



**INTEGRATING HUMAN RESOURCE MANAGEMENT WITH FIRM'S
STRATEGY**

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ABSTRACT

This paper tries to demonstrate the important linkage between human resource management, firm's strategy and firm performance. As a result, first of all, we review the relevant literature about the linkage between human resource management and organizational performance; and the relationship between human resource management and firm's strategy. Then, by proposing a model, this paper illustrates the integration between organizational capability/culture, group competencies/norms and individual ability and knowledge with each other and at the same time with firm's strategy. Moreover, this paper states that such integration leads to firm's superior performance. Finally, we develop theoretical propositions that provide further insight, for managers of organizations, on HR practices contribute to organizational superior outcomes.

KEYWORDS: Human Resource Management, Firm's Strategy, Firm Performance.

INTRODUCTION

Human Resource management has grown in its range to the point where it has become an industry rather than just a simple occupation. Although there may be considerable debate concerning the actual role HR should perform and how it should be done, HR established a place at the

senior management table by the early 1990s through their ability to identify and solve practical problems in fields such as recruitment, employee relations, training, etc. (Stredwick, 2005, p. 22). According to Armstrong (2010, p. 8), the practice of Human Resource Management

(HRM) is concerned with all aspects of how people are employed and managed in organizations.

It covers activities such as:

- Strategic HRM;
- Human Capital Management;
- Knowledge Management;
- Organization Development;
- Resourcing (Human Resource Planning, Recruitment and Selection, and Talent Management);
- Performance Management;
- Learning and Development;
- Reward Management
- Employee Relations;
- Employee Well-Being.

HRM can be described as a strategic, integrated and coherent approach to the employment, development and well-being of the people working in organizations. It has a strong conceptual basis drawn from the behavioral sciences and from strategic management, human capital and industrial relations theories. This foundation has been built with the help of a multitude of research projects (Armstrong, 2010, p. 8).

It has been said that the most important assets of any business walk out the door at the end of each day (Boxall et al., 2007, p. 88). Indeed, people and the management of people are increasingly seen as key

elements of competitive advantage (Boxall and Purcell 2003;

Pfeffer 1998; Gratton et al. 2000). Spurred on by increasing competition, fast-paced technological change, globalization, and other factors, businesses are seeking to understand how one of the last truly competitive resources, their human resources, can be managed for competitive advantage (Boxall et al., 2007, p. 88).

In attempting to examine the impact of human resources management on organizational performance, a number of researchers have discovered some impressive and direct impacts and influences. This is referred to by Ramsey et al. (2000) as 'the high road' approach to management, in which organizations choose to compete primarily on quality and rely especially on HR development and employee contributions to succeed in this (p. 502). At the same time that researchers were attempting to prove conclusively that successful and effective HRM improved the bottom line performance. Furthermore, a number of writers talked about a system of 'High Performance', indicating that using integrated human resource management will inevitably lead to organizational improvement and explain that it is through the combined effects of

such practices that managers can most hope to elicit high levels of performance.

Appropriate human resource management is seen as a key concept to achieve superior performance. Without proper HR practices, employees will not be prepared to develop their skills and competencies, take on board the enhanced responsibilities for quality, work organization and problem solving, and 'go the extra mile' to come up with improvements and innovations. That is why, a large number of researches use HRM as a key reflection of organizational success.

As Guest (1997) argues, 'The distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization.' If, therefore, appropriate HR policies and processes are introduced, it can also be assumed that HRM will make a substantial influence on organizational performance.

It is important to note that HR practices contribute to higher performance and lead to competitive advantages of organizations only when they are integrated with firms' strategy. Furthermore, it is noteworthy to state that, human resources can play a strategic role in achieving organizational superior performance; Thus, these ideas have led to the formation of a field of research often referred to as strategic

human resource management (SHRM). This relatively young field represents an intersection of the strategic management and human resource management (HRM) literatures (Boxall 1998; Boxall and Purcell 2000). Central to emerging perspectives on strategy is the role of the firms' human resources in creating and sustaining superior performance through social capital (wright et al., 2001).

There is little attention given to the research on the relationship between firm's strategy, human resource management and firm performance. Thus, this paper attempts to propose a framework on the mentioned topic and develop theoretical propositions that provide further insight, for managers of organizations.

HRM AND FIRM PERFORMANCE

According to Armstrong (2010, p. 15), the Holy Grail sought by many HRM researchers is to establish that HRM practices demonstrably cause improvements in organizational performance.

