

An Empirical Investigation of the Impact of Human Resource Management Practices on Organizational Performance in Small and Medium Scale Manufacturing Firms in the Western Province in Sri Lanka

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Abstract

Small and medium enterprises (SMEs) play a very vital role for the Economy in Sri Lanka. SMEs have shown a striking progress over the past two decades. The practice of effective Human Resource Management (HRM) is one that has been shown to be an integral part of small business success. Although there has been a sizeable amount of researches on the causes of failure as well as the determinants of success in SMEs, an empirical investigation on the impact of Human Resource Management practices on business performance in small and medium scale manufacturing firms is extremely rare in Sri Lanka. Therefore, the primary objective of this study was to investigate the relationship between HRM practices and organizational performance of small and medium scale manufacturing firms in the Western Province in Sri Lanka. The research framework consists of independent variables, and a dependent variable. Four hypotheses were formulated using deductive approach to be tested under this study. Variables are neither manipulated nor controlled for the study. Hence, the study was conducted in a non contrived setting. As the data for this study was collected at a single point in time, the study was cross sectional in time horizon. Measures of the study had possessed sufficient validity and reliability. Sample for this study was selected from the Export Development Board (EDB) and Ministry of Industrial Development (MID). The structured questionnaire, which consists of 208 statements with seven point scale, was used in order to collect the data and the sample consisted of 150 small and medium enterprises in the Western Province. Hence, the unit of analysis was at firm level. CEOs/ HR managers/owner managers/ MDs gave information on behalf of the firms. The data analysis included the univariate, bivariate, and multivariate analysis. The research revealed that, there are positive relationships between HRM practices and organizational performance. It is concluded that there is a positive and relatively strong relationship between HRM practices and organizational

performance in small and medium enterprises in the Western Province in Sri Lanka.

Introduction

The main economic goal of a nation is to enhance the living standard of its people. In order to achieve this, the economy should consider improving productivity. Thus, achieving a higher productivity is very much important for any nation. The productivity depends partly on an extent to the existence of Human Resource Management (HRM) (Shuler, 1994; Paul and Anantaraman, 2003). Efficiency and product quality depend on a motivated workforce for whom a sound HRM system is applying (Paul and Anantaraman, 2003). Productivity is a key consideration of profitability. The ability of enterprise to grant better terms and conditions of employment is provided through good HR practices. Wright *et al.*, (2003) examined the relationship between HR practices and profitability; they found that, in general, HR practices were positively related to profitability. Patterson (1997) revealed that acquisition and development of skills (selection, induction, training and appraisal) are significant predictors of organizational performance by increasing profitability and productivity.

Guthrie (1999) examined the impact of HR practices on turnover and firm's productivity. He noted that HR practices had an impact on turnover, and that the relationship between retention and productivity was positive when firms implemented high-involvement HR practices, but negative when they did not. Improving productivity is very important to a country like Sri Lanka, a developing country with the objective of creating more and better employment opportunities to meet the problems of labour surplus, poverty, inflation etc.

HRM is important and necessary for achieving individual, group and organizational performance. Since the concept of Human Resource Management (HRM) was introduced in the 1980s, many models were developed implying a "direct" relationship between individual Human Resources (HR) practices, as well as internally consistent

systems of HR practices, and organizational performance (Budhwar, and Katou, 2006).

According to Mayrhofer *et al.*, (2002), Human Resource Management (HRM) is one crucial success factor for organizational performance. Employees are regarded as valuable resources. Soft skills are becoming increasingly important. The effective and efficient use of human resources is critical for overall performance.

A number of studies were focused on the relationship between organizational success and HRM (Khandekar and Sharma, 2005). Some of the studies analyzed isolated HR practices like hiring (Stines and Kleiner, 2003), compensation (Brown *et al.*, 2003) training and development (Jones, 2004). Huselid (1995) found that extensive recruitment and training procedures, incentive compensation and increased employee involvement were associated with lower levels of turnover, higher productivity and better financial performance. For the past ten years, however, the attention shifted to specific combinations of various HR practices and their impact on organizational performance (Mayrhofer *et al.*, 2002; Wright *et al.*, 2003).

Small & Medium Enterprises face enormous pressures as Sri Lanka integrates more into the world economy. Influences, impacting as both external and internal factors, can be found in the business environment, such as globalization, technological innovation and demographic and social change, as well as the level of technology deployed, innovative ability, financial support and entrepreneurship (Cunningham and Rowley, 2007). Consequently, how SMEs develop in an increasingly competitive market has become a key issue. The literature addresses the significance of a well-motivated, highly skilled workforce as key for smaller firms' success (Storey, 2004; Hornsby and Kuratko, 2003; Heneman *et al.*, 2000; Hornsby and Kuratko, 1990).

Globally the economic importance of small businesses is well documented, as is their contribution to employment, especially

growth oriented small businesses (Webster *et al.*, 2005). Human resource issues have been mainly studied in larger firms. HR development and utilization helps small-scale enterprises to succeed too. But Mazzarol and Savery (1995) suggested that small businesses tend to have less formal HRM procedures than do large firms. Rauch *et al.*, (2005), analyzed the effects of human resources on entrepreneurial success, specifically on employment growth in small firms and revealed, one way to generate firm-specific resources is human capital development. Specific resources which are unique and difficult to imitate, generate specific knowledge in order to achieve competitive advantage. At the same time, Storey (1994) has identified the desirability of a vibrant SME sector as a means of reducing unemployment, promoting flexibility and innovation and improving the health of the economy (Clarke *et al.*, 1999).

