

# The Role of HRM in Improving Labour Productivity: An Analysis of Manufacturing SMEs in Japan

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## Abstract

*Small and Medium Enterprise (SME) sector is considered to be the backbone of Japanese economy. Its importance is often highlighted by the large share of the economy it occupies, whether in terms of number of companies, total number of employees, value of shipments or GDP. However, since last two decades many SMEs have gone out of businesses while firm entry rate is showing downward trend. According to some business advocates, one of the reasons for high rate of business failures in SMEs is due to its less attention to the human side of their businesses. Therefore, the broad objective of this study is to examine the role of Human Resource Management (HRM) practices in SMEs in Japan. Specifically, this study attempts to examine the relationship between HRM practices and labor productivity in manufacturing SMEs in Japan. Further, it aims to examine the mediating link of HR outcomes in between HRM practices and labour productivity. A structured questionnaire was developed and sent to 436 SMEs in Aichi Prefecture and 144 firms responded to the questionnaire resulting in 32 percent response rate. Based on the data analysis it was found that there is a strong positive relationship between HRM practices and labour productivity mediated by HR outcomes in manufacturing SMEs in Japan.*

**Key Words:** Human Resource Management, Small and Medium Enterprises, HR Outcomes, Labour Productivity.

## Introduction

Small and Medium Enterprise (SME) sector is considered as the backbone of Japanese economy. It has been playing a major role in every area of its national economy. The importance of this sector is indicated by the very large share of the economy that it occupies, 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 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 DoCoMo, 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, Honda, and Sony etc. 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