

# **The Impact of Strategic Human Resource Management on Organizational Performance**

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## **ABSTRACT**

*Organizational performance is getting more and more important, especially in a market with greater competition and dynamic. Organizational performance is measured through different indicators. It guarantees the continuity of the organization to be competitive in a global marketplace. Normally, the implementation of performance indicators achieved through human resources. Human resources are the key for keeping the organization in the market so competitive. These human resources need to be managed effectively to achieve the required performance of the organization. It is necessary to manage strategically the human resources and to adapt at its strategy with organizational strategy. The aim of this study is focused on the impact of the strategic management of human resource in achieving organizational performance. This study was conducted based on primary and secondary sources. How much organizations appear competitive in the market through achieving the performance indicators? How important is the management of human resources in achieving organizational performance? So, through the skills, behaviors and attitudes would be expected by human resources to achieve the required performance in the organization.*

**KEYWORDS:** *strategic HRM, organizational performance, effective management, HR outcomes.*

**JEL CLASSIFICATION:** *L25, O15, P17*

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## **INTRODUCTION**

Organizations are seeking to create much competition between them, taking more market, more customers, more sales, etc. Rapid changes stemming from globalization, advancement of information systems and other factors have caused higher competition. Many organizations are driven by the market to set their goals in their performance. Some of the goals are: cost reduction, achieving sales levels, increasing the number of customers, increasing the market percentage, improving productivity and quality, innovative products. The realization of these goals will be achieved through the human resources management in organizations. Workforce, as the key to success, will enable the achievement of organizational performance.

Human resources are regarded as one of the most important sources of today's firms. Human resources management is more important than other competitive sources because these people use other assets in organization, create competitiveness and realize objectives. Thus firstly, organizations must understand the expectations of their workforce in order to achieve the desired performance. The realization of the expectations of employees will enable the desired behavior of employees in the organization. Some of the

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desired outcomes of the organization in managing their workforce are: competence, cooperation of employees with managers, cooperation of employees between them, showing the capabilities of employees; motivation, commitment and satisfaction; attitude and presence; employee behaviors.

The overall goal of performance management is to create a culture as high performance in which individuals and teams to take responsibility for the continuous improvement of business processes and their skills and contribute in achieving the targets set by managers. In particular, management performance can be expressed as the approximation of individual objectives of employees with organizational objectives provided that employees support the culture of the organization. It provides for expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviors (expected to be)(Armstrong, 2006).

The purpose of strategic human resource management is to improve business performance through people management. The organizations need to manage their human resources effectively and efficiently to achieve the desired goals and objectives. The achievement the goals and objectives translate also in better performance. So, the issues raised for discussion are: How should organizations manage their main source – human resources? Does strategic human resource management help to meet the needs, the goals and objectives of the business? As should be adapted strategic human resource management to realize the performance? How should adapt strategic management of human resources to increase organizational performance? The main objectives of the study are:

- a. To observe closely how applicable is in practice the theoretical aspect of strategic human resource management for the achievement the organizational performance.
- b. To observe if organizations use the strategy of human resource management for the achievement of their performance objectives.
- c. To observe the importance of these strategies in the organization and in their performance.

## **1. LITERATURE REVIEW**

The achievements of organizational objectives can be different in different organizations. The studies emphasize the impact of HRM on organizational performance. Basically, and other studies in this area, point out that it is necessary to achieve organizational objectives and management of human resources should be strategic. Also, the strategies of human resource management should be integrated with the overall organizational strategy in the context of achieving the required performance. There has been much research on strategic human resource management that affects organizational performance. The discussions and definitions will be divided in two parts of speech: the strategic management of human resources and organizational performance.

### **1.1 Strategic HRM concept**

Strategic HRM is a process that involves the use of overarching approaches to the development of HR strategies, which are integrated vertically with the business strategy and horizontally with one another. These strategies define intentions and plans related to the overall organizational considerations, such as organizational effectiveness, and to more specific aspects of people management, such as; resourcing, learning and development, reward and employee relations. Strategic HRM focuses on actions that differentiate the firm

from its competitors (Purcell, 1999). It is suggested by Hendry and Pettigrew (1986) that it has seven meanings:

- the use of planning;
- a coherent approach to the design and management of personnel;
- systems based on an employment policy and workforce strategy;
- often underpinned by a “philosophy”;
- matching HRM activities and policies to some explicit business strategy;
- seeing the people of the organization as a strategic resource;
- achievement of competitive advantage (Armstrong, 2006).

