

THE IMPACT OF STRATEGIC HUMAN RESOURCE MANAGEMENT ON ORGANIZATIONAL PERFORMANCE

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ABSTRACT

The main purpose of this paper is to study the effect of Human Resource Management Strategy on Organizational Performance in Tehran Stock Exchange Market. To assess this, a model with 6 latent variables has been presented in which each of the variables has been measured by other indicators. To measure the indicators of the model, a questionnaire was prepared and distributed among 84 Human Resource Management Departments of firms on Tehran Stock Exchange. The model was examined using PLS Path Modeling Technique. According to the results, Human Resource Strategy leads to human resource effectiveness because of enriching organizational performance.

KEYWORDS: Strategic Human Resource Management, Organizational Performance, Partial Least Square (PLS)

The integration of human resource management and strategic management has been recently resulted from the emergence of a new discipline mostly known as strategic HRM. (Wright and McMahan, 1992).

The developments in resource-based approaches taken by many companies have been accompanied with the linkage between HRM and organizational strategy. (Amit and Schoemaker, 1993; Barney, 1995; Grant, 1991; Peteraf, 1993).

The current vision emphasizes on this fact that HR has to be regarded as a strategic factor. This has intensified the interests in this field. The reason can be expressed from two aspects. First, HR plays a significant role in producing results out of the pre-defined strategies. Second, human resource is capable of becoming a sustainable competitive advantage for the organization.

Therefore, the current consensus points out this fact that if HRM strategy can be employed appropriately, it will enhance organizational performance remarkably.

The influence that HRM strategy and the related methods can have on organizational performance is considered as a critical issue in several areas such as HRM, industrial relations and industrial and organizational psychology. (Boudreau, 1991; Jones and Wright, 1992; Kathleen, 1990).

HRM practices can help the organizations construct a sustainable competitive advantage,

particularly when they have been made consistent with organizational strategy. (Begin, 1991; Butler et al., 1991; Cappelli and Singh, 1992; Jackson and Schuler, 1995). The proper configuration of HRM strategy can ensure a direct and economically substantial effect on organizational performance.

The current paper aimed to explore the effect of the strategy fit between the business environment of a company and HRM strategy on organizational performance and HRM effectiveness.

At the same time, the interaction between HRM effectiveness and strategy fit with organizational performance was investigated.

LITERATURE REVIEW

Human Resource Management Strategy

There are some methods for strategic human resource management including resourcing, training and development, employee relations and reward management. They are mainly related to the procedure through which individuals are employed and managed inside an organization. Thanks to strategic HRM, characteristics such as commitment and capability are considered important in employment of people that in turn help to obtain competitive advantage for the organization.

Cole (2002) emphasized that HR is capable of adding strategic value from employees in the organization to add value and achieve competitive advantage. It can be claimed that human resource is as important as

employees. The effective implementation of HRM strategy can thoroughly organize the entire HRM measures for all employees to directly affect employee attitude and behavior in order to enable the company to gain competitive strategy (Huang et al, 2002).

Organizational Performance

Performance is accounted as a vital factor to management. The output of an individual or a team in an organization is considered as the performance, which relates to the authority and responsibility to obtain objectives in a lawful manner in conformity with the standards of morale and ethics. (Iswati and Anshori, 2007).

Performance can be defined as the capability in an organization to achieve and effectively manage their accessible resources through various methods in order to result in a competitive advantage. Two types of performance can be stated, financial and non-financial. (Hansen and Mowen, 2005).

HRM and organizational performance

The relationship between HRM effectiveness and organizational performance has been extensively argued in many studies (Arthur, 1994; Dalton, 2003; Datta et al., 2003; Gollan, 2005; Huselid, 1995; Whicker and Andrews, 2004). It has been revealed that HRM can be a proper source of sustainable competitive advantage for every organization. HRM is able to affect employees' skills. This would be performed when human capital of an organization is acquired and developed and consequently, the business goals can be obtained.

