



Implication of Strategic Human Resource Management and Effectiveness of Organisational Performance

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Introduction

A new transformation in the field of human Resource Management is the Strategic Human resource Management. Strategic Human Resource Management is played an important role in case of firm's performance, particularly of gaining competitive advantage. Organisations are becoming aware that successful human resource policies and practices may increase performance in different areas such as productivity, quality and financial performance.

Human Resource Management plays important role in achieving success in an organisation. The main reason is that this success comes through managing people in an effective manner. The problem related to human resources is that it is not visible or transparent. So organisation develops a culture that focuses on how people are being managed. The consequence of

human resource management directly lies on their attitude and ability, which, sometimes considered as soft side of a business. Most of the times they are neglected and sometimes when these are acknowledged, it is hard to comprehend the dynamics of a particular company and how it operates. The reason is that the way people are managed often fits together in a

system. The Workplace Employee Relations Survey 1998 sampled of some 2000 workplaces and obtained the views of about 28000 employees. In this study it has been found that there is a strong association between HRM and both employee attitudes and workplace performance. Against this background, the aim of this paper is to contribute to the understanding of the role of strategic human resource management and its implication in an organisation. The structure of the paper is as follows. After introduction, section – II deals with the theoretical back ground and its different forms and practices. Section - III focus on the role of Strategic Human Resource Management for successful adaptation in organisation and finally Section - IV consists with conclusions and suggestions.

Section-II: Strategic Human Resource management: A Survey of literature

Patterson et al (1997) examined the link between business performance and organisation culture and use of a number of HR practices. HR practices explained significant variations in profitability and productivity (19 percent and 18 percent respectively). Two HR practices were particularly significant: the acquisition and development of employee skills and job

design including flexibility, responsibility variety and the use of formal teams.

According to Thompson (1998) a study of the impact of high performance work practices such as team working, appraisal, job rotation, broad banded grade structures and sharing of business information in UK aerospace establishments. The number of HR practices and the proportion of the workforce covered appeared to be the key differentiating factors between more and less successful firms.

Guest et al. modelled the relationship between HRM and performance. Although there are various stakeholders in an organisation, the chief strategic goal of any business is higher financial performance or maximisation of wealth for the shareholders. Financial performance of an organisation is a function of people, process and technology. For effective interaction of people with technology and process, the people in the organisation have to be competent enough with the required knowledge, skills and abilities.

Competence of the individual is an important factor that decides operational effectiveness in terms of providing quality products and services within a short time.

HRM practices such as selection, training, work environment and performance appraisal may enhance the competence of employees for higher performance. In the study, Stephen Wood (1999) shows strategic synergy fit and integration are the key concepts running through Human Resource Management theory in which one or more of the following fits are

emphasised if HR strategy that a firm adopt is to be effective.

First, different human resource practices should be coherent and complement each other.

Secondly, there should be a fit between the coherent sets of human resource policies and other systems within the organisation.

Thirdly, the human resource system should be in line with the business or competitive strategy of the organisation, and

Fourthly, the human resource system adopted by the organisation should be compatible with its operating environment.

There are four different levels of HR objectives:

- 1) Generic objectives
- 2) Behavioural Objectives
- 3) Production objectives
- 4) Ultimate objectives

Besides, there may be three generic objectives of human resource policies and all relating to the organisation's workforce. All organisations want the right number of employee, the right mix of employee competencies and

the right set of motivation from their workforce. Different organisation seeks different number of employees and different bundles of competencies and different types of motivation and an important part of a successful HR strategy is bound to be the correct identification of these three elements.

The extent to which an organisation achieves its generic objectives will influence how well it achieves its various „behavioural“ objectives. All three generic objectives, for example, will directly affect productivity levels. But firms are not interested purely in output per employee;

they increasingly want their employees to pay close attention to quality standards, or to act in an innovative or creative way, or to co-operate and share valuable information with one another; and they will also normally want their employees (or, at least, their effective employees) to stay with the firm rather than leave. Organisations will think that such aspects

of employee behaviour are influenced by employee competence and by the extent to which employees are motivated to pursue a variety of behaviours. So the extent to which desired behaviour is achieved will turn heavily on the extent to which an organisation succeeds in reaching its generic HR objectives.

