

# The impact of employee selection on organisational performance

## Abstract

*The main objective of companies' human resources policies in a competitive business environment becomes the reduction of risks in recruitment and selection processes at all hierarchical levels. Failure to recruit employees with appropriate competencies will result in business failure or it will, at least, prevent the development of the company. Empirical research conducted among 250 companies carrying on business in Bosnia and Herzegovina has proved a correlation between the selection process and organisational performance. The most significant results are that companies conducting a fair and objective selection process achieve greater overall financial performance, while organisations that are not subject to interventions during selection achieve higher annual sales growth. The important conclusions of this article are that successful selection guarantees greater organisational productivity and that the choice of selection method is not relevant to overall performance as much as the avoidance of the impacts of others taking the final hiring decision.*

**Keywords:** *recruitment and selection, structured interview, realistic job previews, equal employment opportunities, organisational performance*

## Introduction

If we take a look at the size of the recruitment industry across the globe, it seems that practitioners operate as if recruitment and selection are the most important functions of human resources. Researching the key role of capabilities in explaining performance indicates that they are not on the wrong track. Careful selection is important for many reasons; one of them is that employees with the right skills and qualities not only make a greater contribution to the company; they also encourage greater productivity among their managers. Failure to recruit employees with appropriate competencies will result in business failure or will, at least, obstruct the development of the company. That other activities in the system of organisation and management depend on the competencies and qualities of the people who are hired to work in the organisation contributes to the importance of these activities in human resource management. Attracting and selecting the best candidates should, therefore, become a long-term strategy underpinning competitive advantage and organisational success.

## Overview of literature

The knowledge that people are an inexhaustible resource for development and the most flexible form of capital essentially determines the business logic and behaviour

of successful companies today, as well as their organisational and management structures and all their organisational processes. It is believed that organisations that strategically manage their human resources demonstrate an improved level of performance (Worland and Manning, 2005). The quality of human resources and the ingenious practices of human capital management are taking on a significant role in the achievement of competitive advantage in modern business, since human resources constitute the thinking and creative potential of the organisation. One study has shown that effective human resources policy – composed of selection tests, training, conditional pay systems, performance assessment, attitudinal research, employee participation and the exchange of information – leads to greater productivity and the financial success of the company, as well as to lower employee turnover (Huselid, 1995).

The relationship between human resource (HR) practices and organisational performance has been the subject of significant empirical examination (Arthur, 1994; Huselid, 1995; Huselid and Becker, 1996; Gerhart and Milkovich, 1990; Ichniowski, 1994; Koch and McGrath, 1996; Pfeffer, 1994; Terpstra and Rozell, 1993). These researchers have found evidence suggesting that HR practices have a direct and positive effect on firm performance, i.e. HR practices significantly affect organisational performance. Research into selection and individual performance is vast (Hunter and Hunter, 1984), but systematic efforts to examine the effect of employer selection decisions on organisational performance have remained very rare (Terpstra and Rozell, 1993). Schneider and Schmitt (1986) report that there has been a distinct lack of research into selection practices at organisational level and, in particular, on the relationship of such practices to performance. Still, there are some interesting findings about the effects of selection process on organisational performance (Khatri, 2000; Cappelli and Wilk, 2003; Chukwu and Igwe, 2012).

The importance of proper employee selection is undeniable. For example, employees who do not possess the appropriate skills to do the job, who are unpleasant to work with or who interfere with the work process will not be effective and the overall results will be lower (Dessler, 2009, p. 112). Furthermore, according to some estimates, 75% of employees have stolen at least once from their employer; 33-75% have been involved in theft, vandalism, unjustified absenteeism and the like; 25% have stated that they knew that their peers used drugs; and 7% have confirmed that they had been victims of physical threats from their colleagues (Bennet and Robinson, 2000, p. 349). Undesirable candidates should be removed from the process in good time. An efficient selection process is also important not only because the recruitment and hiring of candidates is an expensive process, but because of the legal consequences of irresponsible employment. Namely, courts will find employers liable if an employee who had previously been convicted of a criminal offence or had similar problems takes advantage of access to customers' homes or uses other opportunities for the commission of crimes. Also, it is important not to forget that, besides the hiring of bad applicants, improper selection sees the rejection of good ones.