According to the mentioned facts, the second hypothesis can be stated as follows:

H₂. HRM effectiveness influences directly and positively on organizational performance.

An introduction to PLS Path Modeling

The conceptual approach, partial least square (PLS) method, is amongst the multivariate statistical techniques. There are many constraints in this regard including unknown response variable distribution, low number of observations, and existence of a serious correlation between independent variables. In spite of the above-mentioned limitations, PLS method can be still modeled into some dependent variables while applying several independent variables.

The specified coefficients used in this method can help in a way that the final model is of the highest interpretation and explanation power. Additionally, PLS weighs up the mutual effects between latent variables (endogenous coefficients) and the weight of the entire measurable indices, related to latent variables per case (exogenous coefficients).

METHODOLOGY

Recent research model is derived from a paper that presented by Armstrong in 2006. Based on interviews with 10 experts and using Delphi technique, the model was moderated. Because of special relationship between variables, in order to solving the model, PLS path modeling technique and Visual PLS software (version 1.04) was used.

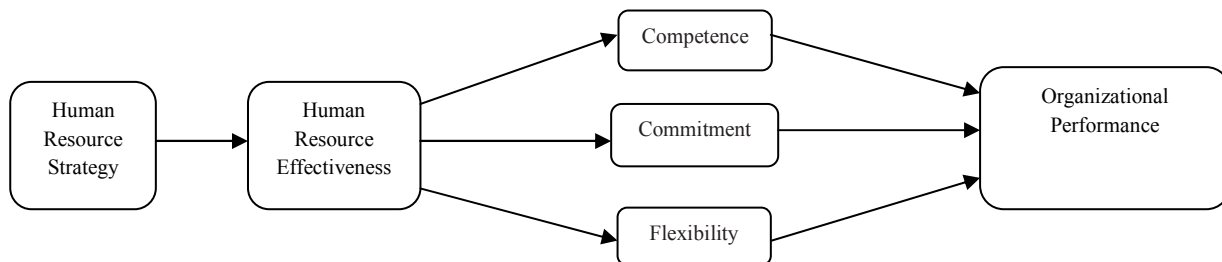


Figure 1: A conceptual model based on Micheal Armstrong (2006)

According to the presented conceptual model, 7 hypotheses were formed as presented below:

- A significant relationship exists between HR Strategy and HR Effectiveness.
- A significant relationship exists between HR Effectiveness and Competence.

- A significant relationship exists between HR Effectiveness and Commitment.
- A significant relationship exists between HR Effectiveness and Flexibility.
- A significant relationship exists between Competence and Organizational Performance.
- A significant relationship exists between Commitment and Organizational Performance.
- A significant relationship exists between Flexibility and Organizational Performance.

In order to obtain the goals of this paper, a structured questionnaire was prepared and distributed among participants. The questionnaire included 28 expressions and respondents were asked to rate each,

from 1 to 5. One would refer to complete disagreement and 5 would show complete agreement with the corresponding expression. In the questionnaire, HRMS, Human Resource Effectiveness, Competence, Commitment, Flexibility, and organizational performance were measured by 4, 4, 6, 5, 5 and 4 questions, respectively.

The findings of research

Using PLS path modeling technique, the above model was estimated and the following results was obtained.

