



GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

A CRITICAL REVIEW OF STRATEGIC HUMAN RESOURCE MANAGEMENT AND ORGANIZATIONAL PERFORMANCE

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ABSTRACT

The objective of this paper is to discuss the significant relationship between High Performance Working System (HPWS) as the main component of Strategic Human Resource Management (SHRM) and organizational performance as basis in determining sustainable competitive advantage. Moreover, it also examines the connectivity between HR strategy and business strategy. Findings affirmed the relationship between SHRM-HPWS and organizational performance both financial and non-financial (employee outcome) based on the examination of literatures as evidenced. HR strategy is also connected to business strategy as it contributes to the keeping of quality customer satisfaction, superior quality performing and loving employee, and maintaining the dedication and commitment of the employees to the organization for successful and sustainable competitive advantage. Thus, it enhances employee development, motivation and commitment to stay longer in the company. To conclude, organizational performance can be achieved through different sources to sustain competitive advantage. The conceptual framework also reflects how the analysis comes into conclusion.

Keywords: SHRM, HPWS, HR Strategy, Business Strategy, Organizational Performance, Competitive Advantage

1. INTRODUCTION

Businesses nowadays have become dynamic in a changing business environment. The once used to be conventional system of doing business slowly weakens with the advent of new and modern ways of operation with the growing demand of strategic human resource management (SHRM). According to Denton (2006), human resources are considered the most valued assets to the organization where people or employees operate in an integrated system. With the implementation of strong SHRM through the high-performance work systems (HPWS), organizations will likely improve their performance leading to organizational success (Boselie et al, 2005). Moreover, the study of Pfeffer (1998) has concluded the evidence on the utilization of HPWS to achieve sustainable competitive advantage. This is possible with the company's acquisition of highly skilled and capable workforce that, competitors cannot imitate and most especially when properly motivated, it enable these employees to perform beyond expectations. Also, encouraging employees to participate in the decision making and providing them with quality trainings and sharing information that further enhanced their abilities, capabilities and decision making skills. Lots of researchers have established a concrete bases in linking SHRM



practices to organizational performance and is also believed to be main driver for sustainable competitive advantage (Delery & Shaw, 2001; Ulrich, 1997). Similarly, Armstrong (2009) stressed that modern organizations implement the SHRM to address the increasing concern of the changing demand of human resources that has something to do with the changes and pressures in both internal and external environment forces.

In view of these realities, this paper's objective is to discuss the significant relationship between the HPWS as the main component of SHRM and organizational performance as the basis of determining sustainable competitive advantage. Also, it examines the connectivity of HR strategy and business strategy. In orderly manner, firstly, the discussion starts with defining Human Resource Strategy and its relation to business strategy, and then defines the HPWS and its seven dimensions as well as evaluating the fundamental theories underlying the concept of SHRM.

2. HR STRATEGY AND BUSINESS STRATEGY

Schneider (1994) defined HR strategy as the means to achieve the organization's goals and objectives by maximizing the use of human resources. It also addresses the common question, where the company is right now and which direction the company should go. In relation to human resource management, he exclaimed that attaining an effective HRM can be done by promoting employee motivation and commitment and development which in turn creates a positive relationship between HR strategy and the firm's strategy. Guest, et al. (2003) however; define business strategy as the long-term business planning that considers the people working in the organization performing the basic management functions such as planning, organization, controlling, etc. HR strategy is instrumental in meeting the sustainable competitive advantage by organizations as well as the realization of the organization's goals and objectives. Its role extends to combining tactics, programs and purposes to meet the overall company's performance and the main duties of companies. Furthermore, the focal point of HR strategy is defined with the employees having superior qualities, unique competencies and capabilities to match the customers' requirements of customer satisfaction. A good HR strategy is characterized by the demonstration of high performance and loving employees, dedicated and committed employees to sustain competitive advantage. It also focuses on the selection of the right people in the job thus, possessing qualities such as unique abilities and competencies as well as loyalty and commitment to the organization.