In many cases, the owner of a small business handles the personnel functions since there are a few employees in the organization. This practice of informal HR management may be detrimental to firm's success. Each year, the number of failures in small business increases by thousands due to "managerial incompetencies" as the major underlying reason (Wijewardhana and Cooray, 1995). One area of managerial incompetence cited is dealing with employee problems including recruiting, selection, ineffective or nonexistent training, lack of benefits, and no use of incentives, inequitable compensation and weak or nonexistent performance appraisal (Hornsby *et al.*, 1999).

There are theoretical explanations in respect of relationship between human resource management and organizational performance. Further, the literature highlights that most of studies examining the relationship between HRM and organizational performance have been conducted in the Western context, and very few studies in the non-Western context. To fill this gap and to further examine, it is important to conduct a research to identify the relationship between human resource management practices and organizational performance. There are particularly few studies carried out in Sri Lanka in respect of human resource management practices, in listed companies (Serasinghe and Opatha, 2007) and organizational

performance in apparel industry (Ali and Opatha, 2008). Also, no substantive empirical studies have been conducted to investigate, how HRM practices influence organizational performance in Small and Medium Manufacturing firms in Sri Lanka. This is the research gap that is primarily addressed in this research.

Thus, main purpose of this study was to examine impact of HRM practices on organizational performance of selected small and medium sized organizations in the Western Province that practicing their business activities in the current business environment.

Literature Review

Delery and Doty (1996) distinguish three dominant modes of theorizing in the literature on strategic human resource management: the universalistic, the contingent and the configurationally.

The universalistic mode is associated with the terms 'best practice' and 'high performance work practices', and its underlying assumptions or arguments may seem somewhat simplistic:

1. that there is a linear relationship between HR practices or systems and organizational performance;
2. that 'best practices' are universally applicable and successful;
3. that organizational success is best measured in terms of financial performance indicators like profits, or by market share and sales levels.

Huselid (1995) represents those who take a universalistic perspective. As in Boselie *et al.*, (2001) argues, for example, that a greater use of sixteen specified practices mainly participation and empowerment, incentive pay, employment security, promotion from within, and training and skill development, results in higher productivity and profit across all types of organization.

Delery and Doty's (1996) contingency mode highlights that the relationship between the relevant independent variable and the dependent variable will vary according to such influences as company size, company age, technology, capital intensity, the degree of unionization, industry/sector, ownership and location. Contingency

arguments imply potentially complex interactions between HRM variables, and performance indicators, between HRM variables and contingency factors, and between performance and contingency factors.

The configurational mode is rather more complex. Arthur's (1994) control and commitment HR systems are based on the idea that 'the closer an organization's HR practices resemble the correct prototypical system (for its business strategy), the greater the performance gains. In other words, the configurational approach has a more HR internal view (Mayrhofer *et al.*, 2002). It focuses on the importance of a pattern of mutually compatible HR practices for organisational performance (for an example, see Ichniowski *et al.*, 1997). The assumption behind is that a set of compatible HR practices has a higher influence on organizational performance than single, independent measures.

The link between HRM and performance has been conceived in a variety of ways (Wall and Wood (2005). The simplest view is that practices are additive (the more the better, e.g., Guest & Hoque, 1994), and that they enhance performance regardless of circumstance (a universal effect, e.g., Pfeffer, 1994) as in (Wall and Wood (2005). Alternative perspectives emphasize various kinds of 'fit', of which three main types have been identified (Wall and Wood (2005). 'Internal fit' posits synergy among the practices, meaning that their collective effect will be greater than the sum of their individual parts (Wall and Wood (2005). Indeed, Barney (1995) also argue that individual practices "have limited ability to generate competitive advantage in isolation" as in Wall and Wood (2005).

The second type is 'organizational fit', which concerns the role of HRM in enhancing the effectiveness of other organizational practices or technologies, and vice versa (Wall and Wood (2005). As in Wall and Wood (2005), Lawler, Mohrman and Ledford (1995), for example, link HRM to total quality management (TQM), arguing that the two sets of practices are "complementary in their impact on organizational performance". Similarly, McDuffie (1995) sees high

commitment HRM practices being integral to the effectiveness of lean production (Womack, Jones & Roos, 1990) initiatives and vice versa as in Wall and Wood (2005).

The third and final type is 'strategic fit' (Wall and Wood (2005). This assumes that HRM practices need to be aligned with the organization's strategy (e.g., in the case of private businesses to their competitive strategy) to have their full effect on performance as emphasized by Schuler & Jackson, (1987); Youndt *et al.*, (1996).

Empirical investigation of fit typically involves testing for interaction effects (e.g., among different practices, or between HRM system measures and strategy). Since fit is central to many accounts of effects of HRM on performance, it is relevant to determine the extent to which such interactions have been examined. In practice, as we shall see, much empirical work ignores or pays only limited attention to issues of fit, by default taking the universal thesis propounded by Pfeffer (1994) and others as in Wall and Wood (2005).

As in Boselie *et al* (2001), Guest (1997) takes a somewhat different approach. He recognizes three broad categories of general-level theory on HRM: strategic theories, descriptive theories and normative theories. **Strategic theories** are primarily concerned with the relationship between a range of external contingencies and HRM policy and practice. The central theme here is that 'a good fit (strategy, policy and practices with the context) will be associated with superior performance' (Guest, 1997). As in Boselie *et al.*, (2001), the work of Miles and Snow (1984), Schuler and Jackson (1987) and Hendry and Pettigrew (1990) are examples of this type of HRM theory as in Boselie *et al.*, (2001). Guest (1997) concludes that strategic theories are simplistic in characterizing HRM, are weak in specifying the process which links HRM to performance and adopt a limited view of performance concentrating too heavily on measures like profits and sales as in Boselie *et al.*, (2001). **Descriptive theories** of HRM set out to describe the field in a comprehensive way.