Additionally, recent studies confirm that interviews, as the most popular and widely-used selection technique, have greater validity than was previously believed (Judge and Higgins, 2000, p. 392). Results show that interview validity depends on

the content of the interview and how the interview is conducted. Namely, it has been confirmed that, in terms of forecasting business performance, situational interviews have higher average validity than behavioural ones;<sup>1</sup> while structured interviews, regardless of their content, are more valid than unstructured ones when it comes to the prediction of business performance. They are more valid because they are more reliable – for example, the same interviewer conducts interviews consistently from candidate to candidate (Schmidt and Zimmerman, 2004). Regardless of their structure (concerning both structured and unstructured interviews), one-on-one interviews are usually more valid than panel interviews, when a greater number of interviewers evaluate candidates (Dixon *et al.* 2002). In short, structured, situational and individual (one-on-one) interviews are the most useful in predicting job performance (Dessler, 2009, p. 124).

## Methodology

In developing this article, we have used a number of scientific methods and research techniques which we have adapted to the subject and purpose of the research. These include analysis and classification, statistical methods, modelling, etc. while direct insight into the process of the functioning of particular elements in the management of human potential has been provided by the use of data collection techniques, i.e. models of scientific inquiry (interviews and surveys) as well as content analysis (collection and analysis of selected research).

Original empirical research was conducted among enterprises carrying on business in Bosnia and Herzegovina and lasted for a period of three and a half months. Initial data were collected from company information provided on the website of the Commercial Register of Republika Srpska, a project of the Chamber of Commerce and Industry of Republika Srpska.

After collating 250 correctly-completed questionnaires from companies of various sizes, business activities, industry sectors, forms of organisation and financial results, we processed the data using the Statistical Package for the Social Sciences (SPSS). In addition to descriptive statistics, we also conducted quantitative analysis of the data. T-tests for independent samples and correlation (Spearman and Pearson) tested the connections between the items. The t-tests examined the statistical significance of the differences in response from different companies; while the correlations tested connectivity in response to specific allegations. With both correlation coefficients (Pearson's  $r$  or Spearman's  $\rho$ ), we recorded the level of statistical significance ( $p$ ).

All studies have certain limitations and this one is no different. Some of the difficulties lay in defining a representative sample and in the impossibility of omitting non-competitive companies from the survey. Among other limitations, we would like

- 1 Questions in situational interviews check a candidate's ability to assess a situation and determine how s/he would behave in a given situation; while during behavioural interviews, respondents are asked to remember how they (previously) behaved in certain situations. For example, how did you/how would you react in a situation in which your subordinates are late for work.

to stress that it was possible to give socially-desirable answers to many questions, as well as to circle the ‘Does not want to answer/Don’t know’ option (particularly with regard to issues related to financial performance indicators). This, in turn, means that it is impossible to make comparisons between specific answers.

Notwithstanding all these limitations, however, it is important to note that, no matter how modest, this is the first empirical research into this issue and of this scope which has been conducted among enterprises from Bosnia and Herzegovina.

## Results of empirical research

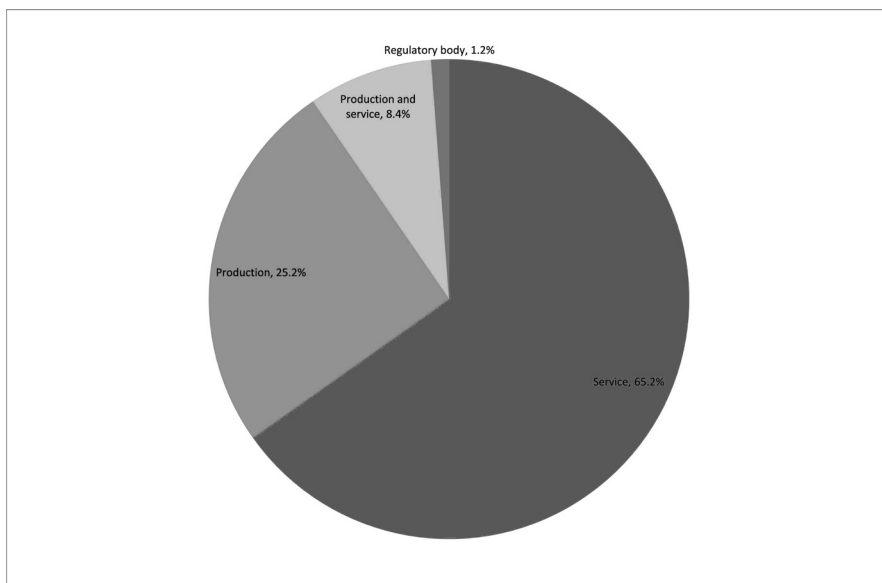
Based on the theoretical knowledge of the subject of research and the results of recent studies detailed above, we formulated the following two hypotheses:

