Literature review on strategic human resource management

Business, Company

Article Reviews

Strategic HRM Practices and Their Impact on Company Performance in Chinese Enterprises

Summary

In the article Strategic HRM practices and their impact on company performance in Chinese enterprises, Akhtar, Ding, & Ge (2008) " examined the factorial validity of strategic human resource management practices and their effects on company performance" (Akhtar et al., p. 15) by sampling 465 Chinese organizations. They conducted a study using the best practices approach in order to determine the influence of HRM practices on company performance " in the context of Chinese enterprises using a large sample" (Akhtar et al., p. 16). The best practices approach included " internal career opportunities, formal training systems, results-oriented appraisals, employment security, participation, job descriptions, and profit sharing" (Akhtar et al., p. 15).

In the study, the authors examined how the 7 strategic HRM practices were being used in Chinese organizations and how they impacted an organization's financial performance and product/service performance.

In conducting the study, the authors held a large-scale questionnaire survey in the 3 major cities of Nanjing, Shanghai, and Guangzhou. They used the sample frame on the China Industrial Enterprises Database and covered the manufacturing and services sectors. Responses to the Company Performance survey were provided by the general managers or their deputies while responses to the Strategic HRM Practices questionnaire were provided by the human resource directors.

The Company Performance survey aimed to measure the company's financial performance and the product/service performance. It included items such as returns on investment, sales growth, profitability technological innovation, and customer satisfaction. On the other hand, the Strategic HRM Practices questionnaire aimed to gather information on the 7 strategic HRM practices and on the organization's background characteristics.

The study showed a substantial correlation between training and other strategic HRM practices, but a weak correlation with employment security and profit sharing. In the same manner, employment security and profit sharing had no correlation with financial performance and product/service performance.

The study showed that, with the exception of profit sharing, all the other strategic HRM practices had a significant impact on product/service performance. On the other hand, only profit sharing, internal career opportunities, results-oriented appraisals, participation, and training had an impact on the financial performance.

The study affirmed that the seven HRM practices had an overall factorial validity. It showed that both financial performance and product/service performance were affected by internal career opportunities, results-oriented appraisals, participation, and training, which were considered the core of strategic HRM practices in Chinese organizations. It also implied that organizations that had established these core practices within their processes had a " sustainable competitive advantage over the long term" (Akhtar et al., p. 28)

Application

This study confirmed the results of previous studies that showed managers as perceiving training and development to be an important strategic HRM practice (Akhtar et al.). As Niven (2011) indicated, training led to a better motivated and educated workforce, which in turn led to great improvements in the bottom-line results. Moreover, it showed that a results-oriented appraisal system provided employees with substantial incentives to keep doing their job well. In addition, this would promote employee loyalty to the company, their managers, and their coworkers (DelPo, 2007).

As well, it showed that job descriptions were important elements in the reward determination and performance appraisal processes as the job descriptions enabled the objective evaluation of employees as well as the quantification of the performance appraisal criteria.

Critique

The writer thought that the article Strategic HRM practices and their impact on company performance in Chinese enterprises by Akhtar, Ding, & Ge was able to show how strategic human resources management had a positive impact on company performance as well as on the financial outcome. With the study being conducted in China, it went further to show that not only were the strategic human practices effective in a general manner, but that they were also applicable in various cultural settings. Given the conservative and perhaps conventional nature of China's economy, the results showing the effectiveness of strategic human resource practices strongly affirmed how these SHRM practices could impact a company's overall performance regardless of economic conditions and settings.

Strategic Human Resource Management Effectiveness and Firm Performance

In the article Strategic Human Resource Management Effectiveness and Firm Performance, Richard & Johnson (2001) tested whether strategic human resource management had a significant effect on organizational level outcomes. They examined the " effective use of human capital on organizational performance" (Richard & Johnson, p. 299) and explored the role that capital intensity played in the model proposed.

This study expanded on traditional literature on strategic human resource management by examining the effectiveness of strategic human resource management with respect to HR practices and policies. With a resource-based view, it posited that HR effectiveness had a direct relation to firm level outcomes, especially when considering the firm context.

Richard and Johnson had the hypotheses that 1.) " Firms that achieve higher levels of SHRM effectiveness will have higher levels of organizational effectiveness (Richard & Johnson, p. 300); and 2.) " Strategic HRM effectiveness and capital intensity will influence organizational effectiveness through a positive interaction effect" (Richard & Johnson, p. 301).

