

# THE IMPACT OF HUMAN RESOURCE MANAGEMENT PRACTICES ON SMEs PERFORMANCE IN ROMANIA

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## **Abstract:**

*A critical reading of the academic literature shows that the relationship between human resource management and firm effectiveness is a phenomenon with major implications on organizational performance. A study realized by Bryson (1999) in the UK over 178 SMEs revealed that different practices of human resource management affect their performance differently. In the EU countries, SMEs have a share of over 99% of the total number of enterprise, producing 58% of the value added of the economy and provides more than two thirds of total employment, as reflected in official statistics of Europe.*

*Using a methodological approach based on theoretical analysis, empirical studies, statistics, data and information provided by the European Commission, National Council of Private Small and Medium Enterprises in Romania, our research shows that positive effects can be generated by using human resource management practices on organizational performance of SMEs in Romania.*

**Key words:** HRM, small and medium business, context, effectiveness, administration

**JEL classification:** M12, L25

## **Introduction**

Economic instability of recent decades and fierce competitiveness between most sectors forces companies to rethink the place of human resources within the organization. It is a common belief both in business and in academia, that the human resources of an organization to being considered a source of competitive advantage, provided that personnel policies are integrated with strategic planning and business organizational culture (eg , Delbridge and Lowe, 1997; Khatri, 2000, Poole and Jenkins, 1996). Long been defined as an activity that builds other functions of the organization, human resource management function is now enabling a company to differentiate itself from its competitors (Becker, Huselid, Pickus and Spratt, 1997). To improve their performance and competitive position (Schuler and Jackson, 1987) companies should review traditional methods of human resource management, like planning, coordination or management career, or to develop human resource management practices that are designed effectively to attract and keep into organization a competent workforce.

In recent years, organizations have focused on developing human resources, on the management systems that enable them to achieve their strategic goals. The success of such systems is given by organizational culture, philosophy and mentality of people in the organization. The ways to manage the human resource within the organization represents the aim of our research, by identifying human resource practices in small and medium enterprises in our country and highlighting the impact on organizational performance results. We discuss the orientation function of human resources in small and medium enterprises in Romania based on statistical data and reports provided by the National Council of Small and Medium Enterprises and the European Commission, also on the compatibility between the orientation function of human resource management and external factors such as environment, size and business strategy, and their effects on firm performance.

Our research objectives are:

- a. Shaping a state of knowledge in human resource management and its report with the performance of SMEs, our research will be based on literature review at national and foreign country, which will justify our analytical approach and enable comparisons.
- b. Identify relationships between human resource management function and internal and external organizational factors (environment, company size and structure, business strategies etc.).
- c. An insight of the literature on the relationship between human resource management and firm performance. We consider studies in the U.S. (Hiltrop, 1996) and Europe (Liouville and Bayad, 1995).
- d. Shaping a new direction of acting for human resources professionals on the report field of human resource management function and organizational performance and the effects of external and internal factors on firm performance.

### **The link between human resource management and firm performance**

An impressive number of researchers have been interested in establishing relationships between human resource management practices and firm performance. Most studies mainly focused on large companies, leaving a large space for exploring this area of knowledge in SMEs. There is empirical evidence linking human resource management and firm performance, but research studies have been made to focus on one or more practices and examine their effects on performance (eg, Abowd, 1990, Banker and al, 1996, Delaney and Huselid, 1996; Harel and Tzafirir, 1999; Khatri, 2000). Some studies have examined certain human resource management practices on firm performance (eg Arthur, 1994, Becker and al, 1997; Huselid, 1995). Other studies have pursued the relationship between human resource management function and organizational performance (eg, Cook and Ferris, 1986; Huselid and al, 1997, Stroh and Caligiuri, 1998).

A call for increased research on human resources and firm performance relationship was made by Katz, Aldrich, Welbourne, and Williams in 2000. Review of literature shows that relations between human resource practices and firm performance was the topic of introspection and analysis for many researchers, however, can highlight barriers caused by:

- a. different operationalization approaches and models;
- b. performance companies was analyzed to examine the results of strategy and human resource management function. Studies focus only on results and do not provide a general overview.