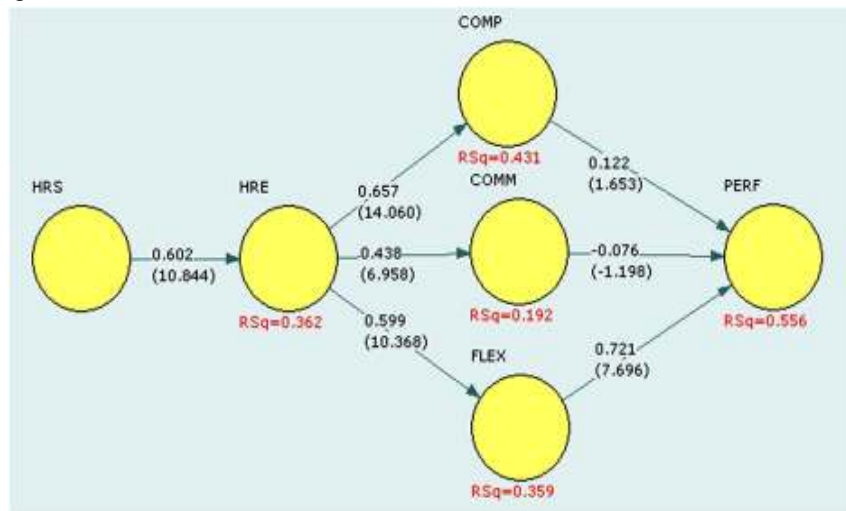


Figure 2: The estimated model using VPLS software

It is known that PLS path model includes two structural and measurement models. In order to validate the PLS path model, it is required to analyze and interpret both structural and measurement models as well. It is the process consisting of two stages in which the measurement and structural models will be assessed accordingly (Henseler et al., 2009).

Assessment of the structural model

Based on Chin’s theory, R² is only measured for endogenous variables and presents the variance of endogenous latent variables. For values of 0.67, 0.67,-0.33, and less than 0.19, it is interpreted as noticeable, average, and weak, respectively. In a particular model including endogenous latent variables with only one or two exogenous latent variable(s), the average of R² is considered as acceptable (Trujillo, 2009). In the current study, the

model includes endogenous latent variables with an exogenous latent variable and average of R² is 0.380. Hence, R² value for the model is acceptable.

Assessment of measurement models

In this section, we assessed three aspects of reflective measures:

- The unidimensionality of the indicators
- Indicators are explained properly by their latent variables
- The degree to which a given construct is different from other constructs

Unidimensionality of the indicators

Several tools have been recently proposed for assessment of the unidimensionality of PLS-PM reflective blocks (Shamir et al., 2005). Among them,

the most prevalent methods are three following indicators:

- Check the first eigenvalue of the MVs correlation matrix
- Calculate the Cronbach's alpha
- Calculate the Dillion-Goldstein's

In this work, the unidimensionality of the indicators was measured using Cronbach's alpha coefficient. If the coefficient is more than 0.7, the method's reliability will be high and if it is smaller than 0.6, the reliability is considered low (Henseler et al., 2009). The average of Cronbach's α coefficients of the model was higher than 0.7, Therefore, the reliability of the model is generally acceptable.

Indicators are explained appropriately by their latent variables

We checked the indicators using the following tools:

Composite Reliability

Composite Reliability is a criterion used for model reliability, in which the value less than 0.6 demonstrates lack of reliability (Henseler et al., 2009). The value of this criterion in this study was significantly higher than 0.6, which shows high reliability of the model.

AVE

In order to calculate the convergent validity, Fornell and Larcker proposed AVE. AVE has to be more than 0.50. It means that 50 percent or more variance of the indicators should be considered (Henseler et al., 2009).

The AVE of the current model was higher than 0.5. Thus, the convergent validity of the model is confirmed.

Table 1: Reliability and AVE of the model

Construct	Composite Reliability	AVE	Cronbach's Alpha
HRS	0.895	0.688	0.877
HRE	0.804	0.577	0.766
COMP	0.660	0.684	0.552
COMM	0.859	0.434	0.813
FLEX	0.843	0.633	0.799
PERF	0.805	0.545	0.735
Average	0.805	0.593	0.757

The degree to which a specific construct is different from the others

We examined the extent to which a given construct is differentiated from the others. In fact, it was tried to confirm that the shared variance between a construct and its indicators is larger than the shared variance with the other constructs.