Strategic HRM has a clear focus on implementing strategic change and growing the skill base of the organization to ensure that the organization can compete effectively in the future (Holbeche, 2004). SHRM facilitates the development of a human capital that meets the requirements of business competitive strategy, so that organizational goals and mission will be achieved (Guest, 1987). Strategy of human resource management is an integral part of business strategy. The main focus of this strategy is to achieve organizational objectives. So, strategy, then, is a set of strategic choices, some of which may be formally planned. It is inevitable that much, if not most, of a firm’s strategy emerges in a stream of action over time (Boxall and Purcell, 2003).

### **1.2 Organizational performance concept**

Campbell’s (1999) theory defines performance as behavior or action relevant to the attainment of an organization’s goals that can be scaled, that is, measured. Moreover, job performance is defined as what one is paid to do, or what one should be paid to do. The theory states that the measurement options, be they ratings from a supervisor, peer, or self, a simulated work sample, or hard criteria (e.g. tallying revenue generated, costs saved, customer complaints, or some variant of a computerized performance assessment) besides being valid, reliable, and not deficient should be free of contamination from sources of variation that are not under the control of the individual (e.g. differences in technology impacting a person’s performance). Situational enhancers or constraints, if not taken into account in an appraisal, can contaminate the mean, variance, or both with regard to an individual’s performance. Observation and interpretation hold the key to the establishment of effective criteria. Yet, an ongoing problem in appraising people is the lack of reliability in the observation of their behavior (Ronan and Prien 1971). This unreliability is largely attributed to well-known rating errors such as “first impressions”, “halo”, and “similar-to-me”. Lifson (1953) found that up to one-third of performance measurement variance is due to rater differences despite the fact that the observers had considerable experience in observing and evaluating people in the workplace. Lance (1994) corroborated this finding. Experience, however, is not a substitute for training. To solve the problem regarding lack of reliability, an observer must be trained. In this section, training programs that have been shown to be effective are described, and the necessity of taking context into account is explained (Boxall, Purcell and Wright, 2007).

Organizational performance is one of the most broadly and extensively used dependent variables in organizational studies today, and yet, at the same time, it remains one of the most imprecise and loosely-defined constructs (Rogers and Wright, 1998). In the strategy literature, the focus of attention on this construct has been concerned almost entirely with financial measures of performance. Conceptually, organizational performance has been defined as the comparison of the value produced by a company with the value owners expected to receive from the company (Alchian and Demsetz 1972). Venkatraman and

Ramanujam (1986) indicate that a narrow definition of performance focus on the use of simple outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm.

The literature reveals that studies into the HRM performance have not determined a specific and precise meaning for the organizational performance construct. Some studies have used subjective measures to evaluate firms' performance, such as employee satisfaction, customer satisfaction, executives' perceptions about the company's performance, absenteeism, employee commitment, and other behavior aspects. Other studies reference various objective measures for evaluating firms' performance, such as financial and market indicators. As a result, there is no common theory concerning organizational performance, and researchers utilize different indicators or variables to measure this construct. For this reason, there is also a call for a precise theory of organizational performance (Janssens and Steyaert, 2009) and HRM researchers and professionals might give crucial and special consideration to filling such a gap (Guest, 2011).

Another way, the concept of performance has been expressed by Brumbrach (1988) as follows: performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results. This definition of performance leads to the conclusion that when managing performance both inputs (behavior) and outputs (results) need to be considered. It is not a question of simply considering the achievement of targets, as used to happen in 'management by objectives' schemes. Competency factors need to be included in the process (Armstrong, 2006).

In short, a theory of performance is necessary to determine: relevant dimensions of performance, performance standards or expectations related to performance levels, restrictions on how the situation should be measured when assessing performance, the number of performance levels or gradient and the extent to which performance should be based upon absolute vs. relative comparison standards (Boxall, Purcell and Wright, 2007).