Researchers try to capture the broad field and to address some of the relationships. They essentially seek to map the field and Classify inputs and outcomes, with an emphasis on an open systems approach. The perspective can be labeled as realistic but, says Guest (1997), fails to provide a clear focus for any test of the relationship between HRM and performance (Boselie *et al.*, 2001).

Normative theories of HRM are more prescriptive in their approach, taking the view either that a sufficient body of knowledge exists to provide a basis for prescribed best practices or that a set of values indicates best practice (Guest, 1997) (as in Boselie *et al.*, 2001). Walton, (1985); Lawler, (1986); Guest, (1987); and Pfeffer, (1994) represent this approach (as in Boselie *et al.*, 2001). According to Guest (1997), normative theories are predominantly focused on the internal characteristics of HRM at the expense of broader strategic issues, while leaving unclear the basis for specifying the list of HRM practices.

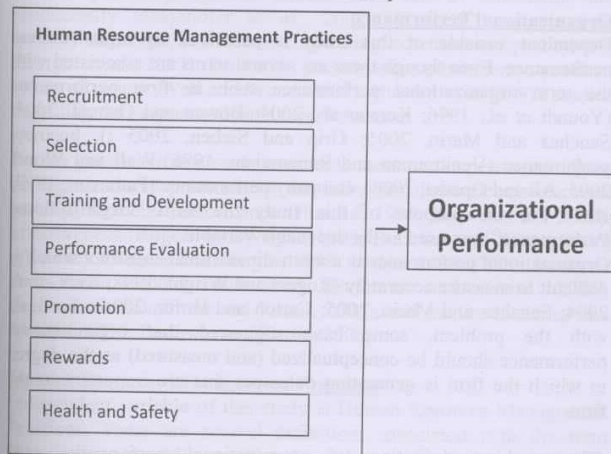
Research Framework

An empirical study on HRM and organizational performance Huselid (1995); Delaney and Huselid (1996); Youndt *et al* (1996); Huselid *et al* (1997); Patterson (1997); Mayrhofer *et al* (2002); Wright *et al* (2003); Kerr *et al* (2004); Khandekan and Sharma (2005) found that HRM practices were associated with a more positive organizational performance. Guthrie (1999) found that turnover and employment practices interact to affect firm productivity.

The relationship between these two variables has been explained in the conceptual model descriptively. Based on the literature review, it assumes that there is a positive relationship existed between HRM practices and organizational performance.

The conceptual framework is constructed as indicated in Figure 3.1.

Figure: 3.1. Research Model of the Study



This is an explanatory model and specifies the nature of hypotheses of the study. According to the model, dependent variable is organizational performance. Independent variable of the study is human resource management practices and Independent sub variables are Recruitment, Selection, Training and Development, Performance Evaluation, Rewards, Promotion and Health and safety. Based on the conceptual model the following hypothesis was developed for testing.

Hypothesis (H 1): There is a positive relationship between HRM practices and organizational performance in small and medium manufacturing firms in the Western Province in Sri Lanka.

Measures

Organizational Performance

Dependent variable of this study is perceived as organizational performance. Even though there are several terms are associated with the term organizational performance such as firm performance (Youndt *et al.*, 1996; Kerr *et al.*, 2004; Bowen and Ostroff, 2004; Sanchez and Marin, 2005; Grip and Sieben, 2005 ;), business performance (Venktraman and Ramanujam, 1986; Wall and Wood, 2005; Ali and Opatha, 2008), company performance (Patterson, 1997) etc... For the purpose of this study the term "Organizational Performance" was used as the dependent variable.

Organizational performance is a multi-dimensional construct which is difficult to measure accurately (Rogers and Wright, 1998; Kerr *et al.*, 2004; Sanchez and Marin, 2005; Carton and Hofer, 2006). To deal with the problem, some have suggested that organizational performance should be conceptualized (and measured) as the degree to which the firm is generating outcomes that are important to the firm.

The working definition of organizational performance was "Perceived degree of attaining firm's goals and objectives during last five years." The perceived degree of organizational performance could be measured by using several dimensions. Khandekar and Sharma (2005) In their study, organizational performance variable covered aspects like product quality, customer satisfaction, new product development, ability to attract and retain employees and relations between management and employees.

So as to measure the organizational performance, many researchers have used different dimensions which are profitability, productivity and market share (Sanchez and Marin, 2005). Absolute financial outcomes i.e. sales level, sales growth rate, cash flow, gross profit margin, return on investment, change in (a) the value of the firm (in private firms) or (b) share price (in public firms) (Kerr *et al.*, 2004). Monetary performance measures – earnings position, profitability, stock market performance, Non-monetary performance measures –

service quality, product to market time, rate of innovation and productivity (Mayrhofer *et al.*, 2002). Workers' compensation, quality, shrinkage, productivity, operating expenses and profitability (Wright *et al.*, 2003), Economic performance; productivity, profit or return on assets (Wall and Wood, 2005). Huselid *et al* (1997) studied regarding the corporate financial performance.

For the purpose of this study in order to measure the perceived degree of organizational performance the following dimensions were used namely; financial performance (Huselid, 1995; Brown *et al.*, 2003), effectiveness (Rogers and Wright, 1998; Budhwar and Katou, 2006) efficiency (Rogers and Wright, 1998; Brown *et al.*, 2003; Budhwar and Katou, 2006), innovation (Budhwar and Katou, 2006), development (Budhwar and Katou, 2006), and quality (Delaney and Huselid, 1996; Budhwar and Katou, 2006).