### **Research Framework**

In search of a research framework for studying the relationship between human resource management practices and firm performance, there were two main objectives. The first objective concerned the need to clarify some of the theoretical approaches mentioned above, the second objective is a challenge to integrate the new guidelines on human resource management function in business performance issues, or, as Ulrich (1998), isn't so important that makes human resource management function, but contribute to overall company results.

Examination of human resource management practices enables professionals to focus on some real business and the added value of the firm (Ulrich, 1997).

Theories on business strategy, finance, economics, psychology (Becker and Huselid, 1998) have contributed substantially to the development of huge interest to human resource management practices that contribute to organizational effectiveness. In this respect we mention the competing values framework (CVF) developed by Quinn

and Rohrbaugh (1981, 1983) indicating that organizational effectiveness depends on the organization to meet several performance criteria based on four sets of values that comprise a combination of two dimensions : flexibility and control (figure 1).

**Figure 1 Competing values framework for HRM**

<b>FLEXIBILITY</b>	
<b>HUMAN RELATIONS MODEL</b> HR role: Employee champion Means: Responding to employee needs Ends: Cohesion, commitment, capability Competencies: Morale assessment, management development, systems improvement	<b>OPEN SYSTEM MODEL</b> HR role: Change agent Means: Facilitating transformation Ends: Organizational renewal Competencies: Systems analysis, organizational change skills, consultation and facilitation
<i>Internal Focus</i>	<i>External Focus</i>
<b>INTERNAL PROCESS MODEL</b> HR role: Administrative specialist Means: Re-engineering processes Ends: Efficient infrastructure Competencies: Process improvement, customer relations, service needs assessment	<b>RATIONAL GOAL MODEL</b> HR role: Strategic business partner Means: Aligning HR with business strategy Ends: Bottom-line impacts Competencies: General business skills, strategic analysis, strategic leadership

**CONTROL**

Source: adapted from Cameron and Quinn (1999) apud. Leda Panayotopoulou, Dimitris Bourantas & Nancy Papalexandris (2003)

Cameron and Quinn (1999), based on CVF and its application to human resource development, have developed four models of human resource management practices:

1. A *model of human relations* which are characterized by flexibility and internal cohesion, teamwork and commitment of employees, by developing a strong set of values that promote corporate identity. The main objective of such practices is a high moral support, friendship, support and personal relationships at work. Good relationships are a result of meritocracy, equal opportunities, participation and involvement. Motivation is based on communication, personal and organizational development, and success is defined in terms of care for employees.
2. An *open system model* is characterized by flexibility and external purposes. This model encourages innovative initiatives and develops new services for employees. Dominant culture encourages employees to use ideas, creativity, entrepreneurship and risk taking and aims to create a future vision of the organization. Human resource manager's responsibility is to monitor environmental changes in order to be able to adapt continuously to improve performance through the acquisition of new resources and by adopting new methods and processes. The success of these practices is defined in terms of adapting to change and flexibility.
3. A *process model* characterized internal control and internal purposes. Features highlighting the human resource management practices and control process are close to the employee, standardization procedures, information management, stability and hierarchy. Job analysis, rules and regulations, and improving in new ways, such as facility re-engineering tasks. The success criteria are predictability and process leading to efficiency.
4. A *model of rational objectives*, characterized by control and establishing external purposes, whose main features are, added together the results

orientation. Practices are oriented to planning and setting goals, achieving measurable goals and objectives, measuring the productivity and competitiveness. The essential role of management functions is the strategic partner by aligning its policies with business strategy. Tools that are available for the function of productivity are instruments, achievement, development of performance standards and establishing rewards. Criteria for success of these practices are given the profitability, efficiency, productivity, competitiveness and reputation.

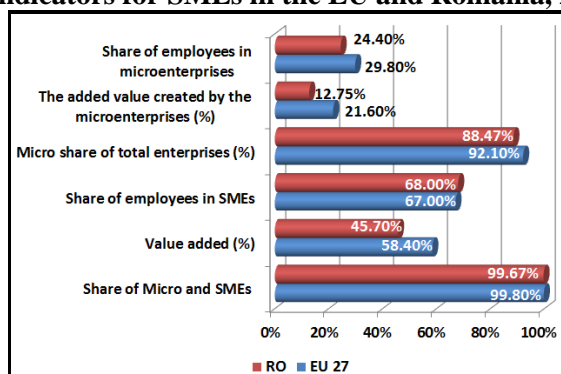
### HRM practices and SMEs in Romania

Arguments which reveal many roles of SMEs and their essential contribution to economic and social development are the following (White Charter of SMEs in Romania, 2011):