3. HIGH PERFORMANCE WORKING SYSTEM

High performance working system refers to the HR practices that takes into major consideration the greater involvement and responsibility of employees designed to achieve employee effectiveness (Patterson et. al., 2004). It coincides with Boxall and Purcell (2003) statements by considering people as the lifeblood of human resource management and source of competitive advantage. Several studies exclaimed that, there is positive significant relationship between SHRM-HPWS and organizational performance (Arthur, 1994; Huselid, 1995; Huselid and Becker, 1996; Pfeffer, 1998; Guest et al, 2003). Employees who are highly committed, empowered with HRM empowering programs also contributes to organizational performance with implemented HR practices. Wood and Wall (2002) as an example, HPWS established the areas of HPWS to include recruiting, selecting, developing, motivating, and retaining employees. In addition, sustaining competitive advantage allows the sets of interrelated HR practices to develop the skills of the employees, employee commitment and productivity or the employability of the HPWS (Datta et. al., 2005). Although there are varied definitions and approaches to HPWS, various authors have agreed a common denominator to identify the components of HPWS that includes: rigorous recruitment and selection procedures, incentive compensation systems, training and development activities, employee participation, flexible work arrangements and job security (Arthur, 1994; Huselid, 1995; MacDuffie, 2005; Pfeffer, 1998).

4. ORGANIZATIONAL PERFORMANCE

There are different ways to measure the organizational performance. For instance, performance can be measured through financial measures such as sales and profitability. On the other hand, it can also be measured according to employee satisfaction and productivity as well as other non-financial measures such as increased market share, company image and best quality products. However; the study of Wan-Jing & Tung (2005) suggest that performance is better measured with financial consideration like sales and profitability which is also the main argument of this paper. The study established a relationship between SHRM and financial performance upon investigating the different literatures presented. Furthermore, a study has confirmed the positive impact between SHRM-HPWS to organizational performance with business strategy in terms of profitability and sales growth (Delery and Reeves, 2000). Similar studies also justifies the positive correlation between SHRM practices and revenues in the banking industry. But this is not the always scenario when referring to the study of Wright and Williams arguing that, it is not the HPWS practices that contributes



to the sustainable competitive advantage but the human resources. Further statement concluded that, SHRM-HPWS directly relates to company's financial performance preferably in the sales, profitability and cost savings.

Meeting the objective of excellent organizational performance is the driving force for organizations to uplift the company reputation. The HRM major objective in fact, is to improve the company's performance through assessing the employee's efficiency and effectiveness at work. Commitment and dedication by the people working in the organization will aid the organization in achieving the organization goals and objectives that shape the business success. According to Burke (2005), organizational performance is largely determined by human resource given their ability to communicate, motivation and leadership in considering the workforce's welfare and valuing them as important assets and an instrument towards company improvement and performance (Dressler, 2005).

5. SHRM-HPWS AND ORGANIZATIONAL PERFORMANCE

There are two approaches that describe the concept of human resources: the generalist and distinctive approach. Fisher, et. al. (2006) defined the generalist approach as those people who are working for the organization while the distinctive approach posits that, people or the human resources have taken into consideration the following: experience, knowledge, judgment, risk taking propensity, and wisdom of individuals associated with a firm (Barney, 2001). In other words, the mixed application of knowledge, education, training, skills and the expertise of the company workers as equivalent definition of human resources explain the distinctive approach (Dessler, 2005). While several studies suggest the relationship between SHRM-HPWS and organizational performance, a prevailing findings mostly relates the relationship to organizational financial performance thereby affirming the findings of Burke (2005) that, acquiring skilled and flexible workforce will increase revenues and reduced costs at the same time. Evidence from the study of Cooke et al (2005) revealed that, HPWS practices applied to many firms were found to have positive relationship with the organization's financial performance. Further, SHRM-HPWS enabled the organization to come up with strategic decisions that supports the promotion of long-term profitability to companies, employee security as well as enabling a workforce that possess skills, commitment, and motivation to achieve competitive advantage. Also, its impact produce positive influence on firm's performance as a result of constructive cohesion by employee work synergies that enable the company to address environmental factors that prevents the company to move on (Marchington, 2008). For instance, higher performance is experienced by companies that employ strategically modern HRM practices while low performance firms found to employ the conventional methods. Thus, SHRM ensures competitive advantage in many aspects as it results to increased economic value and shareholder's value, customer value added or increased market share, and even increased employee commitment as well as improved skills, knowledge and talents. Hence, this study introduces HRM practices following the seven dimensions in introduced by Jeffrey Pfeffer in his book entitled "The Human Equation" that includes: (1) Employment security. (2) Selective hiring of new personnel. (3) Self-managed teams and decentralization of decision making as the basic principles of organizational design. (4) Comparatively high compensation contingent on organizational performance. (5) Extensive training. (6) Reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels. (7) Extensive sharing of financial and performance information throughout the organization.

