

# The Role of Recruitment and Selection in Financial Performance

## *Case study: Kosovo Service Enterprises*

ARTA JASHARI

University of Applied Science Ferizaj

LEJLA IBRAHIMI

University of Applied Science Ferizaj

### **Abstract**

*The purpose of this study is to examine the relationship of recruitment and selection practice and financial performance in small and medium enterprises in Kosovo. A total of 319 managers/owners of those enterprises was analyzed. Our empirical results show that enterprises in Kosovo use recruitment and selection practice and they know how important is to have the right people with skills and knowledge accordingly with the job requirements.*

*Our results provide evidence that recruitment and selection practice, have a positive relationship with financial performance and the indication of the education level of manager/owners of enterprises in the use of this practice.*

*From our results we can conclude and suggest that with by applying recruiting and selection as the first practice in managing people, the enterprises will fill with employees who will be able to fulfill the enterprises objective.*

**Key words:** Human Resource, Kosovo, Recruitment and Selection, Financial Performance.

### **1. INTRODUCTION**

Human resources (employees) are known as the most valuable assets in enterprise. They are the most crucial factor to improve enterprise performance, because their knowledge, experience and skills increase

the value of an organization in the market. Enterprises performance will increase only when the enterprises select and develop human resources and structure job duties and reward system to motivate the team to perform well and this contributes to organizational effectiveness (Guzzo & Shea 1992).

Available literature has argued that the success of the enterprise is directly linked to the performance of those who work for that business. By the same way, bad results can be a result business performance. Because hiring the wrong people or failing to anticipate fluctuations in hiring needs can be costly, it is important that conscious efforts are put into human resource planning (Djabatay, 2012). Therefore, this study examines the effect of recruitment and selection criteria on financial performance in small and medium enterprises in Kosovo. In order to achieve this objective, we then hypothesized that:

- Recruitment and selection criteria have significant effect on financial performance.
- The level of education of the managers has significant impact on use of recruitment and selection practice.

## **2. THEORETICAL FRAMEWORK**

There are many researchers who have noted that is more difficult to manage people in an enterprise than to manage technology or capital (Barney, 1991; Lado and Wilson, 1994). However, those enterprises that have learned to manage their human resources well will have an advantage over others for a long time, because effectively recruiting and selection and deploying human resources is difficult (Wright et al., 1994).

In order to create an effective HRM system, the enterprises should have human resource management practices. Wright & Snell (1991) stated that HRM practices refer to organizational activities directed at human resource management and ensuring that resources are employed towards meeting organizational goals.

Huselid (1995) emphasized that by adopting best practices in employee selection, the introduction of better-quality skill sets will be promoted by adding value to the skills inventory of the organization.

## **2.1. Recruitment and selection**

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 selecting candidates for employment. According to Gamage (2014) the quality of human resources that the enterprise has depends heavily on the effectiveness of these two functions.

Opatha (2010) defines recruitment as the process of finding and attracting qualified people to apply for vacancies in the organization. It is a set of activities that an organization uses to attract job candidates who have the necessary skills and attitudes.

Furthermore, Ofori and Aryeetey (2011) defines recruitment as a process of generating a group of individuals competent to apply for employment within an organization.

The overall goal of recruitment according to Gamage (2014) is to provide the organization with a group of potentially qualified candidates. The quality of human resources in an organization depends heavily on the quality of the drawn applicants because the organization will select employees from those who are drawn.

On the other hand, selection is the process of selecting the most suitable applicant from the group of recruited applicants to fill the relevant job position (Opatha, 2010).

Selection is an extremely important aspect to consider for businesses for several reasons: a) Often business performance is directly related to the people working within it, which means that the right people need to be hired to ensure success b) it is an expensive process to hire someone new to the organization. So, it is not something that organizations want to put time and money into just to find that they have hired someone who is not fit, c) It is vital for organizations to do the right process in the first round, because resources are as much as they are. Selecting the right applicant can be a daunting task, but at the end of the day, the organization's reputation is maintained by the people it hires (Henry & Temtime 2009).

Numerous researches show that there is a positive and significant relationship between recruitment and selection and the performance of an enterprise (Gamage 2014). Also, Syed and Jama (2012) have shown equally that the implementation of an effective

recruitment and selection process is positively related to organizational performance.

### 3. METHODOLOGY

Data were collected through structured questionnaires. This questionnaire was filled by owners/managers of those enterprises, who have been selected randomly from the sample.

**Table 1. Enterprises structure by number of employees, from 2000 to 2018**

Classification by size	Number of employees	Number of enterprises	Percentage of Total %
Micro	1-9	183.569	98.53
Small	10-49	2328	1.24
Medium	50-249	344	0.18
Large	Above 250	62	0.03
Total		186.303	100

Source: MTI, SME Statistics Statement Report, 2000 - 2018, page 18

Of the 186,303 enterprises registered in Kosovo, 183,569 (98.53%) are micro enterprises, 2328 (1.24%) are small enterprises, 344 or (0.18%) are medium enterprises, while the large enterprises are 62 (0.03%).

Knowing that the population size of this study was 2672 enterprises, based at the 95% confidence level and error margin 5%, the sample size has resulted in 336 enterprises.

Out of a total of 182 enterprises involved, surveys were conducted in 319 of them because 17 of them did not want to be part of this survey.

The Statistical Package for Social Sciences (SPSS) version 25 was used to analyze the data.