In other words, no indicator should load higher on another construct than it does on the construct that it intends to measure. We calculated the correlations between a construct and an indicator (not its own block). If the indicator loads higher with other constructs than the one, which is intended to measure, we has to examine its appropriateness, because it is unobvious which construct or constructs are being actually reflected (Henseler et al., 2009).

According to the results, HRS1, COMP4, COMP5, FLEX2, and PERF5 were not recognized as appropriate indicators for latent variables and were therefore excluded from the model; however, the other indicators of the model were confirmed to be applied.

Table 2: The Factor Structure Matrix of the Loadings and Cross-Loadings

Scale Items	HRS	HRE	COMP	COMM	FLEX	PERF
HRS2	0.6240	0.3156	0.1875	0.1751	0.2212	0.2588
HRS3	0.7306	0.3965	0.2886	0.2726	0.3324	0.1352
HRS4	0.5908	0.3103	0.2249	0.1312	0.2781	0.2873
HRE1	0.1256	0.6615	0.4412	0.0187	0.1841	0.1276
HRE2	0.1923	0.7871	0.1249	0.1129	0.3213	0.0987
HRE3	0.1298	0.6379	0.0765	0.1219	0.1982	0.0987
HRE4	0.0983	0.8746	0.2365	0.1349	0.1214	0.2871
COMP1	0.1356	0.2155	0.6412	0.2137	0.1341	0.1346

COMP2	0.1113	0.1161	0.7249	0.0239	0.2133	0.1437
COMP3	0.0348	0.0929	0.6765	0.4219	0.0942	0.3457
COMP6	0.1583	0.2436	0.8365	0.3241	0.2514	0.3211
COMM1	0.1834	0.1892	0.2134	0.4532	0.2314	0.1232
COMM2	0.2786	0.3241	0.1232	0.6512	0.0234	0.1876
COMM3	0.3256	0.2843	0.0994	0.7745	0.0934	0.2875
COMM4	0.1983	0.2166	0.1109	0.7112	0.2134	0.4109
COMM5	0.3945	0.2943	0.4312	0.6709	0.2412	0.1984
FLEX1	0.1975	0.4117	0.0918	0.0982	0.6286	0.2243
FLEX2	0.1234	0.0198	0.1092	0.1098	0.7621	0.4231
FLEX3	0.1298	0.2198	0.1328	0.1098	0.7889	0.1875
FLEX4	0.1987	0.1275	0.1198	0.5712	0.7822	0.1766
FLEX5	0.0076	0.3176	0.2876	0.1298	0.7378	0.2344
PERF1	0.3284	0.2938	0.3832	0.4239	0.6286	0.8333
PERF2	0.1823	0.1111	0.2099	0.0934	0.4123	0.6523
PERF3	0.2384	0.2008	0.1328	0.1098	0.0054	0.2876
PERF4	0.0345	0.1343	0.2938	0.2873	0.0994	0.4324

Since the weights of the model's manifest variables were totally positive, it is shown that the entire measurement indicators have explained their own latent variables precisely and correctly.

CONCLUSION

According to the results, human resource strategies due to boosting effectiveness of human

resource through increasing competence, commitment and flexibility of employees lead to improving organizational performance.

According to the linkage between human resource and organizational performance in the presented model, human resource management can design programs in order to enhance organizational resource.

Table 3: Hypothesis testing of the research

	Entire Sample estimate	Mean of Subsamples	Standard error	T-Statistic
HRS->HRE	0.6020	0.6251	0.0555	10.8442
HRE->COMM	0.4380	0.4618	0.0630	6.9576
HRE->COMP	0.6570	0.6827	0.0467	14.0600
HRE->FLEX	0.5990	0.6130	0.0578	10.3684
COMP->PERF	0.1220	0.1216	0.0738	1.6534
COMM->PERF	-0.0760	-0.0868	0.0635	-1.1977
FLEX->PERF	0.7210	0.7276	0.0937	7.6960

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