



THE DEMONSTRABLE LINK BETWEEN HUMAN RESOURCE PRACTICES AND ORGANISATIONAL PERFORMANCE

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ABSTRACT

Globalisation is generating immense organisations' competitive environment. To grow and survive in such environment, organisations are obliged to perform. Performance is one of the major goal for organisation, which many human resource management scholars are trying to demonstrate the link between HRM and organisational performance. There are studies that affirm the conviction and those that are doubtful of the demonstrable link between HRM and organisational performance. There is however, a continuous need to improve theoretical and analytical frameworks of HRM, performance and the link between HRM and organisational performance. This conceptual paper, theoretically shows HR practices that define HRM; levels of performance outcomes that makes the link between HRM and performance more evident; and, comparison of linear causal models through which HR practices ultimately impact organisational performance. This paper synthesises key models that illustrate the link between HR practices and organisational performance. While, drawing from various theories and (linear) models, this paper established so. However, there are continuous arguments over the number of HRM mediating variables and its content to show a clear link between HR practices and organisational performance. This challenge notwithstanding, the literature review opens an opportunity to develop a (cyclical) model, which is inclusive of common variables that

acknowledges the core significance of employee abilities, motivation and opportunity to participate; in the wake of global and rapidly changing environment that demands organisations to be competitive. Thus, the need for future research.

Keywords: HRM, HR practices, organisational performance, demonstrable link

1.1 Introduction

In the midst of globalisation and rapid technological changes, organisations must be competitive and perform. Human resources and their management are viewed critical in the accomplishment of organisation's sustainable competitive advantage. Human resource management (HRM) is emphasized in the face of globalization (Smale, et al., 2012; Othman, 2009; Miles, 2008; Simón & Allard, 2008). There conflicting study findings affirming and negating the link between HRM and performance (Edgar & Geare, 2009; Paauwe, 2009). If HRM influences performance, then what is the demonstrable link between the two constructs?

According to Savaneviciene and Stankeviciute (2012), there is still little understanding of the instruments through which human resources (HR) practices influence organisational effectiveness. The remaining gap of the linkage between HRM and performance linkage is what is commonly referred to as the “black box” (Boselie, et al., 2005). To unravel this mystery, there are theories and models that attempt to link HRM and performance. Specifically, all the models are based on organisational outcomes' categorisation by Dyer and Reeves' (1995, as cited in Paauwe & Boselie 2005). The HRM-performance advocates have discreetly or openly treated the “black box” as a linear causal process, but differing on number and content of the smaller ‘boxes’.

This paper highlights the general trends of the models of the linkage between HRM and performance, by considering the theoretical and analytical frameworks of HRM, performance, and linkage between the two constructs.

1.2 Constructs of HRM and performance

In today's rapidly changing and highly competitive environment, HR is the critical factor – potential to learn, grow, and contribute – for organisational success (Lee, et al., 2010). The debate on what adds value to the organisation – the HR or their management (Kazlauskaite & Buciuniene, 2008) – is eminent. With the transformation of personnel management to HRM

approach, this argument has been shut down due to the ‘strategic’ and ‘humanistic’ nature of HRM to contribute to a range of positive organisational outcomes.

But still, there is consensus on the nature of HRM (Paauwe & Boselie, 2005). For instance, first there is no a clear meaning of HR practices and their number (Boselie, et al., 2005) - only four HR practices are commonly identifiable, including to identification and recruitment of performing staff, provision of staff skills and confidence to work effectively, monitoring of staff progress towards the required performance targets, and rewarding of staff well for meeting or exceeding performance target (Paauwe & Boselie, 2005). Secondly, there is no clear distinction between intended HR practices (those designed on a strategic level), actual HR practices (those implemented by the line manager) and perceived HR practices (those perceived by the employees) (Wright & Nishii, 2006). This only depend on an approach one follows – the universalistic (there are “best practices” with positive impact on performance irrespective of context), the contingency (provides certain practices suitable under certain conditions for effectiveness), or the configurational (the combination of HRM practices is the power which drives performance).

According to Savaneviciene and Stankeviciute (2012), this leads to other definitions of HRM such as “strategic HRM”, “high involvement management”, “high commitment management” or “high performance work systems” (p.185). In this regard, it can be acknowledged that there is link between HRM and performance, considering the common practice of HRM explored.

As we observe the link between HRM and performance, some ambiguities (“the black box”) are notable while clarifying and defining the performance measures (Colakoglu, et al., 2006). For the purpose of this paper, measures of HRM effectiveness are posited in four levels of outcomes by Dyer and Reeves’ (1995, as cited in Boselie & van der Wiele, 2002; Wright & Haggerty, 2005; Paauwe & Boselie 2005) – as per proximal outcomes to HR practices and distal outcome to proximal outcomes, as illustrated in the Figure 1.1 below.

