A Review On The Linkage Between Strategic Human Resource Management And Organizational Performance

Osman Rahmeta (PhD scholar), College of Business and Economics, Department of Management, Jimma University
Shimels Zewdie (PhD), Associate professor, College of Business and Economics, Jimma University

Abstract
This paper is a review of prior researches specific to the impact of Strategic human resource management on organizational performance. The major sub-topics covered in the review of the relevant literature include, the relationship between the strategic human resource management perspectives (Resource based view, Investment, fit, and economic perspectives), SHRM activities (HR practices, policies and systems), HR assets (Human capital and social capital) and organizational performance; and the review on the topic SHRM measurement. We conclude our review with major points of our observation. Finally, we indicate area of attention that has to be examined in future research on the link between SHRM and organizational performance.

Introduction
This work is a narrative review of previous research works by different researchers on the impact of strategic human resource management (SHRM) on organizational performance. Accordingly, this review work assessed the various prior researches and presents a better understanding of the effects of strategic human resource management on organizational performance. We believe this review improves understanding of the relationship between strategic HRM and organizational performance, as it adds to the knowledge of the impacts of SHRM activities and perspectives on organizational performance.

The research issue/problem is that, HRM practices can positively affect firm performance, however, the specific mechanisms by which SHRM influence firm performance are not clear. Therefore, the understanding on how the existing studies so far concluded the mechanism by which SHRM impact organizational performance needed to be discussed and summarized.

Based on the problem above, we present the research questions as; 1. Did the prior studies identify the mechanisms by which SHRM have effects on organizational performance? 2. Did the prior studies develop and employ a comprehensive tool to assess the impact of SHRM on performance?

Strategic Human Resource Management (Shrm) And Performance A Detail Review

Strategic Human Resource Management (SHRM) and performance
Luftim, (2014), stated that, human resources are regarded as one of the most important sources of today’s firms and Human resources management is more important than other competitive sources because, these people use other assets in organization, create competitiveness and realize objectives. (Wright and McMahan, 1992; Noe et al. 2007), defined SHRM as ‘the pattern of planned human resource deployment and activities intended to enable the firm to achieve its goals. SHRM covers the overall HR strategies adopted by business units and companies and tries to measure their impacts on performance (Boxall, Purcell, and Wright (2007).

Organizational Performance Management
Campbell (1999), defined performance as behavior or action relevant to the attainment of an organization’s goals that can be scaled, that is, measured. Organizational performance is a sum of the economic results of activities that an organization undertakes (Locke and Latham, 2002). Business performance indicates the actual output or results measured against the intended outputs with organizations seeking performance that advances sustainable competitive advantage (Porter, 2008). Steven et.al, (2015), noted that organizational performance should be related to factors such as profitability, improved service delivery, customer satisfaction, market share growth, and improved productivity and sales.

Performance management is a systematic process for improving organizational performance by developing the performance of individuals and teams and a means of getting better results from the organization’s teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements (Armstrong, 2006). Performance management is a planned process in which key elements are different measurement, feedback, positive
reinforcement and ongoing dialogue between managers and employees (Luftim, 2014).

**SHRM and Performance in General**

Rodwell and Teo (2008), found a positive and significant relationship between SHRM and organizational performance for both for-profit and nonprofit firms. Brewster et al., (2000), noted that one of the benefits of strategic human resource management to the organization is contributing to the goal accomplishment and the survival of the company. Evans and Davis (2006), identified four strategic outcomes of SHRM. These are; (1) equity and human relations, (2) competitive performance, (3) innovation and flexibility, and (4) inter-unit integration. Equity and human relations represents an internal focus, competitive performance represents an external focus, innovation and flexibility represents the organization’s environment boundary focus, and the inter-unit integration represents corporate focus. These findings implies that, employing SHRM enables organizations to have flexible HR system, like equity, promotes collaboration among work units, and motivates employees to innovate products or services, that enables to achieve increased competitive performance and continue being competent in the market.

