

Investigating the Relationship of Human Resource Management Practices and Firm Performance

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Abstract: This study aims to integrate the relationship of Human Resource Management (HRM) practices and firm performance. It will discuss on the issue regarding study trends, research perspective and models in the previous study of HRM and firm performance. Comparisons between approaches and perspective in strategic HRM will be discussed. Development of independent variables discussed based on review of previous literatures. Recommendation will be made based on the discussion to support the research framework. It is argued that there are still need to provide conclusive evidence to find the missing system that support HRM practices to be strategic and how it contributes to firm performance.

Key words: Human resource management, firm performance, HR practices, strategic HRM, configurational approach

INTRODUCTION

The increase interest in Human Resource Management (HRM) brought significant empirical research where it is used to indicate the relationship between HRM practices with the business success (Oltra and Alegre, 2011). Recent researches (Theriou and Chatzoglou, 2008; Hamid, 2013; Zakaria, 2013; Choi and Ismail, 2008) obtained various outcomes which developed a new trend in HRM to become more strategic in making impact for organizational performance.

HRM traditionally perform administrative function where it smoothing the employees management through a set of policies and practices within the firm's employment activities (Lim *et al.*, 2008). The modern HRM in the other hand viewed the general activities of HRM as a key driven to align the policies and practices with the business strategy (Paauwe, 2009). HRM today have emerged into new trends by becoming increasingly important to support strategic in nature. HRM is expected to contribute to positive outcomes in organizational daily operations. The modern practice of HRM is responsible in two main purposes. First is to motivate people, value and encourage them to become involved with the firm activities (Cieri *et al.*, 2008). The second purpose is to view employees as the firm's intangible asset where it creates value to obtain sustainable competitive advantage (Marescaux *et al.*, 2012).

The aim of this study is to discuss: perspectives on strategic HRM, previous studies on HRM practices

and firm performance for the last (30) years and recommendation associated to establishment of the link between HRM practices and organizational performance. Through the discussion on the previous literature, this paper will be concluded by presenting more balanced approach that focuses on how HRM practices can be strategic in the prospect for future research.

MATERIALS AND METHODS

Concept of HRM: The interest on HRM practices was first emerged during 1980s. The studies demonstrate a link between HRM practices and firm performance by presenting various 'set of practice's that proclaimed to be related to positive performance. This so called universalistic approach focuses on identifying 'best practices of HRM' where the implementation of certain group of practices will bring better result than the other in terms of firm performance. Many studies have supported this approach by introducing quite numbers of literature namely 'Best HR Practices (Pfeffer, 1994), 'high performance work system or practice's (Applebaum and Batt, 1994; Becker and Gerhart, 1996; Huselid, 1995), 'best practice's (Delery and Doty, 1996).

Universalistic approach generally is a traditional branch of strategic HRM where it looks into the 'best practice's of set of practices with the organizational performance regardless of the firm's strategic goals (Huselid, 1995). The set of these practices will be determined based on how these particular of practices

may be subjected as a competitive advantage factor for the firm and support employees to be an important economic value creation to the firm (Hamid, 2013). The universalistic approach trends then moved to contingency approach as Guest (1997) argued that there are need to fill in better theory with respect to HRM practices and performance. The relationship between HRM practices and firm performance should concern on the value of HRM practices to the firm strategies and level of performance that involved with these practices.

The contingency approach also known as best-fit, proposed more conceptualized method to elicit performance based on the HRM effectiveness. Becker and Gerhart (1996) pointed out that there is lack of understanding about the 'how and why' process through which HRM creates organizational value and increases performance. Guest (1997) and Wright *et al.* (2003) studies suggested new HRM practices and firm performance framework concerning on contingency approach. The relationship between HRM practices and performance linked with new external variables consisted of motivation, creativity and skills as a mediator to fill in the theory of key intervening as variables that support HRM and firm performance. Many of recent studies have applying the contingency approach by finding best-fit of practices to support firm performance. Inyang (2010) looked into set of practices that can be aligned with the business strategies. Dimba (2010) suggested that HRM and firm performance mediated by employee motivation. Oltra and Alegre (2011), Theriou and Chatzoglou (2008) suggested organizational learning and knowledge management as linked the relationship. Despite best-fit approach seems to be more realistic than the universalistic approach, contingency approach sets inescapable conclusion on the relationship with overall mixed results. Setting HRM practices into a static set to certain intended strategy is impossible as the changes of one variable will have impacts on others (Paauwe, 2009).