## **2. THE METHODOLOGY**

The aim of this study is focused on the impact that has strategic management of human resources in achieving organizational performance. This study is based on two major sources of research. This study was conducted through the collection and analysis of various publications on this field. The secondary source, refer various publications that have been made in this area about empirical studies, various academic debates and analyzes the different findings. These publications have been published in various journals, conferences and books. The primary source is based in the collection of data through questionnaires. The study is focused on the city of Durres. This is the second city in Albania for the importance in contributing to the Albanian economy. Data collection is concentrated in two sectors, which are: the manufacturing sector and the service sector. These questionnaires were completed by general manager and in some cases even by human resource managers. I have analyzed 30 organizations, which are 16 organizations in the service sector and 14 other organizations are production sector.

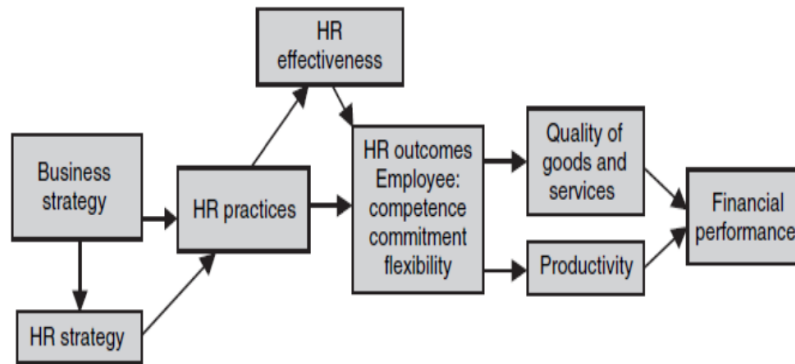
### 3. STRATEGIC HRM AND PERFORMANCE

Research between strategic HRM and business performance has dominated the academic and practitioner debate for more than two decades. However, most studies and publications in the field of HRM have defined the concept in terms of individual practices. According to Noe et al. (2007), refers HRM practices and policies that influence behaviors, attitudes and performance of employees. They are focused on several important practices which, in turn, can positively impact organizational performance, such as human resource planning, recruitment, selection, training and development, compensation, performance management and employee relations.

Pfeffer reshapes these practices into seven HRM practices; these practices are expected to enhance organizational performance and enable the organization to gain a competitive advantage (1998). Such practices are detailed as follows (Boxall, Purcell and Wright, 2007):

- Employment security.
- Selective hiring of new personnel.
- Self-managed teams and decentralization of decision-making as the basic principles of organizational design.
- Comparatively high compensation contingent on organizational performance.
- Extensive training.
- Reduce status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels.
- Extensive sharing of financial and performance information throughout the organization.

Figure 1 shows the pattern of connectivity between HRM and performance. Through this model is reflected in detail the connection that exists from business strategies to organizational performance measured by financial indicators. According to Michael Armstrong (2006), in the center of this model is the performance as a function of the Ability + Motivation + Opportunity (AMO). Development of human resources strategy comes after is crafted business strategy. But before the drafting and formulation of business strategy should have analyzed competences of the staff, the way how they motivate, the types of skills and knowledge employees. It is precisely this workforce that will achieve the performance indicators. So, the realization of business strategy comes through integration of workforce opportunities, their expectations and other factors that influence inside and outside the organization. So, it is easier tracking of a human resources strategy and adaptation strategies with previous practice and practice to be followed for the implementation of performance. The performance will be implemented successfully to achieve organizational performance satisfaction from reaching employees, their motivation, effective management of HR by production high quality products.



**Figure 1. The relationship between strategic HRM and performance**

*Source: Armstrong (2006, p. 75).*

In HRM-performance research, the performance outcomes of HRM can be viewed in different ways. HRM researchers have mostly referred to Dyer and Reeves' (1995) classification of performance outcomes as follows:

- HR-related outcomes, such as turnover, absenteeism, job satisfaction, commitment.
- Organizational outcomes, such as productivity, quality, service, efficiencies, customer satisfaction.
- Financial accounting outcomes, such as profits, sales, return on assets, return on investment.
- Capital market outcomes, such as market share, stock price, growth (Boxall, Purcell and Wright, 2007).

#### 4. THE ROLE OF STRATEGIC HRM ON PERFORMANCE

Strategic management of human resources represents a transformation that is relatively new in the field of human resource management. An important role of strategic human resource management is about focusing the management in employees as a tool to gain competitive advantage. Now, organizations are made aware that successful human resources policies and practices of appropriate can increase performance in various areas such as productivity, quality and financial performance.