*H1: Structured interviews in the selection process are positively associated with organisational performance*

*H2: A fair selection procedure is positively associated with organisational performance*

Out of the 250 respondents, our sample, in terms of employer size, is made up from 30.8% of micro-, 56.4% of small- and medium-sized; and 12.8% of large enterprises. According to business activity, our responses came from 63 manufacturing and 163 service companies; three regulatory bodies and 21 companies engaged both in production and the supply of services (see Figure 1). According to type of organisation, private companies have the largest representation (159 companies, or 63.6% of total study participants), followed by 44 public companies and 29 family businesses as well as a few non-governmental and international organisations and those with some other organisational form.

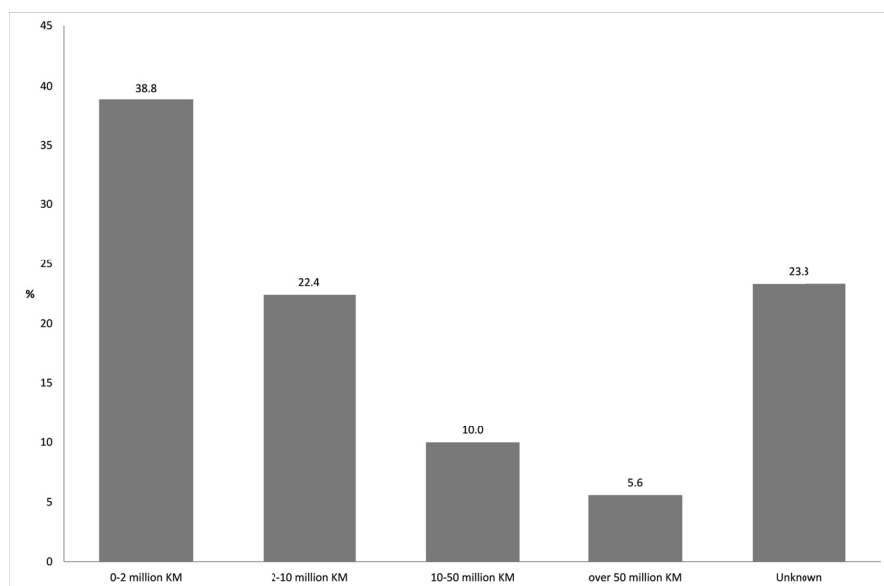
Figure 1 – Number of enterprises by business activity



By sector of activity, most of the surveyed companies are engaged in trade and catering (49), while 32 companies are from the banking, finance and insurance sector. We might also note, among others, the high level of representation of the following industries: information technology (26); food processing (25); the automotive industry (20); transportation and traffic (19); and timber industries and construction (14).

Regarding the financial situation of the organisations participating in the survey, most belong to the category which had annual turnover of up to two million Bosnian Marks (KM); at higher levels of turnover, the percentage of enterprises reduces sharply (see Figure 2).

Figure 2 – Annual turnover of surveyed companies



Source: Author's calculation

Profits being achieved during the previous three business years was reported by 54.8% of the companies surveyed; while sales growth over the same period was experienced by 56.6% of the participants in our study, of which the largest percentage (18.8%) saw growth on a scale of 5-9%.

Having analysed the collected data, it can be concluded that the first hypothesis (H1: structured interviews in the selection process are positively associated with organisational performance) can be rejected. Namely, that very question ('During the selection of candidates for the job, our organisation uses a structured interview, i.e. all candidates are asked the same set of questions prepared in advance') does not correlate with organisational performance, while all the others do and with statistically significant correlations (within the level of.01).<sup>2</sup> In other words, almost all the studied enterprises – in which, during the selection process, potential new candidates are given realistic job previews, including the negative aspects of the job; all applicants have equal employment opportunities and a fair selection procedure; and the assessment of the competencies of the candidates is conducted on the basis of pre-defined criteria, i.e. with respect to the desired standards and expected behaviours – make a profit and record sales growth, i.e. they achieve a higher level of overall financial performance (see further Tables 2a and 2b).