Configurational approach is the new interest in the field of HRM and performance. This approach combines the internal and external fit to understand SHRM. The perspective concerned with how a particular pattern of independent variables is related to the dependent variables. Based on the configurational approach, the HRM practices viewed based on its ability to facilitate both internal consistency of the organizational activities and the ability of the practices to be strategic based on the goals.

Despite large number of evidence presented based on the empirical data in 30 years of researches, the contribution of HRM to organizational performance has progressed far enough to support the theory to be crucial

although, there were still lack of support both on theory and explanation (Theriou and Chatzoglou, 2014). This have been highlighted by Guest (1997) that there is an absence of theory to fully convincing the linkage between HRM practices and firm performance. It is suggested that configurational approach may be applicable to explain on the relationship. Instead of looking into best-practices and best-fit, the configurational approach act as a system that supports any patterns of individual variables to complement and reinforce each other.

RESULTS AND DISCUSSION

HRM practices and firm performance: Firm performance is an accomplish result that can be defined based on the outcome of transformation from inputs to outputs of a process in an organization (Zakaria, 2013). Performance in economic perspective generally referred on the effectiveness and efficiency without excessive use of cost (Chien, 2004). Suggested that there are three types of performance of HRM which are financial performance (e.g., profits, sales, or cost management), non-financial performance (e.g., productivity, quality, efficiency) and HR-related performance (e.g., job satisfaction, employee turnover, commitment). Therefore, firm performance concerns on the positive factors measured based on the intended output of the firm activities.

The concept of HRM practices and performance have been rapidly discussed where the linkage of the relationship have been approached with variety of elements in an organization. Zakaria (2013) suggested that based on previous research, there are evidences that HRM acts as proactive role instead of reactive to the firm success. This supported by Huselid (1995) that effective HRM practices helps to develop knowledge, skills and abilities of employees as the firm's competitive advantage. Although there are an increase studies on HRM practices and firm performance (Panayotopoulou *et al.*, 2003; Zheng *et al.*, 2009; Marchington and Wilkinson, 2008; Theriou and Chatzoglou, 2008; Dimba, 2010; Inyang, 2010; Osman *et al.*, 2011), there is still lack of explanation on how and why HRM practices create values to support firm success. Despite the overwhelming progress and constant development on the findings related to HRM practices and firm performance, most of the studies focus on new issues labelled as 'add-on-ism' (Paauwe, 2009) instead of to discuss about how exactly the mechanism of HRM practices contribute to firm performance (Wielemaker and Flint, 2005).

Regardless on research framework suggested with no consistency of findings on previous studies, several lists of HRM practices have been compared and show

Table 1: Summary of previous studies on HRM practices and firm performance

Dimba (2010)	Theriou and Chatzoglou (2008)	Way (2002)	Tanveer <i>et al.</i> (2011)	Elarabi (2014)
Training and development	Teamwork	Recruitment and selection	Training	Training and development
Recruitment and selection	Performance appraisal	Compensation	Recruitment and selection	Recruitment and selection
Compensation and benefits	Decentralized decision making	Flexible job assignments	Performance appraisal	Safety and Health
	Recruitment and selection	Teamwork		
	Decentralized job status	Training		
	Training and development	Communication		
	Employee relations and communication career opportunities broad defined jobs			

significant outcomes of practices that proven to support firm performance. For example, Dimba (2010) model suggested that HRM practices contribute to firm performance through the level of employee's motivation as mediator for the relationship. It is suggested that training and development, recruitment and selection and compensation and benefits can increase employee motivation to support performance.

