HUMAN RESOURCE MANAGEMENT: AN ANALYSIS OF STRATEGIC APPROACH

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Abstract

Globalization tendencies appeared as an outcome of scientific and technological innovations in 20th century impact the Human Resource as well as most other department ın a company. Like in many companies, HR department accompanied by the change of sectoral structure in a business is the main element which determines Economic Performance. This study investigates the causal relations between company performance and its HRM Department.

Keywords: *Strategic Human Resource Management, Human Resource Management, Performance, Competitive Advantage*

1. Introduction

People are an organization's most important asset that is very strategic instrument for a company's market competition. We now define 'human advantage' as being competitive strategy and systems-based view of the value of human resource which makes towards adding value to customers, towards managing cost, through accelerating operational and management processes, and in challenging the status quo through innovation and change. For about the past decade or so, the mantra of Human Resource has been "be a strategic business partner."

The importance of involving HR in development, planning, and implementation of competency-based strategies has been well-communicated. (Beatty & Schneier 1997; Ulrich 1997).

Strategic HRM, a global human capital management consultancy, partners with organizational leaders in human resource management transformation, leadership development, organizational development, and change management. The mission of HRM is to enable organizations assess, address, and alleviate human capital related conditions inhibiting organizational growth, high performance, and achieving competitive advantage in their markets. Wright and McMahan (1992) noted that strategic HRM is primarily focused on ''the pattern of planned HR deployments and activities'' that are intended to help organizations to achieve their objectives.

Strategic HRM represents a new generation of organizational consulting firm. A consultancy composed of seasoned consultant-practioners recognized as thought leaders and skilled practioners. They are organizational change agents respected for delivering data-driven feedback and action recommendations.

There is a rapidly growing literature on the interaction between strategic HRM apply and companies's performance, with many analysts drawing policy conclusions on the basis of HRM application that involve only a HRM and an economic variable.

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2. Literature Review

Strategic human resource management research has mostly gravitated towards financial measures of performance in order to assess the effectiveness of human resource management initiatives. At a basic level, strategic HRM research has tended to gravitate toward measures of financial- or market-based organizational performance as its dependent variable (Becker & Huselid, 1998; Rogers & Wright, 1998).

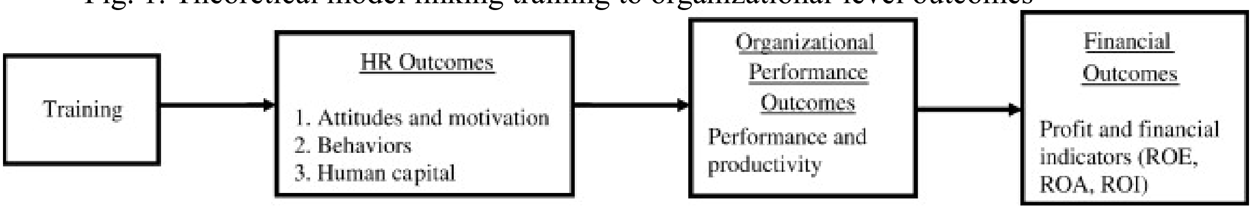
While traditional HRM research has generally focused on individual level outcomes such as job performance (e.g. Wright & Boswell, 2002), job satisfaction (e.g. Seibert, Silver, & Randolph, 2004), and motivation (e.g. Bloom, 1999), strategic HRM research has focused on unit or firm level outcomes related to labor productivity (Huselid, 1995; Koch & McGrath, 1996; MacDuffie, 1995)scrap rate (Arthur, 1994), sales growth (Batt, 2002; Guthrie, 2001), return on assets (ROA) and return on investment (ROI) (Delery & Doty, 1996), and market-based performance (Huselid, 1995). These aggregate level outcomes can further be differentiated by department level, plant (site) level, business unit level, and firm (corporate) level performance measures (Rogers & Wright, 1998; Colakoglu, Lepak, Hong 2006).

3. Strategic HRM vs. HRM

Basic stages of HRM are

1. Design and implement orientation session(s) for all employees.
2. Develop and disseminate a code of ethics.
3. Provide detailed job descriptions to professional staff.
4. Establish a staffing plan.
5. Diversify skills.
6. Utilize a mix of mechanisms to get the staff you need.
7. Hire some entry level professionals.
8. Emphasize training.
9. Simplify the organizational structure.
10. Get internal procedures and policies in place early.

Fig. 1. Theoretical model linking training to organizational-level outcomes



(Source: Tharenou, Saks and Moore, (2007)).

Guest's model of human resource management is very useful in that it defines the modern lexicon of human resource management. Gone are the references to the functional areas of personnel management described earlier. Human resource management clearly encompasses these older regulatory hangovers, but goes much further in embracing the management of change, job design, socialization and appraisal as the key levers to achieve organizational success. Guest's model also sets the agenda for what human resource management is trying to achieve – integration with the business strategy of the organization, employee commitment, flexibility and quality. These are still very much the aims of human resource management. Taking commitment as a major element of human resource management Storey (1995) came up with one of the best original definitions of human resource management: Human resource management is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques.