Furthermore, brief definition for each of these dimensions can be stated. Selective hiring of new employees is the selective hiring emphasizes the capability of the employees for the position matching between the qualification and the work environment. It also assumes that selecting qualified personnel increased productivity thereby contributes to sales growth and profitability. Extensive training however defined as trainings that develop the employee's problem-solving skills and it also allows employees increase competencies to better perform their tasks efficiently and effectively (Colligan & Cohen, 2003). Teams and Decentralization claims that cohesion and teamwork of employees in work groups enable them to perform better in complying with the safety rules which means that more cohesion warrants familiarity with the assigned task. Information Sharing assumes that sharing of information by managers to employees will result into employee's trust to the management and sharing the same information across organizational levels enhanced comfortable environment between employees and managers which can be done through open-ended discussions. Incentives on Performance suggest that employees are valued when they are rewarded or well-paid in their effort to improve organizational performance. They exclaimed that employees performs better and well-motivated when they are well rewarded and are receiving bigger pays. Job security on the other hand would mean the insurability that the employee works continuously in the company or gainfully employed for longer period as evidenced by the terms of contract, collective bargaining agreements and supported by labor laws and legislation as well as economic stability of the company.

Likewise, Patterson et. al. (2004) conducted a study considering the small-medium sized factories to find out the extent of effectiveness of HR to organization's performance and found out that there is strong relationship between HR practices to changes in productivity and profitability. Hence, SHRM has become the organization's strategic assets especially on how they are managed to



sustain competitive advantage. Therefore, finding for different strategies towards the development of organizational competitiveness and the significant contribution of human resources and management as well it promoting organizational effectiveness is also the focus in this paper.

Investment on human resources is the main purpose for achieving competitive advantage which further means that, it is the kind of employee working in the company who are known to be assets that influence organizational performance there add value, uniqueness, cannot be imitated while meeting the conditions set by strategic human resource practices (Huselid, 2005). This is to emphasize that SHRM and the quality of employees should work together to improve over-all performance. Also, Batt (2002) illustrated the three areas of HRM systems that enhance the hiring and developing human capital that involves first, recruitment of people who possess required skills and training provisions; work design that promotes progressive learning through collaboration with fellow workers and lastly, performance-based incentives.

In a diagram, the relationship between HR Strategy, HPWS with the seven dimensions and SHRM can be summarized in figure 1.

