

Measuring firm performance in strategic human resource management

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Background

Almost all organizations in the globe are constantly making enormous efforts to improve firm performance with the ever increasing market competition that has been the norm of the present day businesses. Human resource (HR) of an organization is the means by which all these efforts are enabled. Therefore, it is a long - standing general consensus that HR in any organization is a pre-eminent organizational resource that can drive organizations towards the success or failure (Delaney & Huselid 1996). HRM has greater importance in businesses than ever before which shows significant contribution to firm performance (Becker & Huselid 1999; Bae & Lawler 2000; Fey & Bjorkman 2001; Katou 2008; Katou & Budhwar 2006, 2007). Therefore, HRM stimulates managers and professionals in competitive businesses to re-think HRM as a value creation process through strategically focused employee work outcomes.

Research Problem

Although HRM – firm performance is a widely research topic in strategic HRM arena during the past two decades, recent literature still highlights several issues. The most pressing issue has been the unclear process of value creation between HRM practices and firm performance (Becker & Huselid 2006; Guest 2011; Paul & Anantharaman 2003; Priem & Butler 2001). In addition, literature also highlights limited attempts taken so far for assessing HRM effectiveness as well as the narrow focus of contextual factors influential in this relationship (Colbert 2004; Guest 2011; Sheehan & Foss 2007). Because of these issues, the findings so far on HRM –firm performance relationship have been inconclusive and thus it gains less credibility in practice. Consequently, the problem on which the research is based is: whether HRM – firm performance relationship exists in reality or it is merely rhetoric?

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Research Objective

In order to address the said research problem, the objective of this research was set as to examine HRM effectiveness and its influence on firm performance through the mediation of employee work outcomes.

Theoretical Support

Empirical findings gain less credibility unless which are not justified theoretically. Under theorizing has been one of the most attentive issues in SHRM (Fleetwood & Hesketh 2006; Guest 2011; Oladipo & Abdulkadir 2011). Consequently, theorized empirical explanations sound reliable and merit attention of both researchers and practitioners and hence make substantial contributions for the research field. Therefore, this research seeks theoretical foundation from various closely related theoretical phenomena as it is difficult one theory to support all aspects of the complex relationship between HRM and firm performance. Accordingly, the three theoretical perspectives behind the conceptual framework of this research are resource – based view for the direct link between resources and performance (RBV, Barney 1991, 1995, 2001), AMO (Ability, Motivation, and Opportunity) theory for employee outcomes (Appelbaum et al. 2000), and contextual perspective for the influence of contextual factors (Martin-Alcazar et al. 2005).

Conceptual Framework

The focus of this research is in fact to develop a comprehensive multiple - step mediating model for HRM – firm performance relationship in order to comprehend how HRM practices affect overall firm performance. The relevant independent variable in the proposed model is HRM effectiveness. The dependent variable is overall firm performance. Most importantly, there are two mediator variables which are employee work effort and job performance in sequence. Also, there are four antecedent variables which are namely, HRM staff competence, Head of HRM leadership, top management support, and labour market demand. The framework integrates five firm attributes as control variables namely, technological intensity, financial strength, past firm performance, market competitiveness, and R&D intensity.

Research Methods

Research covered forty two public listed manufacturing firms where 100 or more workers are employed, having 10 years or more lifetime, and located in the western province in Sri Lanka as per the Colombo Stock Exchange statistics as at 31 December 2013. The reasoning behind this stratification is to choose firms with standard HRM practice to support the major theme of this

research. The present study adopted a structured questionnaire based survey to collect quantitative data. A total of 226 non – HRM managers with at least three years of experience in the same firm were chosen on purpose. Testing of hypotheses is mainly based on partial least square structural equation modeling (PLS – SEM) technique using SmartPLS v. 2.

Key Findings

As reported by the results, the proposed model with a few dropping of contextual factors confirmed the conceptualized mediation of the HRM – firm performance relationship. Accordingly, the effective adoption of HRM practices (HRM effectiveness in other words) influences employee work effort, job performance, and in turn firm performance in sequence. The effect size of HRM effectiveness on employee work effort has been 0.14 ($f^2=0.14$), the effect size of employee work effort on employee job performance has been 0.93 ($f^2=0.93$), and the effect of employee job performance on firm performance has been 2.79 ($f^2=2.79$). The HRM staff competence, HRM leadership, labour market demand, and technology respectively were found influential on effective adoption of HRM practices. These findings as a whole generalize the application of underpinned theories and their tenets in explaining the indirect relationship between HRM practices and firm performance.

Conclusions

Almost all contemporary organizations are in a struggle of improve firm performance against upcoming challenges. The human capital in this regard is the most important than the physical capital. Therefore, HRM practices play a major role in enhancing employees productive capabilities. Therefore, the facts behind HRM stimulate managers and professionals in competitive businesses to re-think HRM as a value creation process that is able to meet higher firm performance through strategically focused employee work outcomes. The findings of this research are also in line with these facts that contribute to motivate practitioners to regard HRM as a productive investment I the long run and not just a cost to be minimized.

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