees are more satisfied with their firms, they provide customers with better interactions, thereby increasing customer satisfaction. Drawing upon these findings, it is intuitive to understand that employees play a crucial part in their organizations and are able to decide even the fate of the organization. Therefore, the organisation should ensure that they have got the right people with right skills at the right time for the right jobs in right numbers. In order to fulfil these requirements the intensification of recruitment and selection function of the business has a lot to do with.

Recruitment and Selection Practices in SMEs

Recruitment and selection are vital functions of human resource management for any type of business organization. These are terms that refer to the process of attracting and choosing candidates for employment. The quality of the human resource the firm has heavily depends on the effectiveness of these two functions. Recruiting and selecting the wrong candidates who are not capable, do not fit the culture or vibes of the SME can be a huge negative cost which is something that most SMEs cannot afford. The overall aim of recruitment and selection within an SME is to obtain the number and quality of employees that are required to satisfy the strategic objectives of the organization, at minimal cost (Ofori & Aryeetey, 2011). Small businesses have

reported that finding competent workers is one of their most important problems (Deshpande & Golhar, 1994; Atkinson & Storey, 1994; McEvoy, 1984).

Recruitment is the process of finding and attracting suitably qualified people to apply for job vacancies in the organization (Opatha, 2010). It is a set of activities an organization uses to attract job candidates who have the needed abilities and attitudes. Recruitment is the process of generating a pool of qualified applicants for organizational job vacancies. Recruitment is the process of generating a pool of competent individuals to apply for employment within an organization (Ofori & Aryeetey, 2011). The general purpose of recruitment is to provide the organization with a pool of potentially qualified job candidates. The quality of human resource in an organization highly depends on the quality of applicants attracted because organization is going to select employees from those who were attracted.

Recruitment is the entry point of manpower into an organization (Henry & Temtime, 2009) and the path an organization must follow from there on in order to make sure that they have attracted the right individuals for their culture and vibes so that the overall strategic goals are achieved (Henry & Temtime, 2009). It is accepted in the pertaining literature that SMEs are far less likely than larger organizations to have implemented sophisticated recruitment processes (Bacon & Hoque, 2005).

Barber, Wesson, Roberso, and Taylor (1999) found that on surveying 171 SMEs in the United States, the majority relied on referrals and advertising as their recruitment practices of choice. Barber et al. (1999) also found that very few SMEs had any kind of formal brochures or information pamphlets available for applicants, which is reinforced in actual business practice. Cassell, Nadin, Gray, and Clegg (2002) found word of mouth/referrals from existing employees to be highly effective. They already had some commitment to the firm and the owner/manager was able to find out some information before the new employee started. Word of mouth has no financial outlay which is very beneficial for SMEs as they often suffer from resource scarcity.

Selection is the process of making the choice of the most suitable applicant from the pool of applicants recruited to fill the relevant job vacancy (Opatha, 2010). Selection is the process by which specific instruments are engaged to choose from the pool of individuals most suitable for the job available (Ofori & Aryeetey, 2011). Selection involves the use of one or more methods to assess applicant's suitability in order to make the correct selection decision. Selection can be alternatively seen as a process of rejection as it rejects a number of applicants and select only a few applicants to fill the vacancy. Thus, selection function may be a negative function rather than a positive function. The objectives of selection function are to get the right person to the right job, establish and maintain a good image as a good employer, and maintain the selection process as cost effective as possible.

Selection is the systematic process of deciding on a specific individual to fill an available position (Henry & Temtime, 2009). Selection is an extremely important aspect to consider for SMEs for a number of reasons. Often the performance of the SME relates directly to the people working within it, meaning the right people need to be hired to ensure organisational success (Henry & Temtime, 2009). It is also an expensive process to hire someone new into the organization. So it is not something SMEs want to put time and money into just to find they have hired somebody who is not suitable. It is vital that SMEs get the process right the first time round, because resources are scarce enough as it is. Selecting the right applicant can be a difficult task, but at the end of the day, the organisation's reputation is held by the people it employs (Henry & Temtime, 2009). So this is a process worth investing into from an SME perspective.