Tanveer *et al.* (2011) model through universalistic approach concluded that employee performance is significantly related to the three HRM practices of recruitment and selection, training and performance appraisal. The study proven that employee performance may affect firm performance. This relationship can be related through the input-process-output framework.

Way (2002) suggested high performance work systems to support the universalistic perspective between HRM practices and firm performance. The study argued that the relationship between HRM and performance should be based on general consensus both in theoretical and empirical method. Way (2002) highlighted recruitment and selection, compensation, flexible job assignments, teamwork, training and communication as best practices that contributed to positive performance. Elarabi (2014), Theriou and Chatzoglou (2014) suggested that safety and health must be prioritized in recognition to the importance of employee's awareness and as a new strategic thinking. The study represent direct model to show the linkage of HRM practices with organizational performance based on employee related performance. These practices are safety and health, training and development and recruitment and selection (Table 1).

Theriou and Chatzoglou (2008) utilized nine practices that support the relationship of HRM practices and firm performance. The model used is based on contingency approach where HRM practices linked with knowledge management and organizational learning capabilities to support firm performance. Theriou and Chatzoglou argued that knowledge management and organizational learning capabilities as the fit to elaborate the mechanism that intervenes between HRM practices and firm performance. These practices are teamwork,

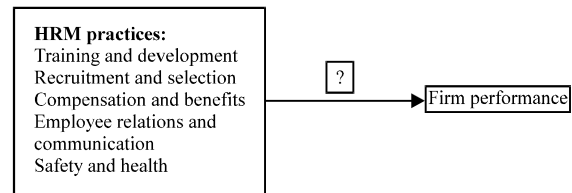


Fig. 1: Conceptual framework of study conceptual framework

appraisal, decentralized decision making, recruitment and selection, decentralized job status, training and development, employee communication, career opportunities and broad defined jobs (Fig. 1).

CONCLUSION

Based on the discussion and recommendation, five different practices that proven affect firm performance selected regardless on its theories and approaches from previous studies. The question mark is the loophole that needed to be filled to understand how HRM practices become strategic and increase firm performance.

This study contributes to better understanding of previous research on HRM practices and firm performance. Even though there were large empirical evidence to support the importance of HRM practices to firm success, little explanation provided to support the absence of theory of the relationship between HRM practices and firm performance. Based on this review, more attention should be given on finding the missing key that supports the relationship between these two variables. As this study, serve as conceptual study, it is hopeful that it can be a starting point for further inquiry for the research framework.

RECOMMENDATIONS

Review on previous strategic HRM literature shows that there is a loophole in providing theoretical support

on how exactly HRM practices contribute to firm performance. One of the reasons is because of different approaches, perspectives and models presented as an effort to demonstrate the linkage between these two variables. The traditional studies focus either creating 'best practice's or form 'set of practice's based on the universalistic and contingency approaches. However, the irony showed that different studies came out with different set of practices and all are justified to increase firm performance.

Previous studies showed that more and more researches in HRM practices and firm performance field focuses on the new development of this field by generating new issues, insights or branch of interest instead of to really understand the connection between HRM practices and firm performance. This showed that there was still lack of precision study on how exactly HRM practices produce value to the organizational performance. The configurational approach can be applied as it focuses on the development of strategic HRM. It is an approach that study into how these practices can support internal and external fit as a key strategic to performance instead of using secondary intermediate elements to support the connection between HRM practices and firm performance.

Through this new questions emerge concerning the loophole that link HRM practices and firm performance. How exactly HRM practices contribute to firm performance. How can these practices become a key strategic to organizational success. What is the missing system to support the relationship.

For this study, to prove that HRM practices and firm performance are not solely dependent on neither universalistic nor contingency approach, random practices were chosen based on the frequency of these practices from previous literatures regardless of models and approaches concerning the HRM practices and firm performance studies. Training and development and recruitment and selection showed significant contribution on HRM and firm performance literature while compensation and benefits and employee relation and communication showed average studies in the literature, and safety and health chosen for often neglected in the HRM practices and firm performance field.

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