On the basis of this quantitative analysis, it is clear that a serious, systematic approach to the selection of the best job candidates inevitably increases the opportunity

2 i.e. at the 99% significance level.

to hire talent which will help the company generate more capital. Thus, our first hypothesis should have been:

*H1: A systematic approach to employee selection is positively related to organisational performance.*

**Tables 2a and 2b – Fair selection of candidates is associated with greater organisational performance (profit/sales growth)**

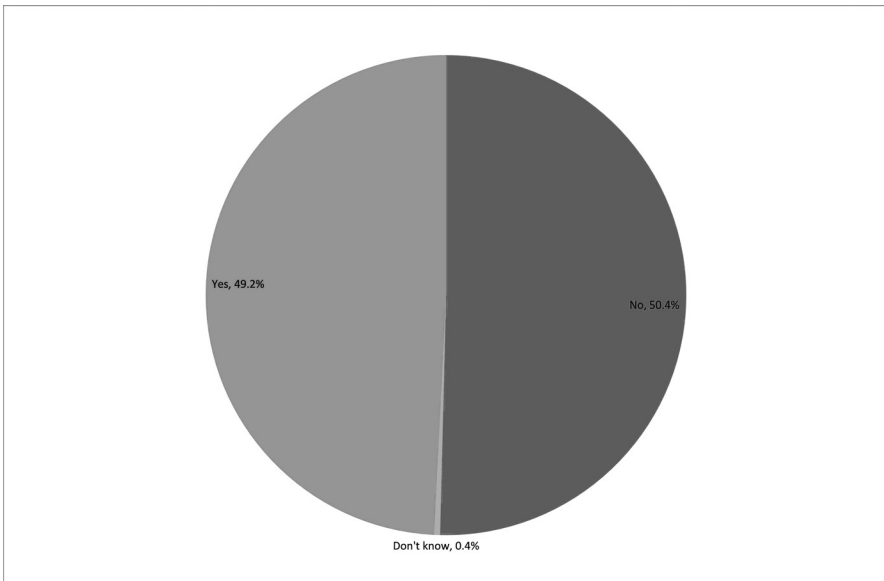
	t	df	sig. (2-tailed)	Mean difference	Std. Error
Structured interview	1.191	66.740	.238	.23382	.19626
Realistic job previews	-3.689	165	.000	-.69927	.18957
Fair selection process	-2.476	165	.014	-.55231	.22309
Competency assessment	-4.079	165	.000	-.78151	.19157

	t	df	sig. (2-tailed)	Mean difference	Std. Error
Structured interview	-1.595	174	.112	-.38651	.24226
Realistic job previews	-2.834	43.214	.007	-.67540	.23833
Fair selection process	-2.783	174	.006	-.55079	.19788
Competency assessment	-3.975	41.523	.000	-.92619	.23302

Source: Author's calculation

No matter how substantial it seems at first glance, the selection process is often, in actual fact, not conducted in enterprises from Bosnia and Herzegovina in line with the highest standards of contemporary global human resource management practice. The following question exposes the real situation taking place in local businesses: when asked whether the organisation employs people just because someone ‘intervenes’, almost one-half of respondents (49.2%) admit the devastating truth (see Figure 3).

Figure 3 – Corruption in the selection process



Our quantitative analysis examines whether such practices affect organisational performance. Table 3 shows us that there is a statistically significant difference between responses to the question on corruption in the selection process in relation to the question on sales growth ( $t = -2.312$ ,  $p < .05$ ),<sup>3</sup> but not to the question on profit margin. This implies that average annual sales growth depends on the way the organisation employs its workers.

More specifically, organisations that answered ‘no’ (i.e. that the selection process was not subject to interventions in the selection of employees) have higher average sales growth ( $M = 6.45$ ), in contrast to organisations that gave a positive answer ( $M = 5.4$ ). However, the presence of corruption in the employee selection process does not affect the average profit margin of the company. Therefore, the correlation between sales growth and profit margin needs further explanation. Still, our second hypothesis (H2: A fair selection procedure is positively associated with organisational performance) cannot be rejected since it is partially confirmed.

3 i.e. at the 95% level of significance.

**Table 3 – Correlation between corruption in employee selection and profit margin/annual sales growth**

	t	df	Sig.	AS Difference
Profit margin	-.614	248	.540	-.27457
Sales growth	-2.312	242.035	.022	-1.05044

Source: Author's calculation

Furthermore, in examining the difference between the group of managers who responded 'yes' and those who gave a negative response to the question related to the existence of corruption in selection, compared to the question on the critical factors of HR management, we can see that there is a significant difference as regards the inadequacies of the education system – the mean response is higher in companies prone to corruption when employing people.