According to Paauwe (2009) the far are the performance indicators from proximity of HRM practices, greater the effect on organisation’s competitiveness. But just assuming that there is a link between HRM and performance without theoretical basis, the analysis will be void of scientific rationale.

It is therefore important to emphasise that the establishment of the link between HRM and performance is related with two arguments by Guest (1997, as cited in Savaneviciene & Stankeviciute, 2012) – theory of HRM and a theory on performance.

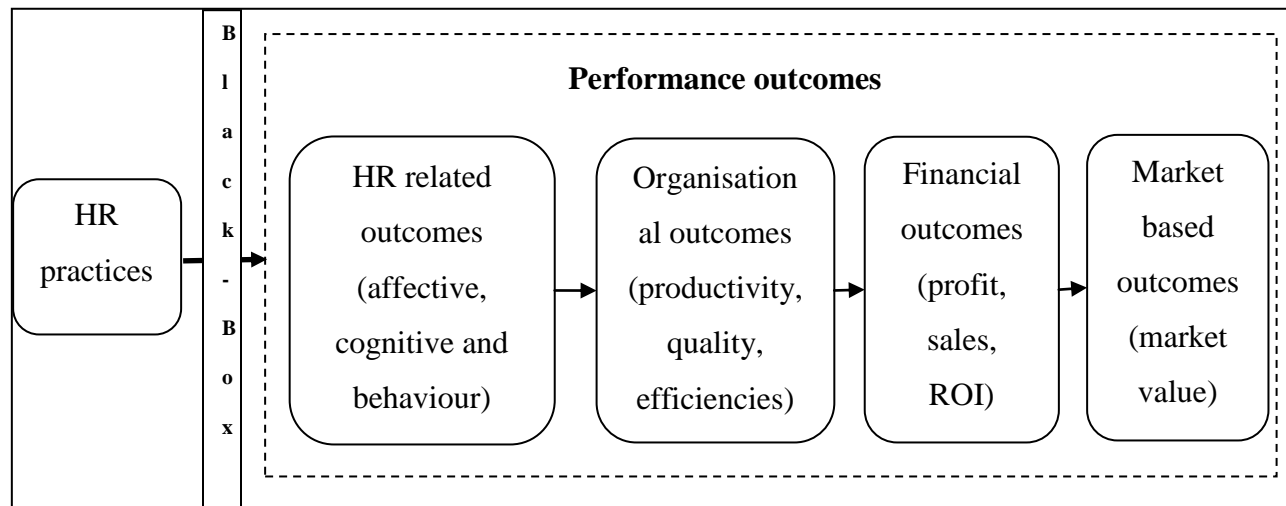


Figure 1.1: HRM impact on performance logic
Source: Author

1.3 Theories of HRM and performance

There are three commonly used theoretical perspectives to establish the scientific rationale of the link between HRM and performance. These include: contingency theory, resource-based view, and the, “Abilities, Motivation, Opportunities” (AMO) framework (Boselie, et al., 2005).

Contingency theory holds that HRM strategy would be more effective only when appropriately integrated with a specific organisational and environmental context (Chang & Huang, 2005) to achieve better performance outcomes in comparison to organisations that do not (Liao, 2005; Huang, 2001). The competitive strategies available to organisation and an appropriate HRM strategy for each competitive strategy (Becker & Huselid, 2006), include: prospector business strategy with utilizer HRM strategy, defender business strategy with accumulator HRM strategy, and analyser business strategy with facilitator HRM strategy (Wang, & Shyu, 2008). The match imply that limited number of competitive strategies indicates limited number of HRM strategies (Becker & Huselid, 2006).

Resource based view holds that organisation’s competitive advantage comes from the internal resources that the organisation possesses. Organisational performance can be attributed

to unique (valuable, rare, inimitable and without substitutes) resources and capabilities rather than the organisation's structural characteristics (Guthrie, et al., 2004).

AMO framework holds that the organisational interests are best served by an HRM system that attends to employees' interests such as skill requirements, motivations and the quality of their job (Harney & Jordan, 2008). Employee perform well, when (Boselie, 2010): 1) they can do the job because they possess the necessary knowledge and skills - they are able to do so – (A = Abilities); 2) they will do the job because they want to and are adequately incentivised - they have the motivation to do so - (M = motivation); and, 3) their work environment provides the necessary support and avenues for expression - (O = opportunity to participate).