Human Resource Management Practices

Independent variable of this study is Human Resource Management Practices. There are several definitions associated with the term Human Resource Management. According to the Armstrong (2004), Human Resource Management (HRM) is a strategic and coherent approach to the management of an organization's most valued assets. Human Resource Management is the efficient and effective utilization of human resources to achieve goals of an organization (Opatha, 2009). Human Resource Management refers to the practice and policies you need to carry out the "people" or HRM/personnel aspects of a management position including recruiting, screening, training, rewarding and appraising (Dessler, 2001).

Personnel are that function of an enterprise which provides for effective utilization of human resources to achieve both objectives of the enterprise and the satisfaction and development of the employees (Glueck, 1979, as in Opatha, 2009). Of great importance to organizations today is how to effectively use their human resources. Effective PM is the recognition of the importance of a company's work force as vital human resources and the utilization of several functions and activities to ensure that they are used effectively and

legally for the benefit of the individual, the organization and society (Schuler and Young blood, 1986, as in Opatha, 2009). Personnel Management is a set of activities focusing on the effective use of human resources in an organization (Mathis and Jackson, 1988, as in Opatha, 2009). HRM is the effective management of people at work. It examines what can or should be done to make people both more productive and more satisfied with their working life (Ivancevich 1992, as in Opatha, 2009). HRM concerns the human side of the management of enterprises and employees' relations with their firms (Graham and Bennett, 1992, as in Opatha, 2009). The term 'Personnel Management' is used to encompass those managerial actions concerned with the acquisition and utilization of labour services by any organization which pursues an economic purpose. The terms 'Labour Management' or 'Human Resource Management' are 'sometimes used substitutes, although they may be assigned subtly different meanings in some contexts. Nevertheless, the characteristic which distinguishes this management function from others is that it focuses squarely on the value of human resources to organizational activity (Thomason, 1998, as in Opatha, 2009). HRM is the use of several activities to ensure that human resources are managed effectively for the benefit of the individual, society and the business (Schuler, 1998, as in Opatha, 2009). Human Resource Management is the design of formal systems in an organization to ensure the effective and efficient use of human talent to accomplish organizational goals (Mathis and Jackson, 2004). HRM encompasses those activities designed to provide, motivate and coordinate the human resources of an organization. The human resources of an organization represent its largest investment (Pattanayak, 2003). Personnel Management is that part of the management Junction which is concerned with people at work and with their relationships within an enterprise. Its aim is to bring together and develop into an effective organization the men and women who make up an enterprise and; having regard to the wellbeing of an individual and or working groups, to enable to make their best contribution to its success (The British Institute of Personnel Management (currently The Chartered Institute of Personnel and Development) as in Opatha, 2009). Personnel Management is that part of the management function which is primarily concerned with

human relationships within an organization. Its objective is the maintenance of those relationships on a basis which, by consideration of the wellbeing of the individual enables all those engaged in the undertaking to make their maximum personal contribution in the effective working of the undertaking (Indian Institute of Personnel Management, Calcutta (as in Opatha, 2009).

Many researchers have investigated different aspects in an organization with HRM. Majority have used HRM as independent variable for their research. This term HRM has been observed in many ways such as **HR practice** (Reid and Adams, 2001; Hornsby *et al.*, 1999; Mayrhofer *et al.*, 2002; Wright *et al.*, 2003; Gilbert and Jones, 1998; Kotey and Slade, 2005), **HRM Policy and Practice** (Mazzarol, 2003), **HRM Systems** (Budhwar and Katou, 2006, Huselid, 1995), **HRM Capabilities** (Khandekar and Sharma, 2005; Huselid *et al.*, 1997). Some researchers have termed effective HR activities "as **High Performance Work System (HPWS)**" (Husted, 1995; Kerr *et al.*, 2004; Kandula, 2005).

In order to study effect of the independent variable on the dependent variable, Various HR activities have been selected under the terms which are mentioned above, They are **HRM Policy and Practice**; recruitment and selection, delegation of authority, team building, appointment of managers, remuneration policy, incentives and rewards, discipline and de-selection (Mazzarol, 2003), **HRM Policy**; (Reid and Adams, 2001) **HRM**; recruitment, development and motivation (Peters, 2006), **HR Capabilities**; staffing, performance measurements, training and development, rewards and career planning (Khandekar and Sharma, 2005; Huselid *et al.*, 1997) **HRM Practice**; recruitment and selection, training, performance appraisal, development of human resource policies and maintenance of HR records (Kotey and Slade, 2005) personnel selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitudes assessment (Huselid, 1995), **Human Resource**; recruitment and selection, training, performance appraisal, promotion and career plans and compensation systems (Aragon and Marin, 2005), **HR Practices**; job analysis and description, recruiting and selection, training, performance appraisal, benefits and incentives

(Hornsby *et al.*,1999), selection, pay for performance training and participation. (Wright *et al.*,2003). **HR Practices;** recruitment, selection, training and development, performance evaluation, grievance handling, and discipline administration (Serasinghe and Opatha, 2007).

For the purpose of this study in order to identify the effects of HRM Practices on organizational performance, the term "HRM Practices" is used as the independent variable and the following functions (sub variables) were used namely; Recruitment, Selection, Training and Development ,Performance Evaluation ,Rewards, Promotion and, Health and safety.