Priyanath (2006) argues that a major challenge faced by SMEs is the difficulty in recruiting and selecting employees with the correct qualifications to help achieve goals of the

enterprise. He explained further that this problem is compounded by the lack of systematic method for recruiting and selecting employees. A systematic recruitment process involves indentifying vacancies, job analysis, job description, person specification and advertising. A systematic selection process involves the recruiting process, gathering information about qualified applicants, evaluating the qualification of each applicant and making decisions about employment. On the contrary, evidence suggests that most SMEs follow an informal process for recruiting and selecting employees.

Recruitment, Selection and Business Performance

The basic purpose of recruitment is to create a pool of suitably qualified candidates to enable the selection of the best candidates for the organization, by attracting more and more employees to apply in the organization whereas the basic purpose of selection process is to choose the right candidate to fill the various positions in the organization. According to Montana and Charnov (2000), recruitment and selection include sourcing candidates by advertising or other methods, screening potential candidates using tests and interviews, selecting candidates based on the results of the tests or interviews, and on-boarding to ensure that the candidates are able to fulfil their new roles effectively. Recruitment and selection form a major part of an organization's overall resourcing strategies, which identifies and secures people needed for an organization to survive and succeed in the short to medium-term (Elwood & James, 1996). Moreover, there is a positive and significant relationship between recruitment and selection and the performance of a firm. Sang (2005) also discovered a positive association between recruitment and selection and business performance. Ichniowski and Shaw (1999), Katou and Budhwar (2006) and Wright et al. (2005) also reported similar positive results between recruitment and selection and performance in Canada, in Finland and in New Zealand.

Huselid (1995) notes that recruitment procedures that provide a large pool of qualified applicants, paired with a reliable and valid selection regime, will have a substantial influence over the quality and type of skills new employees possess. An organization's human resource policies and practices represent important forces for shaping employee behaviour and attitudes. The selection practices will determine who is hired. If properly designed, it will identify competent candidates and accurately match them to the job. The use of the proper selection device will increase the probability that the right person is chosen to fill a slot. When the best people are selected for the job, productivity increases.

Terpstra and Rozell (1993) have found a positive relationship between the extensiveness of recruiting, selection test validation and the use of formal selection procedures and firm profits. Other studies have shown that implementing an effective staffing process is positively related to organizational performance (Syed & Jama, 2012). Rauf (2007) also found that sophisticated recruitment and selection procedures are positively related to labor productivity.

HR Outcomes-The Mediating Link

HR outcomes refer to those most directly related to HRM in an organization, such as employee skills and abilities, employee attitudes and behaviors, and turnover. However, for the purpose of this study, nine (9) HR outcomes were identified; Knowledge Quality (KQ), Occupational Safety and Health (OSH), Job Satisfaction (JS), Employee Commitment (EC), Employee Attitudes (EA) and Employee Motivation (EM), Employee Loyalty, Employee Involvement (EI), Workplace Cooperation (WC). These are positive behaviours of employees and these behavioural outcomes in turn lead to higher levels of operational and financial performance. Operational performance is any kind of performance resulting from the operations of the business and could include items such as high labour productivity, high product or service

quality, organizational innovations, and improved customer satisfaction. Financial performance refers to performance measures taken directly from the company financial statements such as profit or revenue growth.

Operational and Financial Performance

Operational performance is important to business leaders because it is an indication of the effectiveness and efficiency with which the company is providing its particular products or services. Several measures of operational performance are usually used for studies: Labour Productivity (LP), Product Quality (PQ), Organizational Innovations (OI), and Customer Satisfaction (CS). Each is a measure of how the company performs in relation to their competitors who are similar organizations in those areas. Labour productivity is a measure of efficiency of the organization in utilizing its human resource. Quality is a measure of the level of quality of the products or services provided by the company. Organizational innovations measure the rate at which new products, services or solutions are deployed and customer satisfaction is a measure that indicates the extent to which the company is able to please its customers or clients. SME leaders are faced with many different concerns related to operational performance and this study attempts to address concerns that are especially important to SME leaders. Financial performance is also very important to small business leaders because strong financial performance will allow SME leaders to meet current obligations, invest for the future and provide a return to the owners and managers. Financial performance is usually measured with growth in sales, growth in profits, growth in market share, liquidity etc. compared with a certain period in the past.