Overlapping each other, contingency theory and resource-based view, focus on the HRM at the organisational level and are mainly interested in its performance effects from a business perspective. They reflect the central assumptions behind the conceptualisation of what HRM is and does: namely, that it responds accurately and effectively to the organisation's environment and complements other organisational systems (contingency theory) and that it delivers added value through the strategic development of the organisation's internal resources (employee) (the resource-based view) (Boselie, et al., 2005). On the other hand, the AMO framework represents an established tradition, having its foundations in industrial/organisational psychology, and in comparison to the other two theoretical perspective, it is the most common (Paauwe, 2009), as it is also treated as an extension of the resource-based view (Paauwe & Boselie, 2005).

The disclosure of the significance of the three theoretical approaches lead to the analysis of demonstrable link between HRM and organisational performance.

2.0. The demonstrable link between HRM practices and organisational performance

2.1 Description of HR practices and organisational performance link models

There are several model holding the conviction concerning the demonstrable link between HR practices and organisational performance. Based on the literature review, models of Becker, Huselid, Pickus and Spratt (1997); Guest (1997); Purcell et al. (2003); Wright and Nishii (2006); Armstrong (2006) and Boxall and Purcell (2008) are repeatedly used in theoretical and empirical researches. These models are the focus of this paper, and later making comparison of models (similarities and differences).

2.1.1 Becker et al. (1997) model

The model holds that HRM system is linked to organisation business and strategic initiatives for organisational performance. With the proper alignment of HRM system, the HRM practices have a direct impact on employee skills, employee motivation and job design and structures, which consequently influence employee's creativity, productivity and discretionary behaviour. These variables, in turn, result in operational performance, which relates to profitability and growth, ultimately determining firm market value (Figure 2.1).

2.1.2 Guest (1997) model

The model holds that improved performance is achieved through the people in the organisation. The model is grounded on the expectancy theory as a possible basis for developing a more coherent rationale about the link between HRM and performance. The theory proposes that performance at individual level depends on high motivation, possession of the necessary skills and abilities and an appropriate role and understanding of that role. This conclusion is a cause to choose such HRM practices that lead to high employee commitment, high quality staff and highly flexible staff to enhance performance (Figure 2.2).

2.1.3 Purcell, et al., (2003) model

This is a people-performance model, which advances the concept of discretionary behaviour by suggesting that virtually all employee have the capacity to engage in discretionary behaviour; and that line managers play a critical role of having discretion in the way that they apply HRM and the way they behave towards employee (Figure 2.4).

2.1.4 Armstrong (2006) model

This model holds that 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, skill 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 (Figure 2.3).

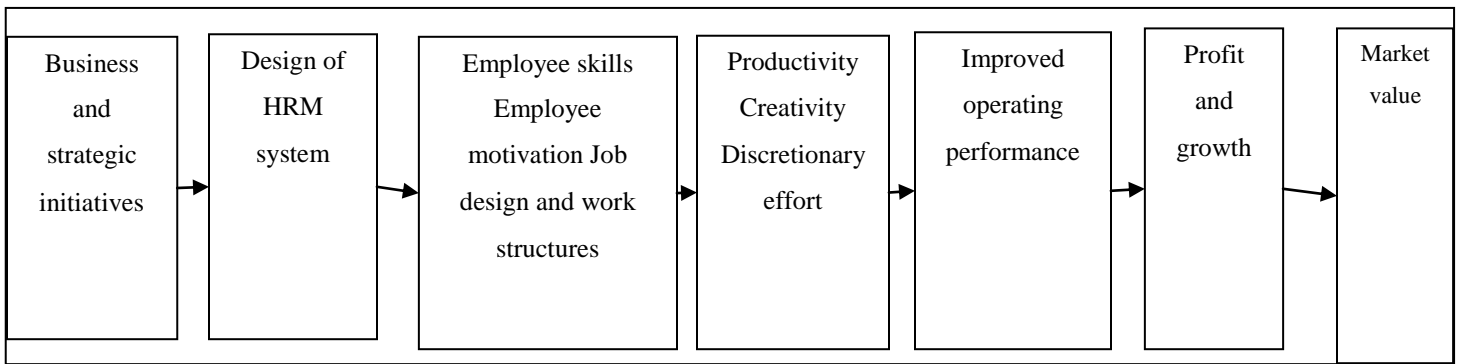


Figure 2.1: Becker, et al., (1997) model
Source: Adopted from Becker, et. al., (1997)