**SHRM Perspectives and Organizational Performance**

**The Resource-based perspective and performance**

According to the resource-based view, organizations can attain competitive advantage with the help of value created by them which is exceptional and perfectly inimitable (Baker, 1999). Resources like economies of scale, technology, natural resources etc. are often considered vital towards achieving competitive advantage but resource based view states that these can be easily imitated, whereas, human resource practices may prove to be a major cause of sustainable competitive advantage (Lado & Wilson, 1994). The resource-based view proposes that organizations obtain a competitive advantage from resources that are rare, valuable, inimitable, and non substitutable (Barney, 1991; Mahoney & Pandian, 1992). Barney and Wright (1998), using the key components of the resource-based view (value, rareness, inimitability, non-substitutability, and organization), stated that, the HR function can create value by either decreasing costs or increasing revenues and with the right organizational systems to get the most from its employees, the combination of factors can lead to competitive advantage. This implies, being supported with unique human resource practices and right organizational system, employees with unique, inimitable, none substitutable skill, and knowledge are capable of adding value that can lead to higher organizational performance.

**Economic Perspective and performance**

Similar to the resource based view above, this perspective view human resources as a unique and distinguishable source of competitive advantage. Wright and Mcmahan (1992) argued that human resources can be a source of sustained competitive advantage when four basic requirements are met; human resources must add value to the firm’s production processes, skills sought by the firm must be rare, human capital must not be easily imitable, and human resources must not be subject to replacement by technological advances or other substitutes. From this finding we can summarize our understanding as, human resources can contribute to organizational performance when they possess unique, inimitable, and none substitutable skill and knowledge so that they are capable to sustainably perform at required level and contribute to the overall performance of the organization.

**The Investment perspective and performance**

According to Employees are human assets, they increase in value to organization when appropriate investments are made and become valuable source of sustainable competitive advantage as they are assets, unique combination of human resource capabilities, cannot be duplicated (Agarwala, 2006). Hatch and Dyer, (2004), found that investments in human capital had a significant impact on learning and firm performance, that three factors (human capital selection, development through training, and deployment) significantly improved learning by doing, which in turn improved performance. Investment perspective is especially significant because of the emergence of the knowledge economy, which needs highly skilled knowledge workers (Ployhart & Moliterno, 2011). Human skills and knowledge are crucial to everything that is produced, including goods and services (Agrwala, 2006). This can be summarized as, in order to remain competitive, an organization needs employees who have knowledge, skill and abilities and this is only possible through investment in its human resources so that they gain the required skills and knowledge and be able to be productive and contribute to the organizational performance.

**The Fit Perspective and performance**

Baird and Meshoulam (1988), argued that HR practices should be integrated with the strategic planning process of the organization; and their primary proposition was that HR is a critical success variable that must be integrated into all phases of organizational planning, so that an organization’s performance can be enhanced. When interpreted, it means, integration/fit between human resource management practices and overall strategic plan of the organization is highly crucial to realize superior performance.
The HR activities highlight the HR programmes, policies, and practices as the means through which the people of the organization can be deployed to gain competitive advantage, (Wright and McMahon, 1964). Here, by HR activities we mean, HR policies, practices and systems, and our review is on these HR activities.

Human resource practices and performance
An important role of strategic human resource management is about focusing the management in employees as a tool to gain competitive advantage, thus, successful human resource policies and practices can increase performance in various areas such as productivity, quality and financial performance (Luftim, 2014)). According to Noe et al. (2007), SHRM refers to HRM practices and policies that influence behaviors, attitudes and performance of employees. They are focused on several important practices such as; human resource planning, recruitment, selection, training and development, compensation, performance management and employee relations, which, in turn, can positively impact organizational performance. Overall organizational strategy affects HR practices, HR practices have a direct effect on organizational performance, and business strategy moderates the relationship between HR practices and organizational performance (Khatri, 2000). Strategically aligned HRM practices contribute to the creation of human capital and social capital, both of which are necessary to achieve and sustain superior performance (Paul, and Glenn, 2012; Mansoor and Mushtaq, 2012). The above findings imply that, SHRM is based on business strategy, i.e. HR practices are employed to execute organizational strategy, and purposefully aligned HR practices contribute to realize building workforce with required knowledge, skill and abilities (human capital) and work team network (social capital) which in turn help to achieve organizational performance. Hence, the alignment between organizational strategy and human resource practices do influence organizational performance positively.