Methodology

Purpose of the study was hypotheses testing since the study was done to establish relationship between HRM practices and organizational performance. In the view of Sekaran (2006), there are multiple factors which influence one another and the problem (organizational performance) in a chain link factors, the researchers might be asked to identify the crucial factors associated with the problem, rather than establish a cause- and - effect relationship. Here the researchers investigated the effect of HRM practices on organizational performance .Therefore; the type of the investigation was correlational. Variables are neither manipulated nor controlled for the study. Hence, the study was conducted in a noncontrived setting. As the data for this study was collected at a single point in time (Sekaran, 2006), the study was cross sectional in time horizon. The main focus of the study was explaining the several factors which contribute to organizational performance in the manufacturing sector in small and medium sized firms. For that, this survey was carried out in 150 manufacturing firms in Western Province in Sri Lanka during the period from February 2009 to September 2009. Sample for this study was selected from the firms given by the Export Development Board and Ministry of Industrial Development. The unit of analysis was at the organizational level. In order to measure the perceived degree of Organizational performance, a questionnaire

was distributed to each and every HR managers/MD/CEO/Owner Manager, on behalf of the firm, in the sample and interviews were used. The questionnaire was given to 150 organizations, and it was handed to the CEO, or Personnel Officers, or Financial Officers of the sample small and medium enterprises. Data collected from questionnaires were analyzed using the computer based statistical data analysis package, SPSS version 15.0. The data analysis included the univariate, bivariate and multivariate analysis. Conclusions of the research were made based on the results.

Validity and Reliability

The external reliability of the instruments used to collect data was examined by Test-retest method. This test was carried out using 15 SMEs and five in a one district out of three districts, which are currently operating in Western province, Sri Lanka with two weeks time interval between two administrations. The Test-retest coefficient of the Organizational performance and HRM Practices were 0.946 and 0.918 respectively. These coefficients of the Test-retest of the instruments indicate that each instrument has a high external reliability. The inter item consistency reliability was examined with Cronbach's Alpha test. The results of Cronbach's Alpha test for Organizational performance and HRM Practices were 0.905 and 0.969, which suggests that the internal reliability of each instrument is satisfactory.

The content validity of the instrument was ensured by the conceptualization and operationalization of the variables based on literature. The dimensions and elements of the variables were delineated carefully after having conceptualized the working definitions based on the literature. All the instruments had a high degree of internal consistency reliability (alpha). These evidences support the content validity of the instruments of this study. The construct validity of the variables of the study was ensured by the fact that the correlation analysis support the hypotheses formulated linking the relationship between the independent variable and the dependent variable.

I. Analysis

1.1. Univariate Analysis

The frequency distribution analysis was made individually for the variable of Organizational Performance. The frequency distribution of Organizational Performance is presented in the table 7.1. As indicated by the table 7.1 the mean value of the distribution is 4.9133. Then the organizational performance of the firms (respondents) is "High". The skewness and kurtosis of the distribution are -0.481 and 0.111 which indicated that the data recorded for the organizational performance are approximately normally distributed.

Table 7.1: Statistics of the Distribution of Organizational Performance of the Sample

Mean	4.9133
Median	5.0000
Mode	5.00
Std. Deviation	.76795
Skewness	-.481
Kurtosis	.111

Source: Survey data 2009

Levels of Organizational Performance of the sample are shown in the table 7.2. According to that table, out of 150 firms, 113 have high Organizational Performance. Only 7 firms have low Organizational Performance. 30 firms have moderate Organizational Performance. As a whole, 95.3% firms of the sample are included in the levels of Organizational Performance of equal or more than four (OP \geq 4)

Table 7.2: Levels of Organizational Performance of the Sample

Level /Scale	Frequency	Percentage	Cumulative Percentage
3.00	7	4.7	4.7
4.00	30	20.0	24.7
5.00	82	54.7	79.3
6.00	31	20.7	100.0
Total	150	100.0	

Source: Survey data 2009

The frequency distribution analysis was made individually for the main variable of Human Resource Management Practices only. As indicated by the table 7.3 the mean value of the distribution is 4.5067. Then the Human Resource Management Practices of the firms (respondents) are "Good/High". The skewness and kurtosis of the distribution are -0.072 and -0.292 which indicated that the data recorded for the Human Resource Management Practices are approximately normally distributed.

Table 7.3: Statistics of the Distribution of Human Resource Management Practices of the Sample

Mean	4.5067
Median	5.0000
Mode	5.00
Std. Deviation	.74857
Skewness	-.072
Kurtosis	-.292

Source: Survey data 2009

As shown in table 7.4, out of 150 firms, 77 have good Human Resource Management Practices. 12 firms do not practice Human Resource Management properly; hence their Human Resource Management Practices are low. Only 11 firms have very good HRM practices which are 7.3%. 61 firms' HRM practices are satisfactory.

Table 7.4: Levels of Human Resource Management Practices of the Sample

Level /Scale	Frequency	Percentage	Cumulative Percentage
3.00	12	8.0	8.0
4.00	61	40.7	48.7
5.00	66	44.0	92.7
6.00	11	7.3	100.0
Total	150	100.0	

Source: Survey data 2009

1.2. Bivariate Analysis

The Bivariate analysis includes the correlation analysis which was used to investigate any relationships between HRM practices which is the primary variable of this study and organizational Performance and among sub instruments of Human Resource Management Practice and Organizational Performance. Using the Pearson Product Movement Correlation with one-tailed test of significance, the Correlation analysis was made to investigate any relationships.

According to the results of the Pearson's correlation shown in the table 7.6, there is a positive significance between Human Resource Management Practice and Organizational Performance of the firms (respondents).