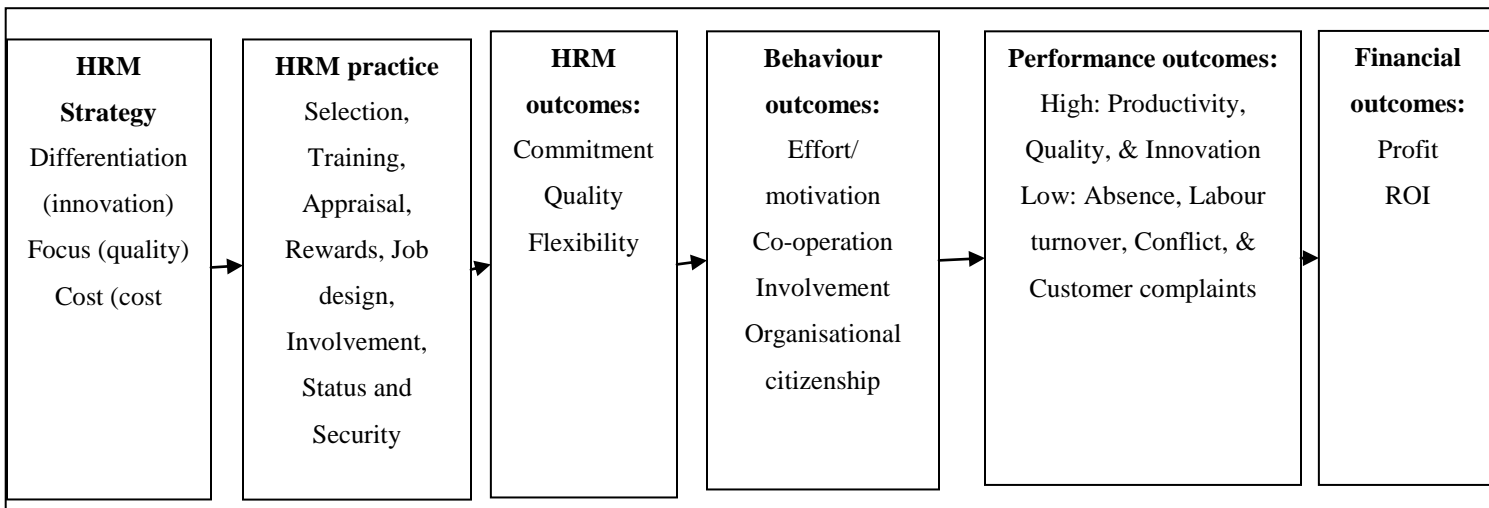


Figure 2.2: Guest (1997) model
Source: Adopted from Guest (1997)

2.1.5 Wright and Nishii (2006) model

This holds that the relationship between HRM and performance occurs at multiple levels of analysis. The model includes “intended” HR practices, “actual” HR practices, “perceived” HR practices, employee reactions and performance (Figure 2.5).

2.1.6 Boxall and Purcell (2008) model

This model is based on Wright and Nishii (2004) model and ideas of Purcell & Kinnie (2007) and involves intentions, actions, perceptions and responses and hereby strives to integrate the individual and collective levels of analysis (Figure 2.6).

2.2 Analysis of HR practices and organisational performance link models

The six models offer broad awareness on the opening of the “black box”, on demonstrating the link between HRM and performance. However it should be acknowledged that the mentioned models differ, quantitatively and qualitatively, as illustrated in Table 2.1. Key questions that arise are the: number of small boxes to be included on the “black box” and the number of variable to be included in each of the small box, and “the most important intermediate outcomes” (Becker and Huselid, 2006).

As a result of the comparison of the six HRM and performance models, the following findings can be drawn. First, although all authors have implicitly or explicitly treated the “black box” as a linear causal process, different models incorporates different number of boxes and the content of that boxes is heterogeneous. Secondly, in spite the accurate assessment of linkage between HRM and organisational performance requires reliable and valid assessment of HR practices (Gardner, et al, 2001, cited in Savaneviciene & Stankeviciute, 2012), different models comprise various HRM practices, admitting that HRM deals with a wide range of issues (Kersiene & Savaneviciene, 2009), as illustrated in Table 2.1. Thirdly, employees abilities, motivation and opportunity to participate (AMO framework) and role of the line manager to “bring policies to life” (Purcell, et al., 2003) are two vital variables by which HR practices influence organisational outcomes. Fourthly, employees’ reactions are central to all models, because causal link is flowing from practices to performance via responses of employees. Fifth, human resource related outcomes impact more distal performance outcomes: only when HR related outcomes are achieved it is possible to expect higher organisational performance.