Arthur (1994), found that commitment HR systems in contrast to control systems, resulted in higher productivity, lower scrap rates, and reduced turnover. This implies, organizations which apply commitment HR system are capable of achieving motivating employees; reduce turnover, realized efficiency and finally higher productivity.

HR bundles and Performance
MacDuffie (1995), defined HR bundles as interrelated and internally consistent HR practices and he found support for the effect of HR bundles on plant productivity and quality and noted that, bundles or configurations of HR practices may be more important than single activities. The strategic perspective on HRM research emphasizes bundles of HR practices, often referred to as high performance work systems (HPWS), high-involvement work systems, and high-commitment work systems, positively related with organizational outcomes (Wright & McMahan, 1992). Mansoor and Mushtaq, (2012), stated that impact on performance will be far greater when HR practices are used in conjunction with each other instead of employing these in isolation. Shih, Evans and Davis, (2006), found that, financial performance is positively affected by HPWSs through administrative efficiency and that, sustainable performance is positively affected by HPWSs through the flexibility that arises from the coordination and exploitation of knowledge resources. Huselid (1995), found that HPWSs reduce turnover and increase productivity, thus having a positive effect on corporate financial performance. Here, the findings of the studies emphasize the importance of HR bundles that, applying the interrelated HR practices in conjunction consistently will have more positive effect on organizations performance, than when the HR practices used separately. Also, the findings of Shih, Evans and Davis, above clearly indicate that HPWSs contribute to financial performance through the administrative efficiency and organizational performance is achieved through flexibly coordinating and using knowledge of employees. Huselid’s finding also clarified that HPWSs increase productivity through reducing employees’ turnover.

Human Assets and organizational performance
Under this section, we review the linkage between human capital and social capital and organizational performance.

Human capital and performance
Human capital is generally defined as the knowledge, skills, and abilities (KSAs) individually and collectively contained in the firm's human resources (Becker, et.al 2001; Swiercz, 2002). According to (Becker, 1964; Lepak & Snell, 1999; Ployhart & Moliterno, 2011), human capital is a central driver of organizational performance when the return on investment in human capital exceeds labor costs. Carmeli and Schaubroeck (2005), found that having higher levels of human capital was strongly associated with performance only when top managers perceived that these resources provided distinctive value in terms of being highly valuable, inimitable, rare, and non substitutable, thereby reinforcing links with the resource-based view of the firm. Employees with high levels of human capital are better able to learn at work, more capable of meeting job demands, receiving positive performance appraisals, obtaining promotions, and participating in decision making (Batt & Colvin, 2011; Shaw et al., 2009; Ployhart & Moliterno, 2011). The accumulated specific human capital may in turn reduce the likelihood employees leave, because the specific human capital that is unique and valuable for
their current organization may not provide value to other organizations (Barney, 1991; Lepak & Snell, 1999).

According to human capital theory and the resource-based view, human capital is the primary determinant of productivity (Dess & Shaw, 2001) and can be a source of competitive advantage when it is valuable and unique for an organization, hard to replace without significant costs, and not easily imitated by competitors (Coff, 1997; Wright et al., 1994). Lopez-Cabrales, Valle, and Herrero (2006), found that valuable and unique core employees (i.e., those with firm-specific knowledge, skills, and abilities) were positively associated with the firm's competitiveness and efficiency and an empowerment-oriented human capital philosophy was associated with a more innovative culture and greater performance (Selvarajan et al., 2007). The findings of the various studies on human capital and performance above can be interpreted as, employees with required human capital (knowledge, skill, and abilities) remain with their organization longer and are capable to perform competitively and hence, there is a positive relationship between human capital of an organization and its performance. In addition to describing the positive relationship between human capital and performance, Barney, Lepak & Snell, above, proved that accumulated specific human capital reduces the likelihood employees leave, and this enables the organization to use this employees sustainably and achieve higher performance.