The study was conducted in the banking industry to examine within-industry differences. The deregulation of the banking industry resulted in the environment becoming more highly competitive. In turn, this resulted in technical and structural changes that led the industry to focus more on HR practices as a source of competitive advantage. Banks shifted their focus to customer-oriented sales, which required them to be in continuous search of more markets and products. In these service-oriented operations of banks, employees became the products, which resulted in more significance being accorded to human resource management.

The study made use of both a questionnaire and secondary data sources where the questionnaire sought to obtain information on employee turnover, stage of organizational development, and strategic human resource effectiveness. In addition, objective measures of control variables, as well as measures of capital intensity and performance, were obtained from the Sheshunoff Bank Search database.

The results of the study showed a significant negative relation between SHRM effectiveness and firm turnover. Although the study showed no relation to productivity and firm performance, it did show a correlation with lower turnover.

The study's results also indicated that an " alignment between SHRM effectiveness and capital intensity" (Richard & Johnson, p. 305) increased both the return on equity and firm productivity. It should be noted, though, that turnover seemed to be driven only by the direct effects of HR effectiveness.

The study indicated that organizations with higher levels of SHRM effectiveness experienced performance gains. However, the study also showed that some effects directly influenced performance while others were moderated through the strategy variable.

The study suggested that an effective HR system was able to reduce turnovers and that there was no significant interaction between HR effectiveness and capital intensity. It could then be said that the turnover effects were not dependent on the strategy but were probably due to turnovers being an intermediate outcome measure between the individual employee and the HR policies.

In addition, the study showed that HR effectiveness had no significant contribution to increased productivity. However, it showed that a match between capital intensity and sophisticated HR practices improved labor productivity.

This study suggested that the implementation of effective HR programs was time consuming and costly, which may directly detract from the organization’s bottom-line in the short run. However, the execution of these programs in a manner that complemented the organization’s strategy would result in enhanced firm performance.

In conclusion, the study indicated that SHRM effectiveness resulted in the significant reduction of turnovers as well as an increased assessment of the overall market performance, but that SHRM effectiveness affected both return on equity and firm productivity only when moderated by capital intensity.

Application

Although this study failed to show a direct relation between SHRM effectiveness and firm productivity, the fact that it showed an impact on turnover reduction was enough to conclude that SHRM effectiveness could have an impact on an organization's performance and financial outcome. This would be due to the fact that the process of hiring and training new employees would be very costly. As stated by Jang (2008, p. 12), " high turnover rates might have negative effects on the profitability of companies" as well as on customer retention.

The study also suggested that the benefits from SHRM effectiveness would take time and a lot of financial resources to be realized but that they would be worthwhile in the long run. Investments in developing and training human resources, for example, would be a means of retaining and attracting human capital (Armstrong, 2006). In return, creativity, flexibility, performance, and the capacity to innovate would improve. Gwartney et al. (2008) termed this type of activities as investment in human capital, which, like physical capital, could also depreciate such as when skills declined with lack of use or with age. As such, providing trainings ad education would be like adding to the stock of human capital.

Critique

While reading the article Strategic Human Resource Management Effectiveness and Firm Performance by Richard & Johnson, the writer of this paper at first found it difficult to accept the results of the study, which was that SHRM effectiveness had no direct relation to company performance. It would be natural to assume otherwise, especially given that previous studies on SHRM effectiveness showed a direct relation between SHRM effectiveness and company performance and financial outcomes. However, upon reading the discussion and justification provided by the authors of the study, the writer of this paper came to agree with the study's results and realized that it made sense. The writer realized that it was true that SHRM effectiveness would take time to be implemented and for its benefits to be realized. As with any endeavor, the desired results would not be achieved overnight and that it would take a combined effort from management and the employees – as well as their integration with the company's business strategy – for these human resource management initiatives to work.