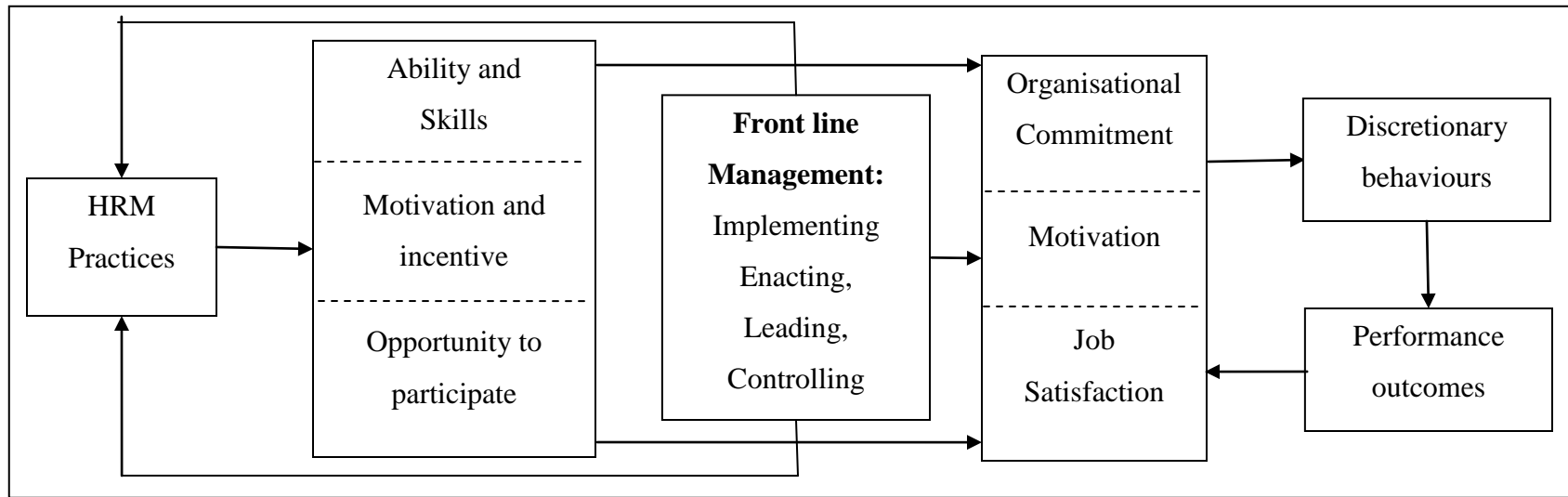


Figure 2.4: Purcell, et al. (2003) Model
Source: Adopted from Purcell, et al. (2003)