Collins and Clark, (2003), examined top management teams' social networks as a source of competitive advantage in high technology firms and found that a set of network-building HR practices (mentoring, incentives, and performance appraisal) encourage the development of business relationships and that top management team networks would mediate the relationship between HR practices and firm performance (as measured by sales growth and stock performance). This means, top management team’s social capital facilitates HR practices towards realizing organizational performance, hence, crucial to have such network.

Shrm Measurement

Efficiency, effectiveness, and impact

Boudreau and Ramstad (2003), identified three categories of metrics that can aid in the understanding and evaluation of HR investments: efficiency, effectiveness, and impact. Metrics of efficiency ascertain how well the HR function performs its basic administrative tasks and include items such as absence rate, vacancy rate, time-to-fill positions, cost per hire, training cost per employee, etc. These metrics are the easiest to collect and provide useful information on the effectiveness of HR administration. However, they did not provide insight into how

HR practices help improve organizational performance. The second kind of metric captures effectiveness, and help to reveal if HR programs have the intended effect on the people whom they are supposed to influence. For example, training programs should be evaluated on more than just participation or cost (efficiency measures); they should be evaluated on the sort of capabilities (i.e., knowledge, skills, abilities) gained by participants. The third type of metric, impact helps determine if HR systems are developing and optimizing the capabilities of the company.

HR Audits and Return on Investment (ROI) Analysis

According to Amold, (2017), the HR audit is the primary tool that many HR departments utilize in an effort to assess their own effectiveness and efficiency. Ultimately, the overall purpose is to ascertain how well the HR department, through all of its various internal activities, has aligned itself with the organization’s strategic objectives. Amold also noted that, the ROI measures the financial return on an investment made. To calculate the ROI of human capital, divide the organization's net revenue, gross revenue after deducting operating expenses, salaries and benefits by the cost of salaries and benefits. To calculate the ROI of a particular program, first calculate the value of the specific program itself, and then divide it by the costs of implementing the program. For example, if a training program to improve supervisor coaching skills results in increased agent productivity, calculate the value of the additional training program and divide that by the costs of providing the training and related materials.

Cost Benefit Analysis

HR analytics specific to the HR field, cost-benefit analysis tools, have emerged to help guide HR decision making. Utility analysis presents a set of techniques to estimate the benefits and costs associated with specific HR programs (Amold, 2017). The utility analysis tool calculates the impact of an HR program by multiplying the number of employees affected by a program by the impact of the program on individual employee quality improvement. An estimated cost associated with the program is subtracted from this number (Boudreau & Berger, 1985).

Human resource score card

Based upon the model of BSC introduced by Kaplan and Norton, (1996), a new tool HR Scorecard for the management and measurement of the human capital was established by Becker, Huselid and Ulrich, (2001). The model “refocusing line of sight” by Buller and McEvoy, (2012), indicates that each of the three levels; organizational, group, and individual, contributes to overall performance; and at the firm level, performance
can be measured by traditional accounting measures, as well as by more broad-based organizational outcome measures (e.g., quality, productivity, customer service), such as those included in a balanced scorecard approach (Kaplan & Norton, 1996). Group level performance can be measured by many of the same indices used at the firm level of analysis. Wright & Haggerty, (2005), noted that a major problem in measuring performance at the firm level is establishing the causal connection between specific organizational activities, such as HRM practices, and firm-level performance indicators. Similar challenges exist regarding the causal relationship between group activities and outcomes. Finally, individual characteristics, attitudes, behaviors, and job performance can be also measured, but the challenge here is to extrapolate any impacts of HRM activities on individual performance to the overall performance of the firm (Buller & McEvoy, 2012). But, it is not clear why (Buller & McEvoy, 2012), mentioned that to extrapolate individual performance to overall organizational performance is a challenge. Because, from our review above, we understand that organizational performance comes as a result of group performance and group performance depends on individual performance, this implies organizational performance depends on individual performance.

Conclusion
From the current review, we understood that, organizational performance is related to the achievement of the objectives required by the organization; and organizations are trying to become competitive in the market, through managing their human resources in achieving organizational performance required. Strategic human resource management highly impacts organizational performance as it makes possible the achievement of organizational performance objectives and enables the organization to be competitive and ensures the continuity of the organization. Employing SHRM is a means to have flexible HR system, like equity, promotes collaboration among work units, and motivating employees towards innovation of products or services, that enables organizations to achieve increased competitive performance and continue being competent in the market.