Table 7.6: Correlation between Human Resource Management Practice and Organizational Performance

		Human Resource Management Practice	Organizational Performance
Human Resource Management Practice	Pearson Correlation	1.000	0.474**
	Sig. (1-tailed)		0.000

**Correlation is significant at the 0.01 level (1-tailed).

Source: Survey data 2009

Pearson correlation between the two variables is 0.474, which is positive. It shows that there is a positive relationship between Human Resource Management Practice and Organizational Performance. Though the relationship is positive it is not much strong. Further the found relationship is statistically significant as correlation is significant at 0.01 levels (1-tailed). Thus, there is statistical evidence to claim that Human Resource Management Practice and Organizational Performance are positively related.

As per the results of the Pearson's correlation shown in the table 7.8 there are positive significance among all sub instruments of Human Resource Management Practice and Organizational Performance of the firms (respondents).

Table 7.8: Correlations among Sub Instruments of Human Resource Management Practice and Organizational Performance

		Recruitment	Selection	Training and Development	Performance Evaluation	Rewards	Promotion	Health and Safety	Organizational Performance
Recruitment	Pearson Correlation	1.000							0.568**
	Sig. (1-tailed)								0.000
Selection	Pearson Correlation		1.000						0.479**
	Sig. (1-tailed)								0.000
Training and Development	Pearson Correlation			1.000					0.452**
	Sig. (1-tailed)								0.000
Performance Evaluation	Pearson Correlation				1.000				0.308**
	Sig. (1-tailed)								0.000
Rewards	Pearson Correlation					1.000			0.502**
	Sig. (1-tailed)								0.000
Promotion	Pearson Correlation						1.000		0.115
	Sig. (1-tailed)								0.081
Health and Safety	Pearson Correlation							1.000	0.331**
	Sig. (1-tailed)								0.000

**Correlation is significant at the 0.01 level (1-tailed).

Source: Survey data 2009

Pearson correlations among Recruitment, Selection, Training and Development, Performance Evaluation, Rewards, Promotion, and

Health and Safety are 0.414, 0.391, 0.287, 0.162, 0.369, 0.087, and 0.248 respectively, which are positive. The table shows that there are positive relationships among Recruitment, Selection, Training and Development, Performance Evaluation, Rewards, Promotion, and Health and Safety, and Organizational Performance. Though all the relationships are positive they are not much strong. Further, except relationship between Promotion (0.081) and Organizational Performance, the other found relationships are statistically significant, as correlations are significant at 0.01 level (1-tailed). Thus, there are statistical evidences to claim that Recruitment, Selection, Training and Development, Performance Evaluation, Rewards, Promotion, Health and Safety, and Organizational Performance are positively related. Simple Regression analysis was also done for this study. The table 7.9 shows the results.

Table 7.9: Simple Regression Analysis

Variable	Human Resource Management Practice
Method	Linear
R Square	0.225
Adjusted R Square	0.219
F	42.850
Significance	0.000
B-constant	2.723
b-Value	0.486
Standardized Beta	0.474

Source: Survey data 2009

According to the table 7.9, the b value of the equation, the gradient of the regression, is 0.474, which is significant at 1% (significant = 0.000). As indicated by adjusted R squared, only 21.9% of the variance of **Organizational Performance** is explained by Human Resource Management Practices with the standardized beta of 0.486. The F value is 42.850, which is significant at 1% (P=0.000), which suggests that Human Resource Management Practices have significantly explained 21.9% of the variance of **Organizational**

Performance. The table 7.10 illustrates impact of each sub variable on Organizational Performance.

Table 7.10: Simple Regression Analysis for sub variable of HRM practices

Variables	Recruitment	Selection	Training and Development	Performance Evaluation	Rewards	Promotion	Health and Safety
Method	Linear	Linear	Linear	Linear	Linear	Linear	Linear
R Square	0.322	0.230	0.204	0.095	0.252	0.013	0.109
Adjusted R Sq.	0.318	0.225	0.199	0.089	0.247	0.006	0.103
F	70.433	44.136	37.959	15.560	49.849	1.974	18.185
Significance	0.000	0.000	0.000	0.000	0.000	0.162	0.000
B-constant	2.295	3.084	3.109	4.178	1.952	4.709	3.717
b-Value	0.518	0.399	0.368	0.199	0.527	0.050	0.248
Standardized Beta	0.568	0.479	0.452	0.308	0.502	0.115	0.331

Source: Survey data 2009

According to the table 7.10, only 31.8 % of the variance of Organizational Performance is explained by Recruitment with the standardized beta of 0.568. Selection has significantly explained 22.5 % of the variance of Organizational Performance. As indicated by adjusted R squared, only 19.9 % of the variance of Organizational Performance is explained by Training and Development with the standardized beta of 0.452. Performance Evaluation has significantly explained 8.9 % of the variance of Organizational Performance. As indicated by adjusted R squared, only 24.7% of the variance of Organizational Performance is explained by Rewards.

The F value is 1.974, which is not significant at 1% ($P=0.162$), which suggests that Promotion has significantly explained 6 % of the variance of Organizational Performance. Health and Safety has significantly explained 10.3 % of the variance of Organizational Performance.

According to the results of Pearson's Product Movement correlation analysis between HRM Practices and Organizational Performance, the correlation coefficient is 0.474, which is significant at 1% ($p=0.000$). As per the result of simple regression analysis between the two variables the regression coefficient (b) is 0.486, which is significant at 1% ($T=0.000$). Therefore according to the results of both tests, the Null Hypothesis is rejected and the Alternative Hypothesis is accepted since $r > 0$, and $b > 0$, consequently, relationship is positive. Hence data support the hypothesis that there is a positive relationship between HRM Practices and Organizational Performance in small and medium scale business organizations in Western province.