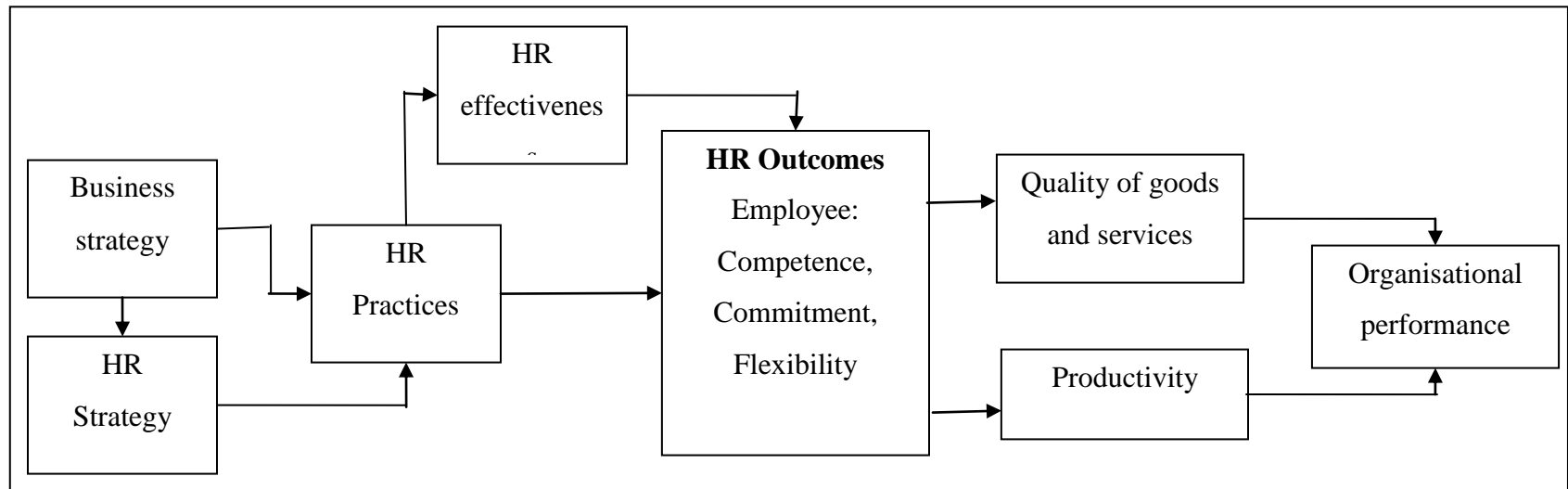


Figure 2.3: Armstrong (2006) model
Source: Adopted from Armstrong (2006)

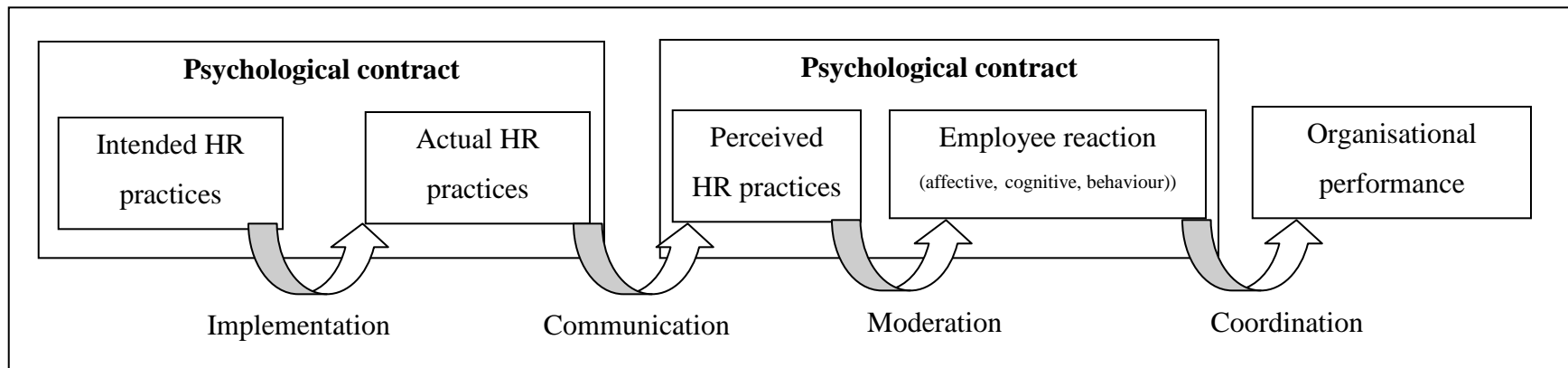


Figure 2.5: Wright & Nishii (2006) model
 Source: Adopted from Wright & Nishii (2006)