The extent to which the behavioural objectives are reached will influence the success the firm has in attaining its „production“ objectives. It is no longer adequate to think of firms being interested solely in unit labour costs, important as these are for competitive advantage. Real and perceived product quality levels are also important. In this respect, much of the service sector is in a distinctive situation because its employees frequently interact directly with customers, so that product quality inherently becomes a matter of direct employee performance (with little or no possibility of subsequent, rectification). Achieving the firm's ultimate objective, e.g. profits, will obviously depend on the degree to which its production objectives are reached. Low unit labour costs lead directly to profits via higher profit margins; they can also lead indirectly to higher profits by allowing the firm to cut its product prices and increase its market share.

Similarly, high quality levels may allow prices to be raised, thereby raising profit margins; equally, they may directly increase market share through customer perception on better value for money. The contingency perspective builds on the well-established field of contingency theory which argues that performance is optimised when there is fit between an organisation's structure and strategy.

The contingency perspective builds on the well-established field of contingency theory, which argues that performance is optimised when there is „fit“ between an organisation's structure and its strategy. In the field of HR this framework has been used to argue that an organisation's set of HR practices must be consistent with other organisational factors if it is to be effective (i.e. that there should be external fit). This perspective has often looked at specific areas of HR such as reward practices (see Gomez-Mejia and Balkin, 1992) and examined how they vary in relation to different types of business strategy as well as how they influence a firm's performance. Perhaps the best example of this genre of studies is the work by Schuler and Jackson (1987), which developed the Miles and Snow typology of Competitive product strategy to suggest how different market strategies should shape the nature and range of HR practices that a firm should adopt.

In a study of Khanderkar et al 2005, showed that the firms that have combined their Human Resource Capability with their HR practices and dimensions of strategic HRM for developing superior human capital have shown

better levels of organisational performance and it also indicated that this is consistent with the Resource Based View perspective of Strategic HRM as predictor of competitive advantage and a contributor towards organisational success. This paper also concluded that HRM practices are positively co-related to organisational performance and conversely it also recommended that firms and organisations do not perceive pay or compensation as motivator for better employee performance and thereby higher performance. Recruiting and developing talented staff and synergising, their contribution with the resource bundle of the firm can lay the basis for sustained competitive advantage.

Section: III: Adaptation of Strategic Human Resource Management and its success

To build human capability in an organisation, good and sound human resource practices must be implemented to ensure that human resources are well taken care of. According to Ordonez de Pablos & Lytras et.al, sound implementation of Human Resource Policies and practices such as recruiting, screening, training, rewarding and appraising have strong relationship towards organisation's performance hence human resources as one of the sources of competitive advantage.

Dessler, 2007 defined human resource management as policies and practices involved in carrying out human resource aspect of management that influence employees' behaviour, attitudes and performance. Organisations that realise the importance of Human Resources as an asset rather than as a commodity would always find ways to create a working environment that is conducive, safe and able to fulfil work life balance to their employees in the recent years.

Abdul Rahman and Rowley (2007) in their study compared the adaptation of HR practices of a Malaysian Organisations with a MNC operating in Malaysia. This study reported that locally owned Malaysian organisation do not place a great importance on HR practices as compared with MNCs. They mentioned that locally owned Malaysian organisations' top management have low commitment towards the importance of HR practices.

According to Othman et al., (2001) on their study on SME manufacturing organisations reported performance gap exists between the expectation of top management towards the HRM functions with the actual implementation of the HRM functions in their organisations.

Strategic human resource management effectiveness was measured from a scale derived by Huselid et al. (1997). They define strategic human resource effectiveness as „perceptions of how well the HRM function developed a firm's employees to support its support its business needs including facilitating team work, communications and involvement, enhancing quality and developing talent to serve the business in the future“ (1997).