Performance management is a planned process in which key elements are different measurement, feedback, positive reinforcement and ongoing dialogue between managers and employees. It has to do with measurement results in the form of performance achieved in comparison with the expectations expressed as objectives. Also, it has to do with the inputs and values. Inputs are the knowledge, skills and behaviors necessary to produce the expected results. Needs are identified by defining these requirements and evaluate the degree to which the expected levels of performance are achieved through effective use of knowledge and skills, appropriate behavior.

Performance management strategy has to do with all the business and not just the managers. So managers are not only responsible for delivering the required performance. Managers should have the confidence to distribute authority and responsibility throughout the organization. In a sense, managers need to collaborate and consider as part of their own

people in order to report on achieving the required performance. Managers and their teams are jointly responsible for the results and are both involved in agreeing what they should do and how they should do it. Performance management processes are part of sweeping across the organization. Managers and other employees of the organization should work together to jointly commit to achieving the performance.

Performance management strategy should focus on the development to a continuous and flexible process involving managers and all the organization that operate as a single team. This should determine how they can best work together to achieve the required results. This makes it possible to focus on the planning of future performance and performance improvements existing. HRM Strategy provides the basis for regular dialogue and frequent between managers and other employees about performance needs and further development of the organization. Strategic human resource management may bring a number of benefits to the organization (Brewster et al., 2000):

- Contributing to the goal accomplishment and the survival of the company,
- Supporting and successfully implementing business strategies of the company,
- Creating and maintaining a competitive advantage for the company,
- Improving the responsiveness and innovation potential of the company,
- Increasing the number of feasible strategic options available to the company,
- Participating in strategic planning and influencing the strategic direction of the company as an equally entitled member of top management,
- Improving cooperation between the HRM department and line managers.

## **5. FINDINGS AND DISCUSSIONS**

Performance management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams (Armstrong, 2006). According to him, it is a means of getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standard sand competence requirements. Previous studies have emphasized the importance of human resource management in the organization. Human resources play a key role in order to be competitive in the market. A proper management of human resources will enable the achievement of the objectives required by the organization. The potential use of skills, knowledge and competencies of employees in the organization would make possible the realization of organizational performance. Basically, it is also confirmed by other research that strategic management of human resources has an impact on organizational performance. The study analyzed 30 organizations, which 16 organizations are the service sector and 14 organizations are in the manufacturing sector. The structure of the research, to give a better verification assumption or rejection it, is as follows:

- a. Organizations know the concepts of organizational performance and strategic management of human resources. This theoretical knowledge translates in practical implementation in these organizations.
- b. The organizational performance will have impacts from strategic management of human resources.

So, the study is focused on two sections. In the first section, study is focused on the theoretical aspects of adoption in organizations. While in the second section, study focuses on the impact that can provide strategic management of human resources in organization performance.

In first section, we will discuss knowledge and practical applicability of the principles / concepts of SHRM and organizational performance. The concepts and search results based on studies that made to these organizations. So, to have a clear survey in this study must first analyze whether organizations are familiar with these concepts and their evolution. Application of concepts and knowledge in organizations means that these organizations have formulated and developed a general organizational strategy. Also, they have developed and follow an assigned strategy for human resource management. Referring figure 2, from the study of 30 organizations emerged that 26 (87%) of them were familiar with the concepts and implementation in their organization. In other words these organizations have a specific strategy for managing human resources. While 4 (13%) of other organizations were not very familiar with the implementation of organizational concepts. This means that these organizations do not have a human resources strategy. These organizations do not implement adequate strategies, which mean that the required performance can be hard to achieve. The reason is simple. Organization lacks planning, orientation or foremost environmental study or analysis. The organization operates without studying environment. So, the organization is “the crossroads where they do not know which path will choose to go to the final destination in a shorter time and at a lower cost”. There are two organizations in the production sector and two organizations in the service sector were not familiar to apply the concepts in their organizations.