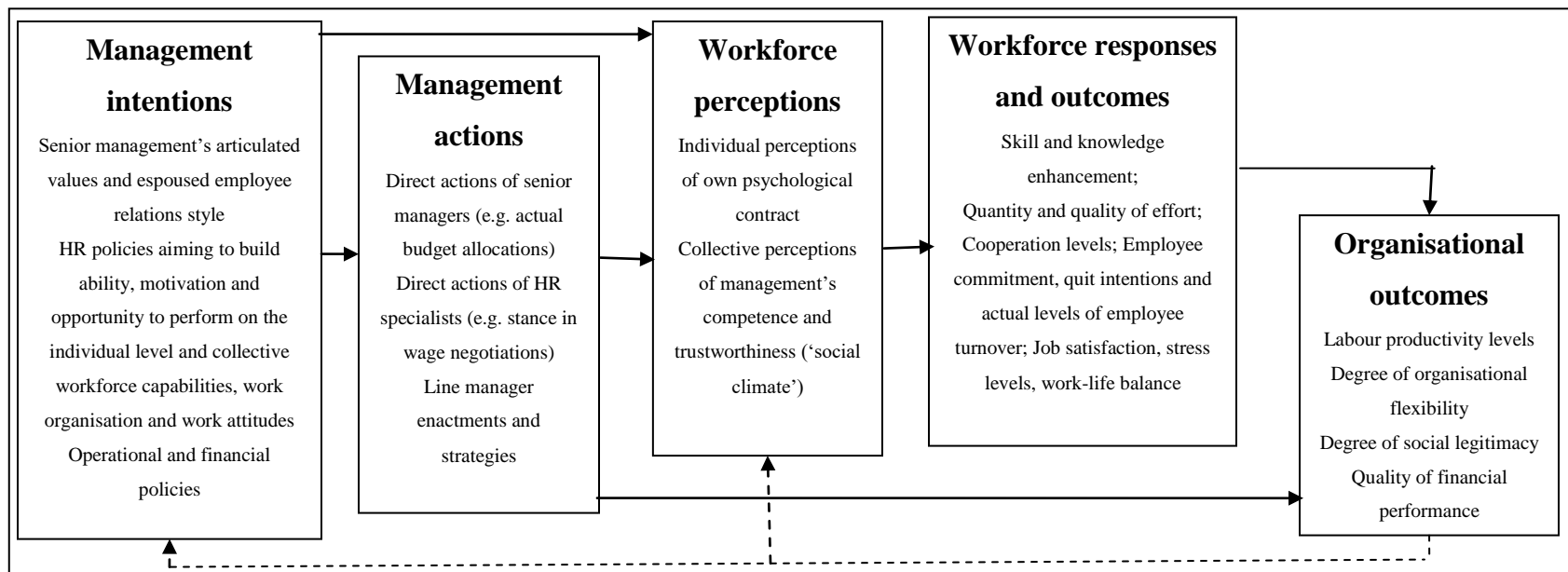


Figure 2.6: Boxall & Purcell (2008) model
 Sources: Adopted from Boxall & Purcell (2008).

Table 2.1: Comparison of HRM and performance linkage models

Model	Quantitative characteristics		Qualitative characteristics				
	No. of boxes	No. of variables in boxes	Organisational strategy	HRM strategy	HRM practices	Moderating variables	HR outcomes
Becker, et al. (1997)	7	Minimum:1 Maximum: 4	Not involved	Involved	Not specified	Employee skills, Motivation, Job design, Work structures	Creativity, Productivity, Discretionary Effort
Guest (1997)	6	Minimum:2 Maximum: 7	Not involved	Involved	List of practices	Employee skills, Abilities, Appropriate role, Understanding of that role	Commitment, Quality; Flexibility; Effort/motivation; Cooperation; Involvement; Organisational citizenship
Purcell, et al., (2003)	6	Minimum:1 Maximum: 4 (not including practices)	Not involved	Not involved	AMO practices	Abilities, Motivation, Opportunity to participate, Line managers	Organisational commitment; Motivation; Job satisfaction
Armstrong	8	Minimum:1 Maximum: 3	Involved	Involved	List of practices	Employee effectiveness	Competence, Commitment, Flexibility, Quality of products and services, productivity
Wright & Nishii (2006)	5	Minimum:1 Maximum: 1	Not involved	Not involved	Intended/ Actual/ Perceived practices	Line managers (to implement, communicate, moderate & coordinate)	Employee reactions (affective, cognitive, & behaviour)
Boxall & Purcell (2008)	5	Minimum:2 Maximum: 9	Not involved	Not involved	Intended/ Actual/ Perceived practices	Senior managers HR managers Line managers	Skill and knowledge enhancement; Quantity and quality of effort; Cooperation levels; Employee commitment, quit intentions and actual levels of employee turnover; Job satisfaction, stress levels, work-life balance

Source: Author

3.0 Conclusions

The objective of this paper was to find out if there is demonstrable link between HR practices and organisational performance. This conceptual paper drawing from various theories and models, established so. HRM practices affect organisational performance through their effect on employee development and behaviours. These practices determine the type of employees who are selected, the skills and motivation of the employees, and the opportunities and incentives they have to design new and better ways of doing their jobs (Moideenkutty, et al., 2011).

Moreover, a study by Al-Kaha and his colleagues (2011) found that, HR practices are positively related to organisational performance. They concluded that the most important effect of human resource policy on organisational performance is the employees' participation in decision making, however, this policy is not widely implemented because cultural attitude that discourages employees' participation in decision making or because of the nature of certain jobs that seem to be critical, risky, and systematic.

According to Akdere (2009, cited in Ibrahim & Zulkafli, 2016) HR practices focused on quality management was directly related to multiple dimensions of organisational performance outcomes (i.e., intangible – employee satisfaction and customer satisfaction – and tangible – profit). Knowledge management and strategic management were found to be positively related to the financial performance of firms implementing quality management. Process management is found to be negatively related to employee satisfaction. General HR practices were positively related to both employee and customer satisfaction. Employee focus of the firms is also positively related to employee satisfaction. Employee satisfaction is also related to both customer satisfaction and financial performance while customer satisfaction is found to be positively related to employee satisfaction.