3. Operationalisation of Variables

Recruitment and Selection Intensity

Recruitment & selection is operationized, for the purpose of this study, as a process of attracting and choosing candidates for employment. It includes sourcing candidates by advertising or other methods, screening potential candidates using tests and interviews, selecting candidates based on the results of the tests or interviews, and on-boarding to ensure that the candidates are able to fulfil their new roles effectively. It is believed to have positive correlation between recruitment & selection and business performance.

Operational Performance

Operational performance is related to the goals of an organizational operation, including productivity, product quality, organizational innovations, and customer satisfaction. The following operational outcomes are considered for the study.

Labour Productivity

Huselid (1995) comprehensively evaluated the links between systems of High Performance Work Practices (HPWP) and firm performance. Results based on a national sample of nearly one thousand firms indicate that these practices have an economically and statistically significant impact on both intermediate operational outcomes (turnover and productivity) and short-and long-term measures of corporate financial performance. Katz, Kochan, and Weber (1985) demonstrated that highly effective industrial relations systems, defined as those with fewer grievances and disciplinary actions and lower absenteeism, increased product quality and direct labor efficiency and Katz, Kochan, and Keefe (1987) showed that a number of innovative work practices improved productivity. Katz, Kochan, and Gobeille (1983) and Schuster (1983)

found that quality of work life (QWL), quality circles, and labor-management teams increased productivity. Bartel (1994) established a link between the adoption of training programmes and productivity growth, and Holzer (1987) showed that extensive recruiting efforts increased productivity. Guzzo, Jette, and Katzell's (1985) demonstrated that training, goal setting, and socio technical system design had significant and positive effects on productivity.

Product Quality

Much research has been conducted to find relations between HRM outcomes and product quality taking samples from big businesses. In one such study, having surveyed 1,243 employees in the 64 centers on service process quality, as measured by customer surveys; call handling time, revenues per call, and net revenues per call, Batt (2002) concluded that human resource management practices emphasizing employee training, discretion, and rewards lead to higher service quality, higher revenues per call, and higher net revenues.

A burgeoning body of strategic HRM research has shown that the use of systems of HR practices intended to enhance employees' knowledge, skills and abilities, motivation, and opportunity to contribute is associated with positive outcomes such as greater commitment (Gong, Law, & Xin, 2009), lower turnover (Batt, 2002), higher productivity and quality (MacDuffie, 1995), better service performance (Chuang & Liao, 2010), enhanced safety performance (Zacharatos, Barling, & Iverson, 2005), and better financial performance (Huselid, 1995).

Organizational innovations

Organizational innovations highest in companies where employees had high levels of commitment to their supervisors, high levels of trust in management and high levels of cooperation among employees. There was also some indication that low levels of turnover intentions have a certain impact on new product or service development. The conclusion that can be drawn from these findings is that companies that are able to foster high commitment to supervisors, high trust in management and high levels of cooperation and, to a lesser extent, low turnover intentions among employees are more likely to effectively develop new products or services. Likewise, companies wishing to improve their new product or service development should focus on increasing commitment to supervisors, trust in management and cooperation among employees.

Customer satisfaction

Customer satisfaction is the degree of satisfaction provided by the goods or services of a company as measured by the number of repeat customers. It is extremely important for a business firm as they decide the fate of the business. If a company fails to satisfy their existing customers there are many other firms who would like the opportunity to win the business. The external customer satisfaction heavily depends on the satisfaction of internal customers, i.e., employees of the business firm. Therefore, employees' job satisfaction is a crucial determinant of external customer satisfaction that has a lot to do with HRD to enhance internal customer satisfaction.

Financial Performance

Financial performance reflects the fulfilment of the economic goals of organizations. Typical financial outcomes include sales growth, return on invested capital, and return on assets. Much research conducted in large enterprises has demonstrated statistically significant relationships between measures of HR practices and firm profitability (Delery & Doty, 1996; Guthrie, 2001;

Huselid, 1995). Using the results of the survey, Luc and Maes (2006) examined the link between the score for HRM intensity, some performance outcomes and the financial performance of the organization using structural equation modeling. The results show that intensive HRM also offers added value for smaller organizations. Firstly, HRM intensification has a highly positive effect on productivity and, through productivity, reduction of personnel costs/added value. This effect is sufficiently strong to compensate for the increased costs.

