

**EXTENDED ABSTRACT****HUMAN RESOURCE MANAGEMENT PRACTICES AND OPERATIONAL PERFORMANCE: AN ANALYSIS OF SMALL AND MEDIUM ENTERPRISES IN JAPAN**

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**1 Introduction**

Small and Medium Enterprises (SMEs) have been playing a major role in every area of the national economy in Japan. Their importance is indicated by the very large share of the economy that they occupy, whether in terms of number of companies, total number of employees or value of shipments or GDP. There are 4.69 million SMEs in Japan, constituting ninety nine point seven percent (99.7%) of all enterprises, accounting for seventy percent (70%) of all employment (Small and Medium Enterprise Agency, 2013). Although most people are familiar with large companies such as Toyota, Sony, DoCoMo and so on, it is the small and medium enterprises (SMEs) that drive Japanese 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 accounts for the vast majority of enterprises and employees in Japan. Large enterprises (LEs) such as Toyota even originally began as small family businesses. 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 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 number of manufacturing establishments employing four (4) to two hundred ninety nine (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. The entry rate has experienced a prolonged decline since 1970s while exit rate trended upward since the 1990s.

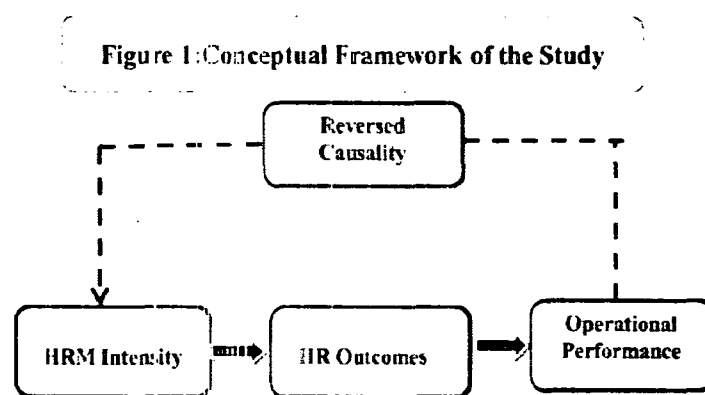
Nevertheless, successful business management of SMEs largely depends on the quality of human resource that supports companies (JASMEC, 2001). Securing and training high quality personnel are, therefore, key factors for the growth of SMEs, which often have limited opportunities to utilize managerial resources. But, it is argued that Japanese SMEs are paying less attention to HRM practices when compared with their counterparts of large enterprises. Therefore, the objective of this study is to examine whether there is a relationship between HRM practices and

operational performance in manufacturing SMEs in Japan. The lessons learnt from Japan will be very much useful to Sri Lankan owners and managers of SMEs to manage their business well.

## 2 Conceptual Frameworks

For the purpose of this study, four(4) HRM practices namely;employee staffing, training & development, performance management, compensation management were selected. Based on these four HRM practices, a cumulative index called *HRM intensity*, which shows the aggregation of all four HRM practices was developed. In order to examine the mediating relationship, 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. By using nine HR outcomes a cumulative index called *HR Outcome Index* was developed. Labor productivity (LP), product quality (PQ) and new product development (NPD)were considered as operational variables. Then, the relationship between HRM practices and operational performance was examined exploring the mediating relationship of HR outcomes. Based on the above theoretical underpinning, a conceptual frame for the study was constructed as in Figure 1.

According to the model in Figure 1, the bundle of HRM practices, reflected by HRM intensity,first make a relationship with HR outcomes and then translate these HR outcomes into operational performance. The model further goes on explaining the process through which HRMpractices are linkedwith organizational performance.



*Source: Author Constructed, 2016*

## 3 Methods

A structured questionnaire was developed as the main data collection instrument. Four (04) HRM practices were selected for the study. There were;employee staffing, training & development, performance management, compensation management. These four HRM practices were the most widely discussed HRM practices in the literature. In order to examine the HRM intensity, forty (40) items (employee staffing, 10; training & development, 12; and performance management, 10, and compensation management, 8) were included in the questionnaire. 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 three (3) variables namely; labour productivity (LP), quality of the product (PQ), and new product development (NPD) were used. Three items for each operational variable were included in the questionnaire. 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 to 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 five (105), amounting to thirty two percent (32 percent), responded to the survey.

#### **4 Key Findings**

##### ***HRM Intensity, HR Outcomes and Operational Performance***

Table 1 shows Pearson product moment correlation coefficients among HRM intensity, HR outcomes and operational performance. According to the table 1, HRM intensity that represents the aggregation of staffing, training and development, performance evaluation and compensation management shows very strong positive correlation with HRM outcomes. This relationship is strong and statistically significant ( $r = .574, p < 0.01$ ). HRM intensity is also directly related with operational performance. First, HRM intensity shows high correlation with labour productivity ( $r = .487, p < 0.01$ ). This relationship is also statistically significant which says that the existence of the relationship is not by a chance. The magnitude of the positive relationship between HRM intensity and product quality also strong and significant ( $r = .423, p < 0.01$ ). The degree of the magnitude of the relationship between HRM intensity and new product development is the highest among all three operational variables. It is positive and statistically significant ( $r = .552, p < 0.01$ ).

##### ***HR outcomes and Operational Performance***

According to the table 1, HR outcome index which represent 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 quality of the product also very positive and statistically significant ( $r = .289, p < 0.01$ ). The link between new product development and HR outcome is also positive and significant ( $r = .503, p < 0.01$ ). The relationships between all these operational variables and HR outcome index are statistically significant at  $p < 0.01$  giving the fact that these links have occurred not by chance and worth studying.

## 5 Key References

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**Table 1: Correlations among Variables**

VARIABLE	HRIINT	HROUT	LP	PQ	NPD
HRIINT					
HROUT	.574**				
LP	.487**	.631**			
PQ	.423**	.533**	.403**		
NPD	.552**	.563**	.462**	.492**	

\*\* Correlation is significant at the 0.01 level (2-tailed)  
 \* Correlation is significant at the 0.05 level (2-tailed)

Source: Survey Data, 2015