Strategy, Human Resource Management and Performance: Sharpening Line Of Sight

In the article Strategy, human resource management and performance: Sharpening line of sight, Buller & McEvoy (2012) attempted to identify the " important linkages between the firm's strategy, its human resources, and performance outcomes (Buller & McEvoy, p. 43). They aimed to " present a framework for creating a clear line of sight, from strategy to implementation at all levels of the firm – organizational, group, and individual" (Buller & McEvoy, p. 44). Line of sight (LOS) referred to the understanding of the employee with regards to the organization's strategic goals and how these goals would be accomplished. Whereas previous studies (Boswell, 2000 as cited in Buller & McEvoy) had the LOS framework focus only on the individual level of analysis, the study conducted by Buller and McEvoy redefined an LOS framework that included organizational and group levels of analysis through the creation of a more complete model of the relationships among performance, human resource management, and strategy.

Buller and McEvoy proposed a model that showed " how strategically aligned HRM practices contributed to the creation of human capital and social capital" (Buller & McEvoy, p. 44), which were both essential in the achievement and sustenance of superior performance.

This study aimed to show that human resource management practices can be used to effectively link individual, group, and organizational activities with the organization's strategic goals. This study also aimed to show that organizational performance would be enhanced to the extent that employee skills, opportunity, and motivation; group norms and competencies; and organizational culture and capabilities were aligned with the organization's strategic goals.

In Buller and McEvoy's proposed model, the organization's strategy, along with its mission, vision, strategic plans, goals, and resulting action plans would be the framework's driving force. At its core would be three interrelated yet distinct levels of analysis that were directly linked to strategy, namely organizational, group, and individual.

In the proposed model, organizational capabilities were considered the foundation for the creation of strategically relevant HRM practices. Buller and McEvoy asserted that certain organization-specific capabilities such as systems, process, and relationships were sustainable sources of competitive advantage because of their rare and valuable qualities, which made them difficult to substitute for or imitate. This model also considered organizational culture to be an important determinant of company performance, which could be improved when all members of the organization shared beliefs, assumptions, and values that were aligned with strategic capabilities and goals. HRM policies, systems, and practices could influence the behaviors, attitudes, and perceptions of the employees, which collectively, can affect organizational and group outcomes. In addition, this model emphasized that an organization's competitive advantage depended on the organization's ability to efficiently transfer, recombine, and create knowledge.

At the group level, it was emphasized that job analysis was the " foundation for an integrated HRM system" (Buller & McEvoy, p. 49) where job analysis referred to the systematic identification of the requisite skills and the specific tasks needed for the accomplishment of a particular job in the organization. On the other hand, group norms, or the socially defined behavior rules that were shared by group members and that were accepted as legitimate, also had an impact on individual and group performance.

Finally, at the individual level, individual employees must have the opportunity, motivation, and ability to perform the necessary actions to accomplish strategic goals. It should be noted that the creation and execution of strategy is accomplished through both the collective and individual behaviors of the employees.

In conclusion, Buller and McEvoy emphasized that organization-specific social and human capital are essential to an organization's long-term success, as these were rare, valuable, and difficult to imitate and substitute for. They also stressed that company performance improved when strong HRM practices were in place, that is, they were designed to generate, sustain, and reinforce capabilities at all levels.

Application

The model proposed in the study showed that company performance as well as improved financial outcomes could be achieved if strategic human resource management practices were aligned with the organization's business strategies in the organization, group, and individual levels. It would then be important for human resource management initiatives to focus not only on employee improvement and satisfaction but should ensure that whatever initiatives were established would benefit the organization on all levels. As Prakashan (Prakashan, 2007, p. 17) asserted, " the employment of effective HR practices and the design of a HR system compatible with the firm's strategy are imperative for the successful implementation of business strategies firms.". As Conley (2006) also stated, human resources could be considered a strategic asset only if the human resource architecture was aligned with the organization's objectives, goals, and mission, and was integrated into the organization's budgets, performance plans, and strategic plans.

Critique

The writer of this paper thought that the model discussed in the article Strategy, human resource management and performance: Sharpening line of sight by Buller & McEvoy was very comprehensive in addressing how SHRM practices or initiatives could aid in improving company performance as well as its financial outcomes. This was especially because the model ensured the HRM initiatives’ alignment with the organization’s business strategy. However, the writer thought that its actual implementation would be quite challenging, considering that it would require the cooperation of all members of the organization. With an organization’s HR management and personnel bound to change or be replaced over time, another challenge would be ensuring that the new HR manager or personnel would continue the efforts of alignment started and implemented by previous managers.

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