**Table 4 – Correlation between corruption in employee selection and critical factors of HRM**

T-test: examination of the difference between companies with and without interventions during employee selection in relation to critical factors of HRM	t	df	sig.	Mean difference	Std. Error
Lack of resources	-1.021	248	.308	-.06466	.06332
Inadequate education system	3.489	248	.001	.21631	.06200
Corruption in the selection process	-1.669	244.699	.096	-.09814	.05880
Weak role of trade unions	-1.820	209.500	.070	-.05819	.03197
Low level of consciousness (the role of employees and importance of HRM)	1.629	247.332	.104	.10249	.06290
Lack of HRM professionals	1.267	247.362	.206	.07131	.05626
Other	.671	248	.503	.01498	.02233

Source: Author's calculation

## Discussion

Many authors emphasise that the main goal of the selection process is to predict future behaviours and job performance. Any assessment of candidates contains many elements of subjectivity, so it is difficult to determine the most qualified candidates for the job and, therefore, there is a tendency to select those who prove to be the best at interview, the most common method of selection.

The success of the interview depends on the interviewer's skills and his or her ability not to fall into the trap of making common mistakes during the process. These

mostly occur from the illusion of simplicity – that is, because everyone thinks anyone can conduct a job interview. The most common mistakes of interviewers are making rash and quick judgments or assessments based on prejudices and stereotypes; not being aware of the ‘halo effect’ (first impressions); not knowing the responsibilities of the job; sympathy with candidates they find are similar to themselves; contrast effects, caused by the order candidates enter the room; the impact of non-verbal communication or the physical appearance of a candidate; being under pressure to hire certain workers; etc. Mistakes also occur as a result of where the interview has an unclear purpose and where there is a lack of distinction between personal assessment and the candidate’s actual level of competency; this often arises from inadequate preparation and an insufficient number of interviewers as a means of reducing the subjective assessment of the candidates.

Consequently, defining the performance standards expected should be the first step towards accurate assessment. This means that it is necessary to pre-define important selection criteria, i.e. the desired or expected standards of behaviour; while it is also advisable to prepare ‘model’ or desirable answers instead of using candidates’ own comments as a source of ‘ideal’ responses and then comparing and seeking out the ‘best’ ones.

Furthermore, it is important to mention that none of the methods of selection – for example, the interview itself – should be used in isolation, since the chosen instruments are not infallible indicators of future performance.

These could be some of the reasons why, according to our research, structured interviews in the selection process are not positively correlated with organisational performance. Another explanation may be the lack of HRM departments/managers and human resources professionals in this region.

During the interview, candidates should have the opportunity to ask questions, so the company should provide realistic job previews and an idea of the working conditions, including the negative aspects. It is particularly important that potential applicants are provided with an objective picture of the organisation in order to avoid possible disappointments and a high level of turnover in the first period of a new job leading, of course, to additional costs, lost time and unnecessary efforts.

Not only do the processes of recruitment and selection have a significant impact on the image of the organisation in the labour market and in public, but – as we have seen – it is confirmed that companies from Bosnia and Herzegovina that provide realistic job previews during such activities achieve higher levels of productivity (which, of course, could also be a the result of other activities of the organisation).

Furthermore, the criteria for selection are the certain standards that a job candidate should fulfil, identified by careful job analysis. Defining the expected level of success, therefore, is the first step toward accurate assessment. We have seen that organisations with such practices have better overall performance. Therefore, it is necessary not only to pre-define criteria as regards desired standards or expected behaviours but also to differentiate between candidates’ own competencies (their personal characteristics and the combination of knowledge, abilities, skills, attitudes and values that each one holds and applies in different situations) and the competencies which are relevant to the job at hand. This will help organisations hire the right peo-

ple but it will also increase their chances of achieving growth in their sales and profits.

Moreover, we must not forget to protect the organisation from unfounded complaints of discrimination, conduct a fair selection procedure and give all candidates equal employment opportunities. If candidates – who are also (potential) customers or clients – experience unfair treatment, the organisation may lose them forever as consumers and partners, and especially as future employees.<sup>4</sup> Consequently, it is important to act justly and make a good impression on those interested individuals who do not meet the job requirements of a particular vacancy (it is well-known that, in times of crisis and high unemployment rates, people apply for any open position regardless of the announced criteria).