1.3. Multivariate Analysis

Additionally, As a multivariate analysis, the multiple regression analysis was used in order to investigate the simultaneous impacts of all the independent variables on the dependent variable.

The results of multiple regressions of independent sub variables (Recruitment, Selection, Training and Development, Performance Evaluation, Rewards, Promotion, and Health and Safety) against the dependant variable (Organizational Performance) are shown in the table 7.11

Table 7.11: Results of Multiple Regression Analysis

Multiple R	R Square	Adjusted R Square	Standard Error of the Estimate	F	Sig. F
0.650	0.423	0.395	0.59748	14.879	0.000

Source: Survey data 2009

The square of the multiple R is 0.650, which indicates that 39.5% of the variation in Organizational Performance is explained by the seven

independent sub variables jointly. The F Value is 14.879, which is significant at 1% ($p = 0.000$), which suggest that the four independent sub variables have significantly explained 39.5% of the variation in the Organizational Performance.

The strengths of influence that each of the independent sub variable had on the dependant variable. i.e. Organizational Performance was determined by the use of multiple regression coefficients of the independent sub variables. The influences of each independent sub variable are shown in Table 7.12

Table 7.12: Influences of the Independent Sub Variables on Organizational Performance

Independent Sub Instruments	Standardized Beta	Std. Error of Beta	t	Significance
Recruitment	0.360	0.085	3.872	0.000
Selection	0.103	0.078	1.104	0.272
Training and Development	0.215	0.070	2.516	0.013
Performance Evaluation	0.001	0.062	0.015	0.988
Rewards	0.179	0.091	2.062	0.041
Promotion	0.174	0.037	2.051	0.042
Health and Safety	0.004	0.064	0.048	0.961

Dependant variable: Organizational Performance
Source: Survey data 2009

As shown in the table 7.12 Recruitment has the strongest significant effect on Organizational Performance ($p < 0.05$) with a standardized beta of 0.360. Training and Development, Rewards, and Promotion also have significant effect ($p < 0.05$) on Organizational Performance with a standardized beta of 0.215, 0.179, and 0.174 respectively.

A stepwise regression was done in order to find out the extent of contribution of each variable to adjusted R Square value or the total

explanatory power of the regression model. As shown in the table 7.13 the results of stepwise regression indicate that there were four predictor sub variables that could significantly contribute to the adjusted R Square value.

Table 7.13: Stepwise Multiple Regression Analysis for Model 3: Predictors of Organizational Performance

Variables	R Square	R Square Change	Adjusted Square	Standardized Beta	F	Significance
Recruitment	0.322	0.322	0.318	0.400	70.433	0.000
Training and Development	0.378	0.055	0.369	0.253	44.595	0.000
Rewards	0.398	0.020	0.385	0.163	32.116	0.029
Promotion	0.418	0.020	0.402	0.189	26.017	0.026

Source: Survey data 2009

The results of the stepwise multiple regression analysis indicates that Recruitment has the highest β value contributed 31.8 % to the variance in Organizational Performance. Training and Development, Rewards, and Promotion, contributed about 5.1%, 1.6%, and 1.7% respectively. Selection, Performance Evaluation and Health and Safety were not found contributing to the total explanatory power suggesting that Recruitment Training and Development, Rewards, and Promotion explained about 40.2% of the variation in Organizational Performance.

Table 7.14: Summary of Means, Standard Deviations, and Correlation of all Variables and Sub Variables of the Research

Variable	Mean	Standard Deviation	Recruitment	Selection	Training and Development	Performance Evaluation	Rewards	Promotion	Health and Safety	Org. Performance
Recruitment	5.0533	0.84175	1							
Selection	4.5800	0.92155	0.617**	1						
T and D	4.9067	0.94369	0.420**	0.572**	1					
PE	3.6867	1.18795	0.467**	0.517**	0.525**	1				
Rewards	5.6133	0.73079	0.634**	0.505**	0.424**	0.447**	1			
Promotion	4.0800	1.75522	0.360**	0.361**	0.304**	0.630**	0.296*	1		
H and S	4.8333	1.02595	0.430**	0.529**	0.531**	0.524**	0.460*	0.452*	1	
Org. Per.	4.9133	0.76795	0.568*	0.479**	0.452*	0.308*	0.502**	0.115	0.331	1

** Correlation is significant at the 0.01 level (1-tailed)

* Correlation is significant at the 0.05 level (1-tailed)

Source: Survey data 2009

2. Discussions

It was found to be that there is a positive relationship between Human Resource Management Practices and the Organizational Performance. The correlation between these variable was 0.474, which is significant at 0.000 level. This was based on one-tailed tests. This correlation was found to be not strong as it is less than the lower bound of strong correlation (0.5).

The simple regression analysis describes that Human Resource Management Practices have a positive impact on Organizational Performance with the strength of b value of 0.486 ($F=45.850$, $P=0.000$). The level of Human Resource Management Practices of SMEs in Western Province give a measure of Organizational Performance and it has a 21.9 % accuracy of predicting. That is 21.9 % of Organizational Performance is accounted for by Human Resource Management Practices

Discussing the level of HRM practices of the small and medium scale enterprises in the sample, it was found that they have a Moderate level of HRM practices with the mean value of 4.5067 and standard deviation of 0.74857. Accordingly it was found that HRM practices of SMEs in Western province were good.