4. Conceptual Framework

Based on the theoretical underpinnings, a conceptual model which is assumed to be fit for SMEs was constructed for testing. For the purpose of this study, an index which shows the intensification of recruitment and selection practices was developed. In constructing the intensity index, whether to have recruitment and selections policies, procedures and effective use of practices were considered to construct the intensity index. In order to examine the mediating relationship, nine (9) HR outcomes discussed above; knowledge quality (KQ), occupational health and safety (OHS), job satisfaction (JS), employee commitment (EC), employee attitudes (EA), employee motivation (EM), employee loyalty (EL), employee involvement (EI), and workplace cooperation (WC) were considered. By using nine HR outcomes a cumulative index called HR Outcome Index was developed. Labor productivity (LP), product quality (PQ) organizational innovation (OI) and customer satisfaction (CS) were taken into consideration as operational variables. Growth in sales and growth in profits were taken as financial variables. Then, the relationship between recruitment and selection practices and business performance was examined exploring the mediating relationship of HR outcomes. Based on the above theoretical underpinnings, a conceptual frame for the study was constructed as in figure 2.

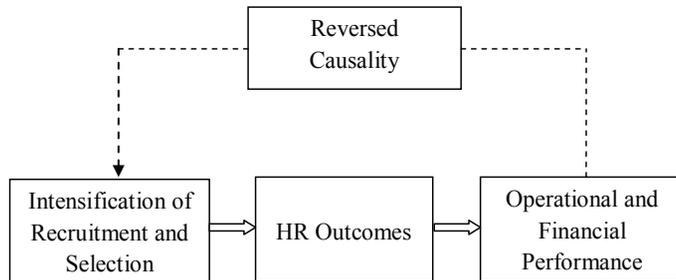


Figure 2 : Conceptual Framework of the Study

According to the model in figure 2, the intensification of recruitment and selection practices, reflected by recruitment and selection intensity index, first establish a relationship with HR outcomes and then translate these HR outcomes into operational and financial performance. The model goes on explaining the process through which recruitment and selection practices are linked with organizational performance.

5. Methodology

A structured questionnaire was developed as the main data collection instrument. Three dimensions of HRD; training & development, career development and organizational development were considered for the study. Sixteen (16) items (training & development, 10; career development, 3; organizational development, 3) were included in the scale. Nine (9) HR outcomes; knowledge quality (KQ), occupational health and safety (OHS), job satisfaction (JS), employee commitment (EC), employee attitudes (EA), employee motivation (EM),

employee loyalty (EL), employee involvement (EI), and workplace cooperation (WC) were considered for the study. Three (3) items for each HR outcome variables were included in the questionnaire. In order to measure operational performance four (4) variables namely; labour productivity (LP), quality of the product (PQ), organizational innovation (OI), and customer satisfaction (CS) were used. Three (3) items for each operational variable were included in the questionnaire. Two (2) items for financial performance, growth in sales and growth in profits, were considered to measure financial performance. The questionnaire was first developed in English and then translated into Japanese to make respondents better understand it.

Four hundred thirty six (436) questionnaires were distributed among a randomly selected sample of manufacturing SMEs in Nagoya in Aichi Prefecture. An electronic data file maintained by the Nagoya Chamber of Commerce was used to draw the sample. One hundred and five (105), equivalent to thirty two percent (32 percent), responded positively to the survey. Data were analyzed using SPSS version 16. Descriptive statistics were used to understand the characteristics of firms and person product movement correlation coefficient was used to examine the relationships among variables.

Reliability and Validity of the Questionnaire

In order to measure the reliability of instruments, Cronbach's alpha coefficient is widely used. According to Sekaran (2005), if the alpha value is greater 0.7, the instrument is said to be acceptable. The internal consistency reliability coefficients (Cronbach's alpha) for the scales used in this study are well above the level of 0.7. Each variable has got more than 0.8 alpha values which are well above the norms and thus are acceptable for the purpose of analysis. Validation procedures involved initial consultations with subject experts about the questionnaire prepared. The experts judged the face and content validity of the questionnaire positively and decided that as adequate. Hence, the researcher was satisfied with the reliability and validity of the scale.