### 4. DEMOGRAPHIC ANALYSIS

As we can see from the results in the Table 2, those 319 small and medium enterprises in service sector in Kosovo, were being managed by 113 females or (35.4%) and 206 males or (64.6%).

**Table 2. Gender frequency**

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	113	35.4	35.4	35.4
	Male	206	64.6	64.6	100.0
	Total	319	100.0	100.0	

Source: Authors

Also form Table 3, we see that 11 of managers were with primary school, 163 with high school, 117 with bachelor's degree and 28 of them with MSc degree.

**Table 3. Education of managers in small and medium enterprises**

		Level of education			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Elementary	11	3.4	3.4	3.4
	High school	163	51.1	51.1	54.5
	Bachelor	117	36.7	36.7	91.2
	Master	28	8.8	8.8	100.0
	Total	319	100.0	100.0	

Source: Authors

## 5. Result and Discussion

### 5.1. First hypothesis

*H<sub>0</sub>: There is a significant relationship between recruitment and selection and financial performance*

*H<sub>1</sub>: There is not a significant relationship between recruitment and selection and financial performance*

Form the test of normality of the data the results were that they don't have a normal distribution so have to use the Spearmen correlation to prove this hypothesis.

**Table 4. The Spearman correlation between the recruitment and selection and financial performance**

Spearman's rho	Recruitment and selection practice	Correlation Coefficient	Return on assets ROA	Return on sales ROS
			Sig. (2-tailed)	.376**
	N		319	319

\* P value is significant at 5% confidence level

\*\* P value is significant at 1% confidence level

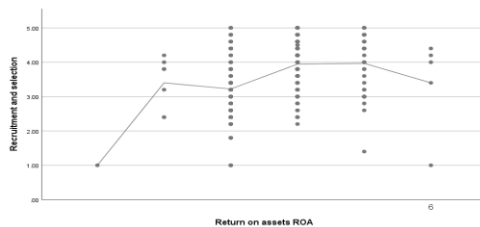
Source: Authors

From results presented in Table 4, we can see that there is a high significant relationship between recruitment and selection of employees with financial performance.

Employee recruitment and selection have a positive correlation ( $\rho = .376^{**}$ ,  $p$  value = .000) in return on assets ROA and is statistically significant at 1% confidence level.

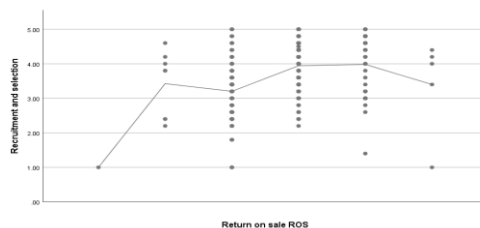
Also, employee recruitment and selection have a positive correlation ( $\rho = .382^{**}$ ,  $p$  value = .000) in return on sales ROS and is statistically significant at 1% confidence level.

From the results above we can conclude that hypothesis one is totally accepted.



**Fig 1. Relationship of recruitment and selection practice and return on assets ROA**

Source: Authors



**Fig 2. Relationship of recruitment and selection practice and return on sales ROS**

Source: Authors

## 5.2. Second hypothesis

**H<sub>0</sub>:** *There is a significant difference in using of recruitment and selection practice according to the level of education of managers / owners of the enterprises.*

**H<sub>2</sub>:** *There is a significant difference in using of recruitment and selection practice according to the level of education of managers / owners of the enterprises.*

To prove this hypothesis, we have used nonparametric test, the Kruskal-Wallis test, in order to analyze the differences between respondents' level of education and the use of recruitment and selection practice, as this test compares more than two independent groups as in our case.

**Table 5. Kruskal-Wallis test: The use of recruitment and selection practice depending from the respondent's level of education.**

Test Statistics <sup>a,b</sup>	
	Rekrutimi dhe seleksionimi
Elemntary	81.91
Hihgh scool	146.88
Bachelor	174.57
Master	206.18
Kruskal-Wallis H	21.226
df	3
Asymp. Sig.	<b>.000</b>

**Source:** Authors

The results presented in table 5., shows that there are differences in the level of education of the managers/owners and use of recruitment and selection practice.

We find that recruitment and selection practices of managers or owners with master's degree of education are higher ranking and represent a significant difference of 206.18, which means that from all managers who use this practice 206.18 are with master's degree.

Based on the results, we find that recruitment and selection is significantly influenced by the professional background of managers / owners (Kruskal-Wallis = 21.226, degree of freedom df = 3 and p value = .000) which is significant at 1% confidence level.

## CONCLUSION

To help an enterprise to find and to pick up the right people to work for them, who will help the enterprise to drive it schedule and to achieve the strategic objectives the recruitment and selection practice have an essential role. Enterprises should adopt objective, fair and reliable recruitment and selection strategies that can ensure they gain a competitive edge in the market by recruiting the right staff (Djabatey, 2012).

The purpose of this paper was to analyze the small and medium enterprises in Kosovo and to find out how they deal with their most valuable assets in their enterprises. We particularly elaborate the recruitment and selection practices and our findings have revealed that managers of Kosovar enterprises pay attention to this practice and they are aware for the influence of having the qualified and skilled employees on the financial performance.

Also, our finding shows a difference on the level of education of managers/owners and the use if recruitment and selection practice. The results show a significant indication of education level on recruitment and selection practice, which means that managers/owners with higher level of education will use the recruitment and selection practice more.

Of course, this study has its limitations, we have analyzed only small and medium enterprises in Kosovo. In future study also the large enterprises should be involved.

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