Fig. 2. Guest's normative model of human resource management

Human resource management policies	**Human resource management outcomes**	**Organizational outcomes**
Organization and job design. Management of change	Strategic integration	High job performance
Recruitment, selection and socialization	Commitment	High problem solving, change and innovation
Appraisal, training and development	Flexibility/adaptability	High cost-effectiveness
Reward systems Communication	Quality	Low turnover, absence and grievances

(Source: adapted from Guest (1987))

Strategic human resource management (SHRM) has received a great deal of attention in recent years, most notably in the fields of human resource management (HRM), organizational behavior, and industrial relations. SHRM research is distinguished from traditional HRM by two key characteristics: 1) an organizational system level approach to HRM, and 2) a concern with the effects of HRM on firm performance. The concept of firm strategy is often though not necessarily included in SHRM research, as well. Nevertheless, firm strategy has generally received inadequate and superficial treatment in SHRM education, a limitation that makes SHRM teaching unnecessarily narrow and reflects weaknesses in the SHRM research stream itself (cf. Chadwick & Cappelli, 1999, 2005).

Strategic HRM focuses

1. Market-based performance

This implies that as a firm's time perspective goes from short term to long term, the core performance measures of success should shift from customer satisfaction through market-based performance to financial performance (Hultink and Robben, 1995).

For market-based performance, we measured sales growth and market share growth, two key business goals for every company. It has been suggested that high market-based performance predisposes the firm to improved financial performance by altering customer buying behavior in a favorable manner (Kerin 1990; Szymanski 1993 and Anderson 1994).

Manufacturing cost efficiency and new product flexibility capabilities mediate the influence of strategy integration on market-based performance.(Swink, Narasimhan, and Kim 2005)

2. Return on investment

ROI is one of several approaches to building a financial business case. In other words, A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. The term means that decision makers evaluate the investment by comparing the magnitude and timing of expected gains to the investment costs.

Decision makers will also look for ways to improve ROI by reducing costs, increasing gains, or accelerating gains.

To calculate ROI,

$$ROI = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

3. Return on assets

ROA tells you what earnings were generated from invested capital (assets). Thus, ROA gives an idea as to how efficient management is at using its assets to generate earnings. An indicator of how profitable a company is relative to its total assets. In other words, Return on assets measures a company's earnings in relation to all of the resources it had at its disposal. Thus, it is the most stringent and excessive test of return to shareholders. If a company has no debt, it the return on assets and return on equity figures will be the same.

To calculate ROA, by dividing a company's annual earnings by its total assets.

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or the ROA of a similar company. The higher the ROA number, the better, because the company is earning more money on less investment.

4. Sales growth

Sales growth, same stores, %. Increase in sales for comparable months in stores that have been open for more than 12 months. For investors looking at a company from the outside, forecasting sales growth rates--even in the near term--is a bit like looking through the fog. A company's market share can also have a big impact on its future sales growth.

5. Scrap rate

Company scrap rates could be estimated if company original values of fixed assets and investment data were available. Therefore, scrap rates are estimated based on subsets of the whole company where the necessary data to do so are available.

6. Labor productivity

Labor productivity measures the amount (or value) of output generated per hour worked. Why does it matter? Greater labor productivity enables firms to produce a given amount of goods or services with a smaller number of labor hours and since payroll cost is related to the number of hours they use, this helps firms control their costs, making their enterprises more profitable.

Labor productivity is average real (inflation-adjusted) output per hour of labor; it is defined for the nonfarm business sector (the overall economy, excluding government, farms, residential housing, nonprofit institutions, and private households). Labor productivity differs from total factor productivity (TFP), a concept discussed later in this paper, in that increases in capital per worker increase labor productivity but not TFP.

Looking across the potential measures of HR effectiveness, Dyer and Reeves (1995a, 1995b) suggested that measures of organizational performance in HR research may vary based on the measures' level of proximity to the HR practices. According to their categorization, HR practices have their most immediate impact on employees since employee outcomes such as turnover, absenteeism, job satisfaction, commitment, and motivation are in a closer line of sight to

HR practices. They propose that HR practices also have the strongest effect on such employee outcomes, as these outcomes are to some extent the initial goal for designing the HR practices. The second category of organizational performance which is more distal to HR practices than individual level employee outcomes includes more macro level outcomes associated with aggregates of individual efforts, such as indicators of productivity, quality of products and customer service. The third category of performance noted by Dyer and Reeves (1995a, 1995b) encompasses financial and accounting outcomes, such as ROA, ROI, and profitability. Finally, the most distal performance measure to HR practices is the capital market outcome, such as stock price, growth, and returns.