- Generates most of the GDP in each country, usually between 55% - 95%;
- Provide jobs for most employment;
- Generates a large proportion of the applicable technical innovations in the economy;
- In almost all countries of the world, including European Union, SMEs are the only ones in recent years, generating new jobs;
- Show high flexibility and adaptability to market requirements and changes, favored by smaller size, faster decision making, specifically entrepreneur and direct involvement in ongoing activities;
- Is one of the main sources of state income taxes (taxes, VAT etc.)
- Social and professional fulfillment allows a considerable part of the population, especially the segment most active and innovative, the "pull" economy after him.

Of economically and socially point of view, SMEs sector generates about 60% of the value added to the European economy and provide 67% of the total employment (figure 2). In all European businesses, the overwhelming share of microenterprises owned (92.1% concerned), which produce about 22% of value added and represents approximately 30% of total employment. Compared to Romania, SMEs account about 47% of the value added and 68% of the total employment and micro enterprises is 88.47% in total, 24.40% of total employment and only about 13% of business value added.

**Figure 2 Key indicators for SMEs in the EU and Romania, 2010 (estimates)**



Source: own simulation based on the dates provided by European Commission, 2011, *Are European SMEs recovering from the crisis? Annual Report on EU small and medium-sized enterprises 2010/2011*.

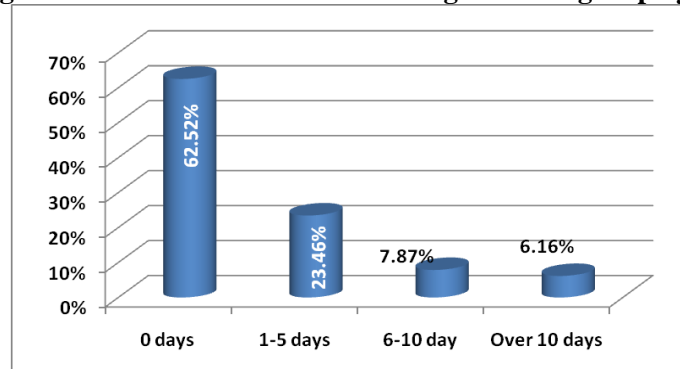
Data from European Commission Annual Report on SMEs in Romania shows that an indicator for assessing the performance is approaching the European average (figure 2). Creating added value is an objective of SMEs in our country that guarantees

sustainability competitive market. In this sense, human resource management practices related to training and professional development of employees, the application of criteria for assessing and motivating work according to their forecasts of changes and mutations in the labor market, development of employees' creativity are just some of the ways in which organizational performance can be achieved.

Although the theory provides a wide range of options in terms of efficiency of HR practices that have proven useful in enhancing organizational performance, however, for small and medium entrepreneurs in Romania they remain, most times, the state of knowledge. Due to financial constraints faced by SMEs in Romania, employees access to counseling and specialized training is almost nonexistent, resulting in employee de-motivation and high mobility of labor (figure 3).

Some studies (Jackson and al, 1989, Schuler and Jackson, 1987) suggest that innovation is stimulated when are selected skilled employees and give them greater autonomy of action. Innovation is enhanced through open communication and lifelong learning (Arthur and Hendry, 1990, Beatty and Schneier, 1997; Sanz-Valle and al, 1999). Cameron and Quinn (1999), suggests that human resource function should act as an agent of change in innovative companies, a role that requires a high level of flexibility and to meet open system model.