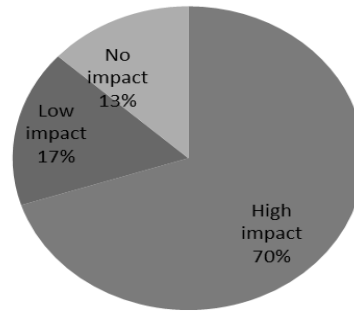


**Figure 2. The practical implementation of theoretical knowledge**

*Source:* made by author

In the second section, Strategic Human Resource Management is the planned pattern of human resource deployment and activities intended to enable the organization to meet organizational goals and objectives (Noe et al. 2007). How valid is the strategic management of human resources in the achievements of organizational performance? Is important SHRM in terms of its impact on organizational performance? Some of the goals are cost reduction, achieving sales levels, increasing the number of customers, increasing the market percentage, increasing product quality, innovative products, improve productivity.





**Figure 3. The impact of SHRM on organization performance**

*Source: made by author*

Organizations choose one or several indicators to measure their performance. For example, organizations decide as a measure of performance enhancing product quality and increasing the level of sales in the market. So, improvement of product quality will enable increased sales by increasing profit. The organizations must manage its inputs to achieve their outputs. One of the vital inputs for the organization is human resource. Good management of human resources will make possible the achievement of objectives. If we refer to the inputs of human resources would be the knowledge, skills, behaviors, competencies, etc. Referring figure 3, from the study, it emerged that 21 (70%) organizations had proven significantly change their performance through strategic management of human resources, while five (16.7%) organizations admitted that the organization had been minor changes in their performance. These small changes are due to a non- proper management. The development and implemented of human resources strategies have not been in line with the strategy of the organization. The four (13.3%) organizations did not have the impact on organizational performance by strategic human resource management. These organizations do not have a genuine business strategy and human resource management. These organizations to strategically manage their human resources pay attention in:

- a. Recruitment and selection of appropriate staff;
- b. Career Management in the organization;
- c. Training and development of employees;
- d. Job satisfaction;
- e. Creating a dynamic environment;
- f. Motivating employees.

In short, organizational performance has changed through strategic management of human resources management. This makes possible the achievement of organizational performance objectives. It also enables the organization to be competitive. SHRM is a very important tool that ensures the continuity of the organization.

## CONCLUSIONS

Organizations are trying to create as much competitive in the market, reaching to manage their human resources in achieving organizational performance required. Some of the goals are cost reduction, achieving sales levels, increasing the number of customers, increasing the market percentage, increasing product quality, innovative products, improve productivity. Human resources are playing an important role in achieving these

performance indicators. But before that, organizations should realize the expectations required from employees and so the employees show their skills, be motivated and behave in the manner required by the organization to achieve performance. Strategic HRM is a detailed process for human resource management throughout the organization that it's integrated with the organization's overall strategy. It enables the organization having employees with the right skills and putting them in positions according to the level of their qualification and skills. Different authors have tried to give different definitions for organizational performance. In general, organizational performance is related to the achievement of the objectives required by the organization. The achieving organizational performance is a result of the behavior of employees in the organization. Policies and practices of organizations motivate employees and they give impact on organizational performance. Some of these are: human resource planning, recruitment, selection, training and development, compensation, performance management and employee relations. A link between Strategic HRM and organizational performance has been developed by author Michael Armstrong. According to him, the performance is a function of the Ability + Motivation + Opportunity (AMO). By achieving the expectations of employees, it will be reached the performance required by the organization. Organizations need to consider human resource as a tool to gain competitive advantage needed to create appropriate policies and practices. Also, authority and responsibility must involve in the entire organization working as a single team and not focus only managers. Performance management strategy should focus on the development of a continuous and flexible process. The study analyzed 30 organizations, which 16 are the service sector and 14 in the manufacturing sector. The structure of the research is as follows:

- a. Organizations know the concepts of organizational performance and strategic management of human resources. This theoretical knowledge translates in practical implementation in these organizations. From 30 organizations emerged that 26 (87%) of them were familiar with the concepts and implementation in their organization. These organizations have a specific strategy for managing human resources. While 4 (13%) of other organizations were not very familiar with the implementation of organizational concepts. These organizations do not have a human resources strategy.
- b. The organizational performance will have impacts from strategic management of human resources. From 30 organizations, 21 (70%) organizations had proven significantly change their performance through strategic management of human resources, while five (16.7%) organizations admitted that the organization had been minor changes in their performance. The four (13.3%) organizations did not have the impact on organizational performance by strategic human resource management.

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