6. Results of the Survey

HRD Intensity, HR Outcomes and Business Performance

Table 1 shows Pearson product movement correlation coefficients among recruitment and selection intensity, HR outcomes, operational and financial performance. According to table 1, recruitment & selection intensity that represents the intensification of recruitment and selection practices of SMEs shows very strong and positive correlation with HR outcomes. This relationship is strong and statistically significant ($r = .495, p < 0.01$). Recruitment and selection intensity is also directly related with all four types of operational performance. First, recruitment and selection intensity shows high correlation with labour productivity ($r = .365, p < 0.01$). This relationship is positive and statistically significant which conveys that the existence of the relationship is not by chance. The magnitude of the positive relationship between recruitment and selection intensity and product quality are also strong and significant ($r = .401, p < 0.01$). Not surprisingly, this study establishes positive and statistically significant correlation between recruitment and selection intensity and organizational innovations ($r = .436, p < 0.01$). The correlation between recruitment and selection intensity and customer satisfaction is also positive and significant ($r = .363, p < 0.01$). The degree of the magnitude of the relationship between recruitment and selection intensity and organizational innovation is the highest among all four operational variables while customer satisfaction records the lowest but positive and statistically significant. Again, recruitment and selection intensity and financial performance also establish a positive and significant relationship between the two ($r = .232, p <$

0.01). Financial performance measure is a combination of growth in sales and profits. Although the magnitude of the coefficient is slightly low, the relations imply that the intensification of recruitment and selection intensity directly influence on growth in sales and profits and thereby improving business performance.

HR outcomes and Operational Performance

According to table 1, HR outcome index which represents the totality of all nine HR outcomes, is highly correlated with labour productivity ($r = .631, p < 0.01$). This relationship is positive and highest in terms of the magnitude over all three operational variables. The relationship between HR outcomes and the quality of the product is also very positive and statistically significant ($r = .533, p < 0.01$). The link between organizational innovations and HR outcome is also positive and significant ($r = .503, p < 0.01$). The link between HR outcome index and customer satisfaction is also positive and significant ($r = .669, p < 0.01$). The relationships between all these operational variables and HR outcome index are statistically significant at $p < 0.01$ giving the fact that these links are in existence not by chance thus worth further studying. These findings highlight the fact that HR outcome mediates the link between HRD practices and operational performance. However, although HR outcome index shows positive correlation with financial performance, it does not show any statistical significance ($r = .142$).

Table 1 : Correlations Among Variables

Variable	RSI	HROC	LP	PQ	OI	CS
Recruitment & Selection Intensity (RSI)	1.000					
HR Outcomes (HROC)	0.495**					
Labour Productivity	0.363**	0.631**				
Product Quality (PQ)	0.401**	0.533**	0.403**			
Organizational Innovations (OI)	0.436**	0.503**	0.462**	0.492**		
Customer Satisfaction (CS)	0.363**	0.669**	0.692**	0.420**	0.484**	
Financial Performance (FP)	0.232*	0.142	0.276**	0.097	0.233**	0.248**

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

7. Discussion of Findings

Recruitment and Selection Intensity and HR Outcomes

Based on the analysis of data, a positive and statistically significant correlation of recruitment and selection intensity with HR outcomes was found. It implies the idea that recruitment and selection intensity represented by recruitment and selection intensity index are keeping positive relations with HR outcomes. As all these relations are positive, with the increase of the usage of the recruitment and selection practices, HR outcomes, knowledge quality, occupational health and safety, job satisfaction, employee commitment, employee attitudes employee motivation, employee loyalty, employee involvement and workplace cooperation will be increased. Therefore, the conclusion that can be drawn from this finding is that, SME owners/managers who are concerned about HR outcomes should be prepared to employ effective recruitment and selection practices as discussed above.

Recruitment and Selection Intensity and Operational Performance

Analysis of the data clearly establishes very high positive correlations of recruitment and selection intensity with operational performance. It means that deployment of recruitment and

selection intensity practices influences operational performance of business firms. According to the findings, recruitment and selection intensity is highly and positively correlated with labour productivity. With this correlation, an increase of the usage of above recruitment and selection intensity practices gives rise to higher productivity. Recruitment and selection intensity is also highly and positively correlated with product quality. The long term success of any business heavily depends on the quality of the product or service, the firm produced or rendered. Therefore, owners/managers of SMEs who are very much concerned about the quality should focus more attention on recruitment and selection intensity practices as discussed above. The relationship of recruitment and selection intensity with organizational innovations is also significantly positive. The firms who are deploying more recruitment and selection practices are said to be able to generate more new products or innovations. This study establishes positive and significant relationship of recruitment and selection intensity with customer satisfaction. Firms who use recruitment and selection intensity practices so sparingly will be benefitted by increased customer satisfaction that will lead to customer loyalty which is crucial to a long term success of their businesses. Drawing from these findings, it can be concluded that those owners/managers in SMEs who are concerned about increasing their labour productivity, product quality and organizational innovation and customer satisfaction should focus on the effective use of recruitment and selection practices prescribed above.