If profit increases, organizations will be able to offer better compensation, training, and working environment for the employees. It will also enhance the job satisfaction and organizational commitment of the employees, which will in turn lead to further improvement of productivity. Therefore, productivity has been a great concern for every organization of developed and developing country. Human resource management practices can contribute to superior productivity directly by finding better and more efficient ways to achieve objectives and indirectly by improving the quality of work life for employees (Werther & Davis 1996). Effective HRM practices can achieve high productivity and corporate financial performance, low scrap rate, and low employee turnover (Arthur, 1994; Huselid, 1995). Proper human resource management practices such as incentive pay,

teams, flexible job assignments, employment security, and training can improve productivity enormously (Ichniowski, Shaw & Prennushi, 1997; Katou & Budhwar, 2007).

In developing countries, the scenario of HRM is quite unimpressive except in Taiwan and South Korea, where HRM is linked to the formulation of business strategy (Budhwar & Debrah, 2001). Both the countries, South Korea and Taiwan, have excelled in industrialization. Although Taiwan lacks natural resources, it has accelerated its economic growth by the means of effective human resources management practices (Huang, 2001). A case study (Pollitt, 2004) analyzing the HRM practices of Nokia Corporation, the leading manufacturer of mobile phones in the world, stated that the HRM practices of Nokia played vital role in helping the company in reaching its 40% percent share of the global handset market, and industry leading profit margins of 20% - 25% at a time of unmatched change and competition. It is also reported that, Nokia Corporation's share of the Finnish GDP was 3.5% in 2004. Noe, Hollenbeck, Gerhart and Wright (2007) uttered, "To compete in today's economy, whether local or global level, companies need to provide a quality product or service".

Sound HRM practices can also help in this regard (Katou & Budhwar, 2007). It is found that HRM practices have significant positive impact on the implementation of TQM, which would ultimately enhance employee and customer satisfaction (Yang, 2006). Through an in-depth study on 178 industrial enterprises of Greece; Katou and Budhwar (2007) found that HR practices such as recruitment, training, promotion, incentives, benefits, involvement, and safety and health were positively related with the elements of organizational performance such as innovation and satisfaction of stakeholders. They also found recruitment as the most powerful HR practice in achieving sustainable competitive advantage based on human capital. Further, employee selection has momentous influence on organizational performance (MacDuffie, 1995; Shipton et al., 2005). Employee selection is also associated with perceived market performance (Delaney & Huselid, 1996).

Moyeen and Huq (2001) studied HRM practices of 92 medium and large business enterprises (public and private sector) located in Dhaka, Bangladesh. They found that only 62% of surveyed organizations had an HR/IR department. About 96% organizations had training programs. 91% of organizations had performance appraisal system and similar percent of organizations had a system of rewarding the good employees. The least prevalent practice among the surveyed organizations was employee pension plan. The researchers inferred that union status (presence of unions) was associated with some HRM practices and firms' size was found as an important predictor of some of the HRM practices. A research study (Mamun & Islam, 2001) examined the human resource management (HRM) practices of the readymade garments (RMG) enterprises. The study emphasized on improving productivity of garments workers through proper HRM practices to face challenges of globalization. They discovered the reasons for the low productivity of laborers such as unsystematic recruitment and selection of workers, unavailability of training facilities, inadequate financial facilities, and low motivation level of workers.

Conclusion: The HR plan of action is the set of things the organisation intends to do in its attempt to achieve its HR objectives. Policy intentions are not always translated into action. This means that the way in which policy is implemented must also be recognised as part of the plan of action and strategy. In addition and lying behind the set of HR policies there is some reasoning linking policies and practices to the objectives, how are they seen to work and why do they have the effects they are supposed to have? So the action plan reflects a lot more than the

formally adopted HR policies. From different studies it has been found that there are more than two possible employment relationships, these are contract and investment relationships. The contract relationship involves the employer first seeking to hire people who are already more and less fully competent to do the range of tasks they are asked to perform so that huge expenditures on training are not required. On the other hand the employer only finds the way to motivate them to perform according to their potential on the basis of some types of performance-related reward system.

In contrast „Investment“ system is based on an attempt to foster among employees a sense of common density with the firm over the long term. So particular organisation selected in an attempt to boost employee involvement, enrich jobs and develops new skills. So the employment relations can vary on different dimensions.

These relationships may be long term and short term. Sometimes organisation might be predicted on the development of high commitment or loyalty or they might place a importance on the organisation citizenship behaviour. Organisation merely tried to designing the appropriate reward system for effective performance.

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