HR practitioners too would like to be able to justify their existence by saying to their bosses and their colleagues that this is the case. Much research has been carried out over the last decade or so, most of which shows that there is a link between good HRM practice and firm performance.

STRATEGY AND HRM

The importance of human resource management to effective implementation of strategy has been mentioned in recent years. Porter (1985) explicitly confirmed that human resource management was an essential support activity that, when integrated with other value chain activities, is urgent for a firm to achieve and sustain competitive advantage. A prominent perspective that potentially explains the strategic importance of human resources is the resource-based view of the firm.

According to Buller and McEvoy (2012), the resource-based view proposes that a firm is defined by the resources it controls. Further, it assumes that all competitors are not homogeneous but, rather, they differ on the resources that they possess. These resource-based differences explain differences in performance across firms. If a firm possesses resources that are valuable, rare, non-imitable, non-substitutable, non-transferable, and the firm has the organizational capability to exploit these resources, it possesses a sustainable competitive advantage (Barney, 1991). We use RBV as the dominant theoretical framework for our proposed model. RBV has been used by other researchers as a framework for examining the relationship between HRM and firm performance. What is missing

from many of the previous examinations is the link between strategy and human resource management. Wright and McMahan's (1992) definition of strategic human resource management illustrates that the main focus of the field should be on integrating HR with firm strategies. Jim Walker's (1980) classic book *Human Resource Planning* was one of the first to directly suggest considering a firm's business strategy when developing a human resource plan. These attempts tended to take an existing strategy typology (e.g. Miles et al.'s (1978) prospectors, analysts, and defenders) and identify the kinds of HRM practices that should be associated with each strategy. Furthermore, Beer et al. (1984) introduced an alternative to the individual HR sub-function framework for HR strategy. They argued that viewing HRM as separate HR sub-functions was a product of the historical development of HRM and current views of HR departments. They proposed a more generalist approach to viewing HRM with the focus on the entire HR system rather than single HR practices. This led to a focus on how the different HR sub-functions could be aligned and work together to accomplish the goals of HRM and a more macro view of HRM as whole rather than individual functions (Boxall et al., 2007, p. 91). These

statements describe how HRM could contribute to the accomplishment of strategic goals; and how HRM and firm's strategy could be related to each other.

RESEARCH PROPOSED MODEL Based on the preceding discussion and by following Boswell et al. (2006) and Buller and McEvoy (2012), we introduce our model which shows the integration of organizational capabilities and culture, group competencies and norms, and individual ability and knowledge, with one another and with the organization's strategy. Our proposed model is shown in Figure 1. As illustrated, organization's strategy is the driving force of the framework, including organizational vision, mission, goals and strategic plans.

The core parts of the model are three distinct, yet interrelated levels of analysis that are directly linked to firm's strategy: organizational, group, and individual level of the organization. We suggest that organizational capabilities, group competencies, and individual ability and knowledge are primarily related to social capital. According to Buller and McEvoy (2012), HRM practices are central to generating, reinforcing and sustaining organizational capabilities/culture, group competencies/norms, and individual ability and knowledge. Overall firm performance is a function of the integration of strategic priorities, actions and HRM practices among these three organizational levels.