Recruitment and Selection intensity and Financial Performance

A very strong correlation between recruitment and selection practices and financial performance of firms was found. Financial performance index that represents the growth in sales and growth in profits was highly and positively correlated with recruitment and selection intensifications giving some signals to SME owners/managers to be immersed with employing recruitment and selection practices effectively.

HR Outcomes, Operational and Financial Performance

This study also establishes very clear positive relationships of HR outcomes with operational performance. HR outcome index that represents nine HR outcomes influences operational performance to a greater extent. First, HR outcomes are strongly linked with labour productivity. This highlights the fact that increase in HR outcomes gives rise to labour productivity. This leads to the inference that HR outcomes are mediating the link between recruitment and selection practices and labour productivity. It means that usage of recruitment and selection practices gives rise to labour productivity through increased HR outcomes. Second, HR outcomes are establishing a very clear positive relationship with product quality. This also implies that increase in HR outcomes gives rise to an increase in product quality. This relation enables one to assume that recruitment and selection practices relate to product quality through HR outcomes. Third, it is found that HR outcomes are keeping a strong positive relation with organizational innovations. This finding also compels one to assume that recruitment and selection practices influence organizational innovations through HR outcomes. Finally, HR outcomes are linked with customer satisfaction showing a clear mediating relationship between recruitment and selection practices and customer satisfaction.

One of the objectives of this study was to examine the mediating relationship of HR outcomes between recruitment and selection practices and financial performance. According to the analysis, recruitment and selection intensity index shows positive and statistically significant correlation with financial performance. On the other hand, HR outcome index also establishes significantly positive correlation with financial performance. Therefore, it is intuitive to assume that recruitment and selection intensity gives rise to financial performance

through HR outcomes.

Do recruitment and selection intensity lead to positive employee outcomes? The results of this study indicate that a higher use of effective recruitment and selection practices is directly related to higher levels of positive HR outcomes and then these HR outcomes lead to higher operational and financial performance of manufacturing SMEs in Japan. It clearly implies that HR outcomes mediate the relationship between recruitment and selection practices and business performance even in manufacturing SMEs in Japan.

8. Research Implications, Limitations and Directions for Future Research

The results offer several key implications for owners/managers of SMEs interested in improving business performance. Effective recruitment and selection practices lead to positive HR outcomes. The effective use of recruitment and selection practices represented by recruitment and selection Intensity Index in SMEs was shown to be related to HR Outcome Index which represented knowledge quality, occupational health and safety, job satisfaction, employee commitment, employee attitudes, employee motivation, employee loyalty, employee involvement and workplace cooperation. These positive HR outcomes in turn are translated into positive operational and financial performance such as increase in labour productivity, product quality, organizational innovations, customer satisfaction and financial performance. This highlights the fact that employees do matter even for SMEs and are shown to have links with operational and financial performance in their businesses. Therefore, as the study highlights, when evaluating many options that are available to SMEs, it is very important to keep in mind not to undermine the importance of human resource management. Effective human resource management practices lead directly to positive outcomes on employees of the firm, which in turn lead to positive business performance for the organization.

The study was based on the data collected from only 136 manufacturing SMEs in Aichi prefecture in Japan. Therefore, generalisability could have been increased if the number of manufacturing firms representing all the prefectures in Japan were taken into account. This study focused only on the relationship, not the effect or impact, between recruitment and selection practices and business performance. However, it is better if this study was focused on the effect of recruitment and selection practices on business performance too. Further analysis with sophisticated statistical testing is very much sought to examine the impact of recruitment and selection practices on labour productivity and mediating role of HR outcomes. However, future research with relatively larger samples expanding to other sectors in SMEs will be very much useful indeed in this direction.

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