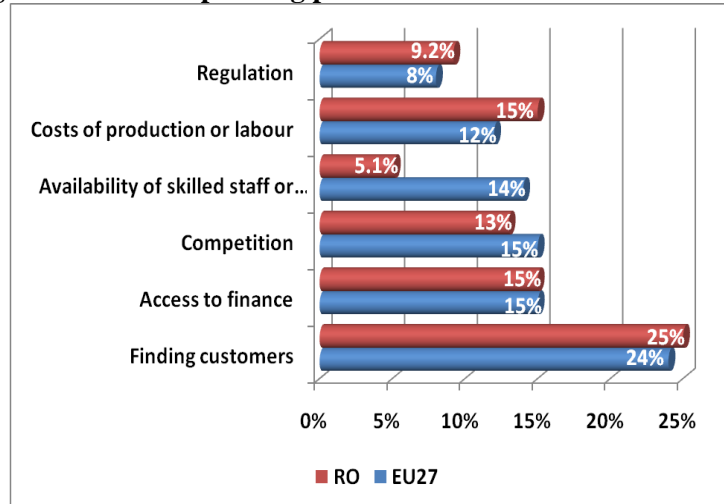
**Figure 3 Structure of SMEs in the length training employees**



Source: National Council of Private Small and Medium-sized Enterprises (2011). White Charter of SMEs in Romania, p 232

Most pressing issues which influence SMEs in Romania, by reference to the European average shows that entrepreneurs are oriented in a large proportion by finding customers and less on employee skills development (figure 4). We can easily see that the factors influencing entrepreneurial decision on human resource management practices is reduced to the need to meet other challenges of the market (production costs, labor costs, maintain a competitive position, access to finance ) by not investing in employees. The large number of bankruptcies and insolvent SMEs in Romania explains this faulty guidance by not using consistent practices of human resource management, often caused by lack of financial support and lack of development strategies.

**Figure 4 The most pressing problems for EU and Romania SMEs**

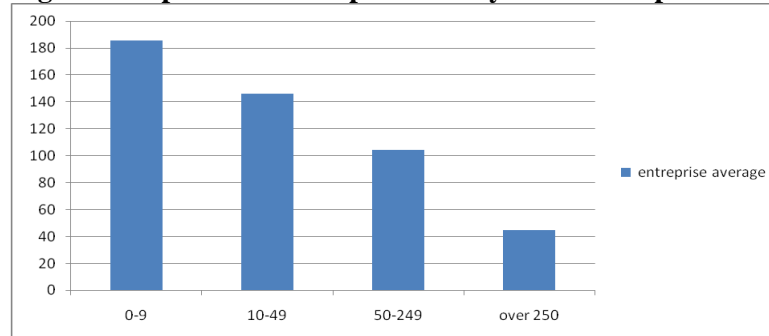


Source: ECB and European Commission, *SMEs' Access to Finance Surveys, 2009-2011*

In a dynamic framework a critical factor for determining the efficiency of labor is the ability to adapt to external influencing factors (Wright and al., 1994). Lengnick-Hall and Lengnick-Hall (1990) argue that a changing environment require constant adaptation to the human resources function. A major importance is the human resources manager of Romanian SMEs to effectively use the influence of external factors in motivating and mobilizing employees.

Economic and financial performance of SMEs considered as indicator of turnover volume yield (average turnover per company) shows that companies with a total of more than 250 employees obtain better results, but by the value of labor productivity (turnover per employee) at micro enterprises level (0-9 employees) capitalize the working factor (figure 5).

**Figure 5 Gaps in the labor productivity of the enterprise class**



Source: *White Chart of SMEs in Romania, 2011, p. 100.*

Recovery the working factor in SMEs determines a low efficiency of turnover, so a reduced performance. It explains low interest of Romanian entrepreneurs to promote human resource management practices.

## Conclusions

Main implications of this study for the academic and human resource professionals (from SMEs) can be summarized as follows:

- Literature review shows the concern of specialists to identify the relationship between human resource management practices and firm performance. Although, few studies have been completed, the development of this field is emerging strongly.
- Human resource management function must be interpreted in terms of influencing factors (environment, strategy, size of organization).

- Use performance indicators other than financial ones, provides a better analysis of the relationship between human resources and performance of SMEs.

For SMEs in Romania use performance analysis in terms of human resource management practices show a poor concern for entrepreneur's for a real labor exploitation. Financial and legal factors are most difficult to overcome; as a result, the potential human is a key target for small and medium entrepreneurs.

The data basis for our analysis was the reports and statistics of European Commission and of the National Council of Private Small and Medium-sized Enterprises from Romania. The limits of the research are determined by the insufficient data to analyze the relationship between formal management practices and SMEs performance.

Our future research will focus to determine the influence of internal and external factors that determine performance relying on human resource management practices to be identified to a representative sample of firms.

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