In this regard, it is important to remind that job advertisements themselves unambiguously reveal the attitude of management toward employees. If discrimination occurs in job advertisements, i.e. in the recruitment process, we can expect discrimination in the selection process as well and, later on also, in labour relations. In other words, it is hard to believe that such an organisation does not already discriminate among its employees, as well as among its customers. Therefore, it is not surprising to find a job advert – from the ‘Urban’ shop in Banja Luka – requiring an administrative worker to be under the age of 35.<sup>5</sup> Thus, it is possible that among our respondents were a large number of companies and managers who may not discriminate in the selection process itself since they have already ‘set’ the requirements to suit a certain group of candidates.

Of course, we must not forget that many ‘unfair’ procedures of recruitment and selection are just a cover for dissatisfied, so-called eternal job applicants who blame society and the system for all their personal failures. In any case, we should always bear in mind that a fair selection process and the provision of equal employment opportunities do have a positive effect on the financial reports of local enterprises.

In today’s economy, competition in the labour market is becoming so intense and merciless that has been termed the ‘third world war’ (Poljić, 2009, p. 23; Sajfert, 2006, p. 23). At the same time, in an extremely poor society such as ours, problems related to a lack of professionals have come more strongly to the fore and we are witnessing that, in Bosnia and Herzegovina, you can often obtain a job through political commitment, nepotism and bribery. In fact, when it comes to corruption in the selection process, it is clear that local companies are working against their own interests. The results reveal that employers are not aware of the significance of choosing the right candidate for the job, so their approach toward selection is extremely shallow. It also seems that they do not find ‘intervention’ and apparent subjectivity in the selection of job candidates either as bad practice or as a form of corruption. By easily

- 4 ‘When you reject someone, remember: first, how such an experience can affect the rejected person; second, that the rejected person can be a customer; and third, that you may later want to recruit that person.’ Torrington, Hall and Taylor (2008) *Human Resource Management* Harlow, Essex: Pearson/Prentice Hall, p. 170.
- 5 Spektar (2014) Agencija Spektar <http://www.agencijaspektar.com/index.php?novost=5221&zik> (last accessed 26 June 2014).

admitting such hiring practices, they have demonstrated their ignorance of the consequences that such an approach may have for their business. They take for granted their assessment of ‘recommended’ candidates and they are easily susceptible to the influences of family, friends and (political) party colleagues.

Unfortunately, it seems that it will take some time before our employers realise how much it costs them in practice to hire incompetent employees, regardless of the results of our research showing that organisations that are not subject to such interventions in the process actually achieve higher annual sales growth.

Furthermore, it is interesting to note that companies using an unfair selection process complain more – as expected – about the inadequate education of employees. It is easier to blame others (in this case, the education system) than to take responsibility or admit weaknesses in being subject to various influences. This also confirms that the fair and objective hiring of new employees can reduce the problem of employing inadequate staff which, among other things, is one of the key tasks of HRM. Additionally, it indicates the importance of setting up HRM departments in local enterprises but also in implementing the practices and policies that will ensure a quality procedure for employee selection in the best interests both of the individual and the organisation.

The main objective of companies in a competitive business environment becomes, as regards their human resources policies, the reduction of risk in recruitment and selection processes at all levels of the hierarchy. However, selection processes should follow recruitment and receive basic inputs from human resources planning, job analysis and performance assessment. Moreover, selection does not put an end to the hiring process: it is actually the basis for the induction, orientation and socialisation of newly-recruited employees and their subsequent education, training and development (Stone and Meltz, 1988, p. 210). In other words, if it is not synchronised with other HR activities, its effects are limited.

## Conclusion

This research study has proved a correlation between employee selection and organisational performance. Almost all the enterprises we examined in which there is a decent recruitment and selection process in place make a profit and record sales growth, i.e. achieve better overall financial performance. In addition, we have found that organisations that are not subject to ‘interventions’ during the selection process achieve higher annual sales growth.

Thus, we can summarise that decisions on selection should be preceded by a series of stages and activities and that successful selection guarantees greater organisational productivity. However, the use of a structured interview process does not correlate with organisational performance; on the other hand, all the other issues related to a fair selection process do record statistically significant correlations. Therefore, we can conclude that, given that selection helps with the achievement of strategic organisational objectives, a sophisticated selection process cannot be reduced to only one of its instruments, i.e. the interview. Furthermore, the choice of selection method is not as relevant to overall performance as the avoidance of the impacts of others in taking the final hiring decision.

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