SHRM is based on business strategy, i.e. HR practices are employed to execute organizational strategy, and purposefully aligned HR practices contribute to the realization of workforce with required knowledge, skill and abilities (human capital) and work team net work (social capital) which in turn help to achieve organizational performance. Hence, the alignment between organizational strategy and human resource practices do influence organizational performance positively. Supported with unique human resource practices, right organizational system, and employees with unique, inimitable, none substitutable skill, and knowledge, organizations are capable of adding value that can lead to higher performance. In order to remain competitive, an organization needs employees who have knowledge, skill and abilities and this is only possible through investment in its human resources so that they gain the required skills and knowledge and be able to be productive and contribute to the organizational performance.

Firm-specific human capital is potentially sustainable sources of competitive advantage, because they are valuable, rare, inimitable, and difficult to substitute for; and employees with required human capital (knowledge, skill and abilities) remain with their organization longer and are capable to perform competitively and hence, there is a positive relationship between human capital of an organization and its performance; that accumulated specific human capital reduce the likelihood employees leave, and this enables the organization to use these employees sustainably and achieve higher performance. Also, top management team’s social capital facilitates HR practices towards realizing organizational performance, hence, crucial to have such network. Bundles of HR practices, (high performance work systems (HPWS), high-involvement work systems, and high-commitment work systems), is the emphases of SHRM, that, organizational performance is greater when HR practices are used in conjunction, instead of using them in isolation.

The HR audit is the primary tool that many HR departments utilize in an effort to assess their own effectiveness and efficiency with the overall purpose of ascertaining how well the HR department, through all of its various internal activities, has aligned itself with the organization’s strategic objectives. It includes other tools such as; efficiency, effectiveness, & impact analysis, and cost benefit analysis, hence, can be used in combination with these tools.

The Gap Observed
Except the findings of Arthur (1994), and Huselid (1995) which proves that organizations which apply HPWSs are capable of achieving higher productivity through motivating employees, reduce turnover, and improving efficiency; (Barney, 1991; Lepak & Snell, 1999), that accumulated specific human capital reduce the likelihood employees leave, and this enables the organization to use these employees sustainably and achieve higher performance. Shih, Evans and Davis,(2006) that clearly indicate that HPWSs contributes to financial performance through the administrative efficiency and organizational performance is achieved through flexibly coordinating and using knowledge of employees, other findings didn’t present the specific mechanisms by which SHRM impact organizational...
performance. We doubt here that, the mechanism by which social capital influence performance wasn’t mentioned, as to our understanding. Also, the specific mechanism how HR practices can affect performance didn’t described, and hence, need further effort.

Previous studies on the SHRM and performance link didn’t apply a comprehensive performance measurement tools and different studies apply different measures of performance separately. That is, the SHRM metrics were developed in such a way that they measure impacts of some elements of SHRM and cannot be applied to some others. Some of the SHRM – Performance relationship models are multilevel and complex to measure performance; thus, requires more complex research designs and statistical analysis.

We have observed that, a major problem in measuring performance is establishing the causal connection between specific organizational activities, such as HRM practices, and organization’s performance indicators.

Recommendation

From our understanding of this review, we recommend the following;

Based on their business strategy, companies better design their SHRM, taking into consideration the organization, work groups and individual employees who possess the necessary abilities, and motivations, to achieve the required performance objectives.

Future research should examine the SHRM – performance relationships using more holistic models; such as using a framework that holds the RBV, Fit perspective, Bundles of HR activities etc. together in such a way that clearly indicate the link between SHRM and organizational performance and the specific mechanisms how SHRM influence organizational performance. We also recommend that future researches better try developing a comprehensive model that incorporate various tools of performance measurement (cost benefit analysis; Effectiveness, efficiency and impact; HR audit, ROI, and BSC etc) to better assess the causal relationship between SHRM activities and organizational performance.

References


38.] Mansoor Hussain and Mushtaq Ahmad, 2012, Mostly Discussed Research areas in Human Re-