However, there is still continuous arguments over the number of mediating variables and its content for a clearly demonstrable link between HR practices and organisational performance (Becker & Huselid, 2006; Gardner, 2003). This examination, therefore, still remain the most demanding theoretical and empirical challenge in the HRM literature.

This challenge notwithstanding, the literature review opens an opportunity to develop a (cyclical not linear) model that is inclusive of common variables that acknowledges the core significance of employee abilities, motivation and opportunity to participate, and senior, HR and line managers; in today's wake of global and rapidly changing environment that demands organisations to be competitive (Figure 3.1). In the end, this paper prompts another field study on

the link between HR practices and organisational performance among different types of organisations, including co-operative organisations.

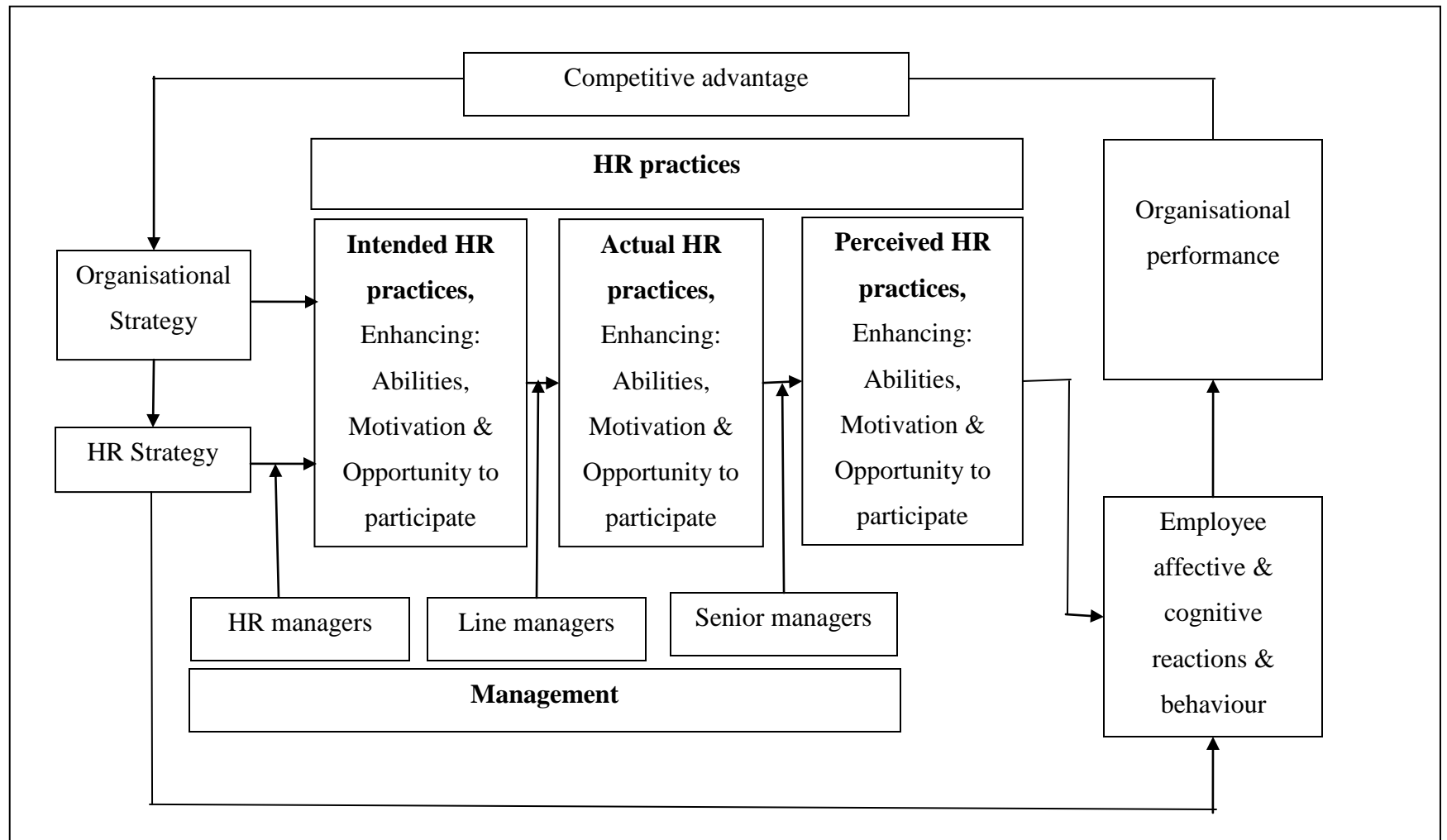


Figure 3.1: HRM and performance link model
Source: Developed by Author

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