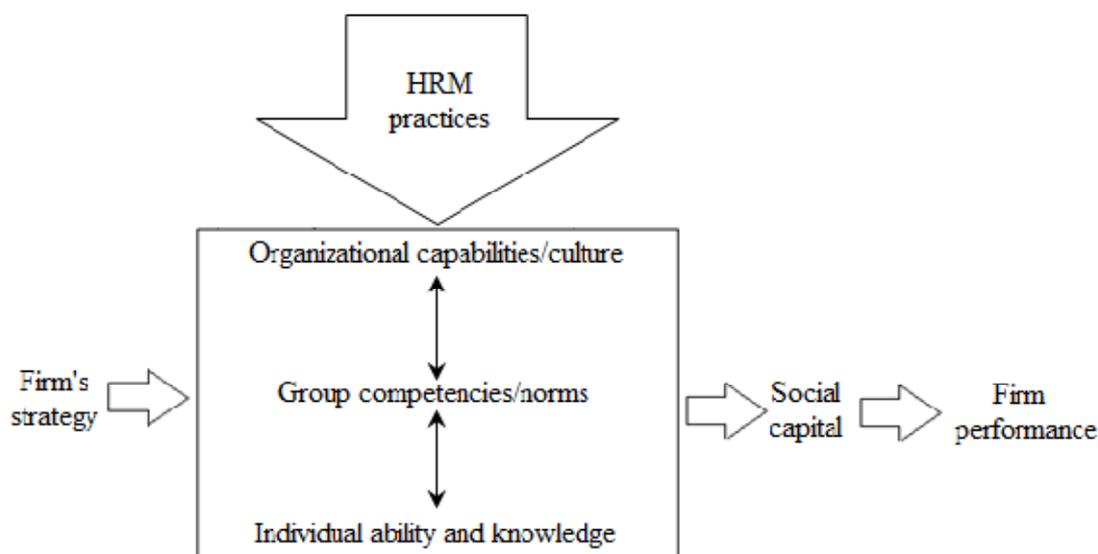


Figure 1: Research proposed model

ORGANIZATIONAL CAPABILITY/CULTURE

Colbert (2004) defined organizational capabilities as system-level resources, as

“those organizational capabilities that exist only in relationships-in the interactions between things” (p. 348). These capabilities and resources involve both the

ability to learn and the ability to change (Boal & Hooijberg, 2000). They have been variously referred to as cultural resources (Wernerfelt, 1989), dynamic capabilities (Teece et al., 1997), knowledge-based capabilities (Grant, 1996), social networks (Collins & Clark, 2003), system-level resources (Black & Boal, 1994) or learning capabilities (Kang et al., 2007). According to Denison (1996), organizational culture is also an important factor which determines firm performance. Buller and McEvoy (2012) argued that organizational performance will be enhanced when employees at all levels share values, assumptions, and beliefs that are aligned with strategic goals and capabilities. Denison (1996), and Bowen and Ostroff (2004) suggested that organizational culture can affect the design of human resource management policies and practices, as well as mediate the link between human resource management and performance by shaping cultural norms and practices. HRM policies, practices and systems influence the perceptions, attitudes and behaviors of individual employees which, in aggregate, affect group and organizational outcomes (Buller and McEvoy, 2012). For instance, some studies illustrated that high performance work practices (Sels et al., 2006) and high involvement work organizations (Batt &

Colvin, 2011) are associated with positive organizational outcomes; e.g., increased productivity, lower quit and dismissal rates (Buller and McEvoy, 2012). Furthermore, according to Buller and McEvoy (2012), organizational capabilities and culture involve social capital. The preponderance of evidence indicates that social capital has a strong positive effect on firm performance (Westlund & Adam, 2010). A relevant concept here is that of organizational citizenship behavior (OCB), defined as work-related behaviors that are discretionary, not related to the formal organizational reward system, and, in aggregate, promote the effective functioning of the organization (Organ, 1988). Consistent with our model, OCB can be present at three different levels in the organization: organizational, group and individual (Organ and Ryan, 1995; Bentein et al., 2002; Buller and McEvoy, 2012). According to Buller and McEvoy (2012), organizational citizenship behavior at the organizational level is considered as a shared set of assumptions, beliefs, and values that promote discretionary, extra-role behaviors to maintain and enhance the social and psychological contexts of work; e.g. OCB is a component of the organization's culture. When these behaviors are directed at the

accomplishment of firm's strategic goals, they increase organizational performance, since employees share a collective interest in helping the organization to succeed. There is some evidence that HRM practices affect OCB and contribute to positive organizational outcomes (Gong and Chang, 2008; Lam et al., 2009; Kim and Gong, 2009). According to mentioned studies, HRM practices influence extra role behaviors which lead to better performance of organizations.

CONCLUSION AND DISCUSSION

Much of the recent research suggests that HRM practices can positively affect firm performance, primarily through their impacts on social capital. However, the specific mechanisms by which HRM practices affect firm performance are not clear. In this paper, we clarify previous studies and extended our framework by following Boswell et al. (2006) and Buller and McEvoy (2012) to present a comprehensive model that illustrates the linkages between firm's strategy, HRM practices and organizational performance. Our proposed framework suggests that Superior performance is hypothesized to result from directly linking strategic goals and action plans to organizational capabilities and culture, group competencies and norms, and individual ability and knowledge.

Furthermore, HRM practices integrate these three levels with each other and at the same time with firm's strategy which affect organizational performance. Table 2 shows how HRM practices influence organizational performance. In other words, organizational performance increased when HRM practices are "strong" (Bowen & Ostroff, 2004), and also, when these practices themselves are integrated with firm's strategy.

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