4. Methodology

The first group is in a traditional HRM environment. They consisted of 42 people, 26 females, and 16 males. The second group is in a strategic HRM environment. They consisted of 42 people, 24 females, and 18 males.

The functional HR factors within companies is likely to influence the practices used by respondents. For example, the test results shows that over 21% of Group B respondents indicate that labor productivity is their functional area, while only 15.1% fit into that category in Group A. The type of HR functions used, the commitment to HR quality, awareness of risk, and other factors could be largely influenced by these relative proportions. As the test results shows, nearly 48% of Group A respondents HRM characteristics, while over 68% of Group B respondents SHRM characteristics.

In order to explain the relationship between the variables, this paper uses survey questions, correlation analyses are suitable for estimation purposes, when the results are compared each other. The highest positive relationship is calculated between job performance and labor productivity(r=995947). On the other hand, there is no strong relationship between job satisfaction and sales growth(r=0.057210).

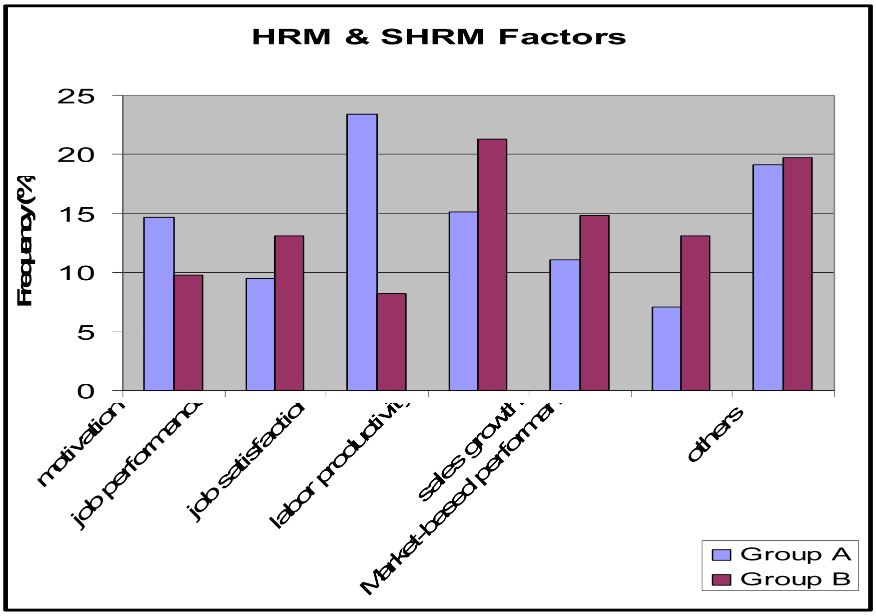
Table 1 shows t-test value

	Std. Error	**t-Statistic**	**Prob.**
Motivation	1.031.617	-1.336.642	0.2389
Job performance	1.542.992	-0.052559	0.9601
Job satisfaction	0.341293	-0.685521	0.5235
Labor productivity	0.658338	0.850669	0.4338
Sales growth	2.766.139	0.229428	0.8276
Market-based performance	2.094.123	0.379985	0.7196
others	0.088837	1.181.155	0.2907

Table 2 shows correlations among variables

Variable	**1**	**2**	**3**	**4**	**5**	**6**
Motivation	1.000.000	0.985433	0.961653	0.954244	0.090947	0.992694
Job satisfaction		1.000.000	0.950424	0.950006	0.057210	0.993539
Job performance			1.000.000	0.995947	0.075365	0.949943
Labor				1.000.000	0.110973	0.946379

productivity		
Sales growth	1.000.000	0.070649
Market-based performance		1.000.000



A and B differ considerably in several characteristics. Group B individuals' responses focused on labor productivity according to survey. Moreover, the individuals in Group A tend to be younger and more likely to work in financial functions, where there may be significant concern with skill, accuracy, and advanced practices.

Finally, the SHRM factor to be thought to bring up more in the future is the most important factor for accelerating and expansions of globalization.

Conclusions

We proposed that research progress requires addressing some basic definitional and levels of analyses issues involved in conceptualizing and measuring the HR system construct. Drawing on previous strategic HRM literature, we identified six components of the HR system structure: Market-based performance, Return on investment, Return on assets, Sales growth, Scrap rate, and Labor productivity. Concepts and insights from the literature on organizational levels of analysis provide important guidelines to researchers in conceptualizing and measuring these strategic HR system structure components. In addition, distinctions between strategic HR system components may help to shed some light on current methodological debates in the strategic HRM literature and avoid the potential for misattribution across strategic HR system components. Finally, we can begin to develop and test more complex and comprehensive models that promise to enhance our knowledge of the inter-relationship between strategic HR system components and firm performance outcomes.

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