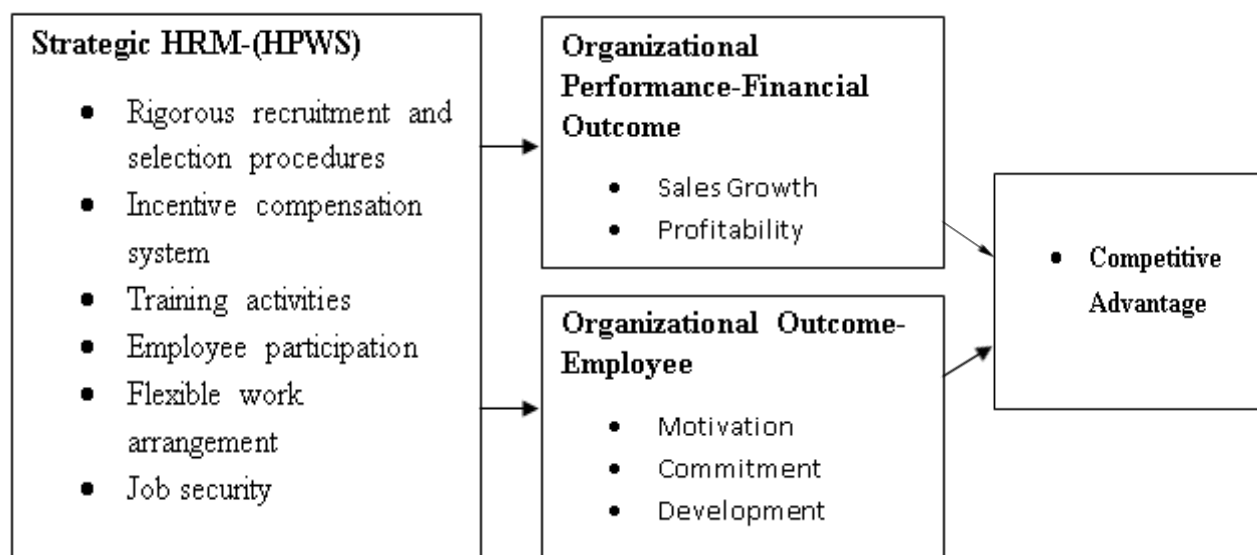


Fig 1: Conceptual Framework

6. RELATIONSHIP BETWEEN SHRM-HPWS (SEVEN DIMENSIONS) AND ORGANIZATIONAL PERFORMANCE

Selecting the right person based on qualification needed for the job such as superior skills, knowledge and attitudes results to direct impact or contribution to organizational financial performance such as profitability and growth. The study supported this argument stating that hiring the most qualified employee reduced the company costs by minimum trainings required and more productivity expected (Grant, 2008). However, Huselid (2005) claimed that the more trainings conducted for the employees would tend to improve develop individual's skills that lead to productivity, reduced turn-over caused by dissatisfaction. Also, it save cost from selecting and hiring applicants outside the company since internal employees have opportunity to develop themselves which therefore reduces risk, improve employee performance, greater commitment and loyalty. According to Flamholtz and Randle (2000) self-managed teams have shown positive impact and company's growth in two different ways: the growth stage in the business cycle that allows not only managers but also middle managers to make decisions in a decentralized environment where they gain authority and teams can be created as the company continues to expand and the increasing number of employees to manage more operational activities and customers as well. While Collins and Clark (2003) suggests that employees perform better when they are aware how they perform through performance-based compensation where rewards are given to those possess superior performance as it has also positive impact



on employee performance. It is validated in the study that there is direct correlation between performance-related pay and the firm's performance.

Moreover, determining the relationship of information sharing to financial performance, information sharing has proven in the study that it promotes transparent organizational performance, reduces turn-over, good relationship with the employees. This in turn, increases profitability as productivity increase (Schroeder, 2003). Also, in a decentralized working environment, managers and employees manage to work in teams to achieve teamwork, and managers make decisions with the joint efforts with middle managers and employees to meet the strategic objectives of the organization which therefore increased sales growth and profitability of the company.

7. CONCLUSION

In summary, strategic human resource management has been proven in this paper the relationship of it to organizational performance whether financially or employees performance which in turn encourage productivity. HR Strategy also contributes to the development of business strategy and has become vital in meeting and keeping quality customer satisfaction, superior quality performing and loving employee, and maintaining the dedication and commitment of the employees to the organization for successful and sustainable competitive advantage. Thus, it enhances employee development, motivation and commitment to stay longer in the company. In the area of HPWS, the seven dimensions by Pfeffer created a significant relationship to organizational performance as supported by relevant literatures and researches. The two approaches on the other hand namely the general theory and distinctive theory where this paper generally based its arguments.

To conclude, organizational performance can be achieved through different sources to sustain competitive advantage. However, in this study more arguments that supports SHRM directly connects the seven dimensions as well as HR strategy that promotes financial performance like sales growth and profits and employee productivity as outcomes. The diagram also reflects how the analysis comes into conclusion. Although more studies establish the link between HRM and firm's performance.

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