Findings of correlation and regression analysis empirically confirm the arguments given by Khandekar and Sharma (2005). They found that, HRM practices (staffing, performance measurements, training and development, rewards and career planning) are positively correlated to organizational performance. This research finding is further confirmed the findings of Budhwar and Kato (2006). They found that, both HRM systems of resourcing-development (HRM policies of recruitment, selection, separation, arrangements, individual and team training and development, monitoring training and development, work design, performance appraisal) and reward-relations (job evaluation, compensation, promotion arrangements, benefits, employee participation, employee involvement, communications and health and safety) positively affect organizational performance, thus, supporting Hypothesis three.

Also the findings support Kerr and Way's (2004) findings that provided more evidence that good HR practices (high performance work systems) are strongly associated with superior firm performance, even in small firms. More over, the relationship between high performance work systems and firm effectiveness was significant ($r = 0.184$; $p < .05$, one tail test).

Boselie *et al* (2001) revealed that, HR practices affect performance not individually but as interrelated elements in an internally consistent HR 'bundle' or system. The results of this study confirm that argument because model three presented HRM practices as a bundle. Also the findings are consistent with the explanation of Patterson (1997). He revealed acquisition and development of skills (selection, induction, training and appraisal) are significant predictors of organizational performance (both change in profitability and change in productivity).

As indicated by the empirical data, Human Resource Management Practices of SMEs in Western province are good (92% of enterprises/respondents were in moderate and good HRM practices). Organizational Performance of SMEs is also very high. (20% of enterprises (respondents) have Moderate, and 75% have high Organizational Performance). Hence, Human Resource Management Practices of SMEs in Western province, have positive impact on Organizational Performance, that is a not much strong relationship and that is significant impact.

According to the results of sub variable of HRM practices under the research model three the correlation between recruitment and the organizational performance was 0.568 and at it was significant at 0.000. This correlation was found to be strong as it is more than the lower bound of strong correlation (0.5).

The simple regression analysis describes that recruitment has a positive impact on organizational performance with the strength of b value = 0.518 ($F = 70.433$, $P = 0.000$). The level of recruitment practices of SMEs in Western Province give a measure of organizational performance and it has a 31.8 % accuracy of predicting. That is 31.8% of organizational performance is accounted for by recruitment.

The multiple regression analysis also revealed that recruitment had significant effect on human resource outcomes with the b value of

0.329 (significant = 0.000). The results of the stepwise the multiple regression analysis indicated that recruitment is contributing to the total explanatory power of the research model three. Hence, recruitment was found to be significant predictor of organizational performance.

Discussing the level of recruitment of the small and medium scale enterprises in the sample, it was found that they have a Good level recruitment with the mean value of 5.0533 and standard deviation of 0.84175. Accordingly it was found that recruitment of SMEs in Western province was good.

This study showed empirical positive relationship between HRM practices and Organizational Performance. As noted in the literature review and discussion some prior research findings (Mayrhofer *et al.*, 2002; Mazzarol, 2003; Kerr and Way, 2004; Grip and Sieben 2005; Khandekar and Sharma, 2005; Budhwar and Kato, 2006) are consistent with the findings of this study. Even though, this study showed empirical positive relationship between HRM practices and Organizational Performance, only 21.9 % of Organizational Performance is accounted for by Human Resource Management Practices. That means, there might be other 79% of unexplained variables. Perera (2005) found that, successful businesses and businessmen possess greater management related factors (wastage recovery, new designs technology used, marketing skills, financial management, and emphasis on quality) and personal characteristics (time consciousness, purpose of doing a business, change the business with new ideas, outside business relationships, and motivation to do something extremely well) than failed entrepreneurs. Further he revealed that, personal characteristics have a higher influence than the management related factors for the success of small scale businesses in Sri Lanka.

The characteristics of the owner-manager (e.g. management style, level of managerial education and experience and personality style) appear to have a direct influence on the company structure as well as

the nature of HRM policy and practice within the small business (Mazzarol, 2003). He has highlighted the importance of the owner-manager learning to delegate responsibility, develop team work and put in place formal processes to achieve enhanced productivity, employee commitment and reduced turnover. The owner's commitment to such processes (employee partnering) appears critical to success.

Accordingly, unexplained variables might be consisted of such variables and facts which were explored by Perera, (2005); (Mazzarol, 2003) in small and medium scale enterprises in Sri Lanka. Further, In Sri Lankan small & medium enterprises, the owner is the critical factor. S/he involves in each & every activity in the process. For example s/he does recruitment, pay & benefit activities, disciplinary matters etc. Owner is central to the all organizational activities. Their dedication & commitment is very high. They know about the objectives than anyone else in the organization. They do all activities keeping those objectives in their minds. Their professional HR knowledge might be poor but they know what to do to achieve organizational objectives. Professional HR knowledge may not directly help them to achieve their objectives. But they have special knowledge in operational activities. They can go for targets and achieve objectives due to the commitment & dedication.

3. Recommendations and Implications

According to the research there is a significant positive relationship (21%) between HR practices & organizational performance. In SME's most of HR practices are handled by the owner or the entrepreneur himself. Intuitively he knows what practices the Company should have to achieve high organizational performance, because they are visionary people. In the Sri Lankan context many large organizations have very good HR systems and practices which steer the entire organization. But in SMEs we can't that much of very good HRM practices due to lack of knowledge of owners. But if the owners or entrepreneurs of these firms can be trained about good HRM practices they will adopt that knowledge to their organizations.

When the Company gradually develops the owners or entrepreneurs need to take good and quality people to the organization. Therefore they believe HR practices such as Recruitment, Selection, T & D, PE. When the HR practices play a good role in the organization, automatically quality employees are recruited and retained in the organization.

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