



**IMPORTANCE OF STRATEGIC HUMAN RESOURCE
MANAGEMENT ON ORGANIZATIONAL PERFORMANCE**

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ABSTRACT

Human Resource Management (HRM) discipline extracted its roots from organizational psychology discipline and proved to be an important practice for managing organizations. The role of this practice has emerged to be strategic with passage to time. Today the role of human resource management departments has become inevitable for 21st century modern businesses. This article focuses upon role of human resource management practice in 21st century. This theoretical paper is aiming the importance of human resource managers, HR practices and its influencing factors. In addition to that, this article also elaborates the upcoming challenges which are faced by 21st century HR managers. Author has conducted HR literature analysis in order to present emerging issues, challenges and practices of human resource management discipline in context of 21st century. Strategic human resource management (SHRM) in a way has emerged as the key contributor to the success of an organization in such competitive environment. Strategic Human Resource Management covers the concepts and practices that guide and align Human Resource Management philosophy, tactical planning and practice with the strategic and long term goals of the organization, with a particular focus on human capital. The foundation for strategic HRM is the real advantage of having an agreed basis for developing methodologies to people management in the longer term, and this is how a company can achieve a competitive advantage. SHRM is a complex integration of human resource to the strategic management of the organization with the objective of achieving the organizations goals efficiently and effectively. The aim of this study is focused on the impact of the strategic management of human resource in achieving organizational performance.

Key Words: Human Resource Management, Strategy, Strategic**INTRODUCTION:**

In the 21st Century, strategic human resource management remains the key element to attainment of organizational success. It has taken a general direction towards increasing the value of employees to an organization. In addition, it has contributed to the development of better strategies for attracting and retaining people within organizations. One of the main objectives of human resource management is to ensure quantifiable return on investments involved in building a workforce (Goldsmith, 2003). As organizational leaders strive to achieve this objective, eight notable trends have emerged among various organizations. The first trend has developed along the challenge of organizations yearning to be employers of choice. As the business environment becomes more competitive, firm's human resources (HRs) become more imperative to the firm's success. In recent years, the field of Human Resource Management (HRM) is experiencing abundant pressures for change in the dynamic business environment. It is due the shifts in globalization, economy, workforce diversity and technology, which have created greater demands for organizational redesigning and restructuring and drove the Human Resource Management practices in some completely new directions. Organizations are seeking to create much competition between them, taking more market, more customers, more sales, etc. Swift 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 management is more significant than other competitive resources because these people use other assets in organization, create competitiveness and realize objectives. Thus 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 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).

REVIEW OF LITERATURE

Strategic human resource management (SHRM) is a strategic approach to manage human resources of an organization. Compared with technical HRM, SHRM is considered a relatively "new" concept, despite its continuous development over the past two decades. Although there is still no consensus on an exact definition of SHRM among scholars, broad agreement has been reached on its basic function, involves designing & implementing a set of internally consistent policies and practices that ensure the human capital of a firm contributes to the achievement of its business objectives (Schuler & MacMillan 1984, Baird & Meshoulam 1988, Jackson & Schuler 1995). In contrast to traditional Human resource management, SHRM focuses on improving the effectiveness of the entire learning community and helps to improve the organizations by creating and implementing plans that will continuously raise the competencies and capabilities of the members of an organization for the overall achievement of the organization (Ulrich 1997).

Strategic Shift in HRM:

A significant trend in HRM theory and practice has been toward making the function more supportive of organizational strategies (Liu, Combs, Ketchen, & Ireland, 2007), transforming human resource management (HRM) into strategic human resource management (SHRM). In this line of analysis, the role of HRM seems to be largely assumed: HRM should promote the interests of the organization whilst discharging the organization's legal (and to a lesser extent, ethical) obligations to employees. This is not surprising, given the role of government regulation in the employment relationship and the increasing desire of HRM professionals to be strategic partners rather than mere members of the "personnel department." In this regard the strategy of HRM practitioners and academics is entirely rational: increase the legitimacy of HRM by adopting the dominant ethos of organizations, which are efficiency and strategy focused.

The role of HRM within the organization has changed over time. HRM as we know it today developed from personnel management, and was meant to encompass a broad range of employee concerns and employment policies. Insights from the human relations and human resources schools of thought have found their way into HRM as a means of trying to make organization-employee relations more just and humane, thus avoiding some of the organization-centric employment practices and perspectives on employees engendered by scientific

management and administrative theory. In the last several decades HRM has changed its focus again and again, most recently from making the organization lean and efficient through business process reengineering to seeking to add value to the organization through strategic HRM. Significantly, the form and function of HRM follows wider trends in organizations, strategies, and management philosophies rather than leading them (Ferris et al., 1999; Mendenhall, Jensen, Gregersen, & Black, 2003).

Because HRM and SHRM, like other fields within management, is largely positivist and managerial in its orientation (Harley & Hardy, 2004) it has changed as the assumptions about employment and management have changed at the organizational and societal levels. At the organizational level, we have already noted the intensification of expectations that HRM practices will directly have a positive effect on organizational performance. At the societal level, there have been changes in the ways that wages and working conditions are determined, key HRM tasks such as selection are carried out, and workers are represented and protected. Many of these societal-level changes have come about as the result of legal and legislative changes, and others have been the result of changing stakeholder expectations regarding ethical employment practices.

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.

Pfeiffer 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.

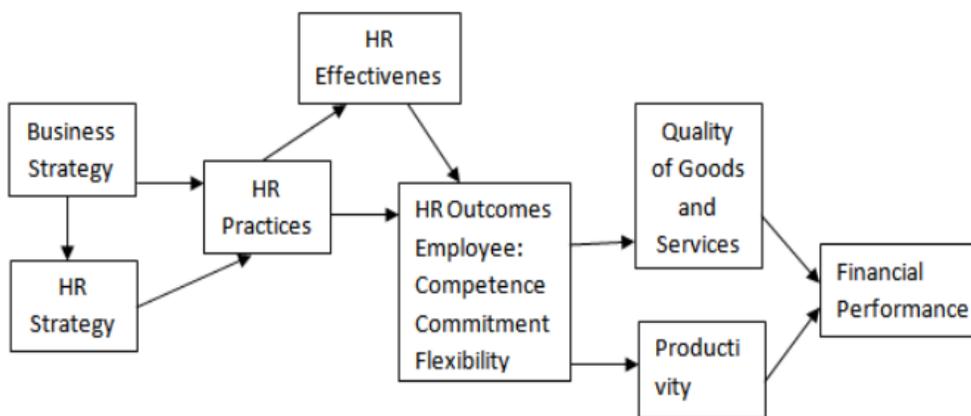


Fig 1. The relationship between Strategic HRM and Performance

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.

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).

Researchers in the field of SHRM have increasingly relied on the resource-based view of the firm to explain the role of human resource practices in firm performance. Resource based view of strategy is that the strategic capability of a firm depends on its resource capability, especially its distinctive resources. Indeed, theoretical research on SHRM has suggested that systems of HR practices may lead to higher firm performance and be sources of sustained competitive advantage because these systems of practices are often unique, causally ambiguous, and difficult to imitate. HR practices can enhance firm performance when they are internally aligned with one another to manage employees in a manner that leads to competitive advantage. HR practices can create value for a firm when the individual practices are aligned to develop critical resources or competencies.

How SHRM Impacts On Organizational Performance

Many organizations face a volatile market situation. In order to create and sustain competitive advantage in this type of environment, organizations must continually improve their business performance. Increasingly, organizations are recognizing the potential of their human resources as a source of sustained competitive advantage. Linked to this, more and more organisations are relying on measurement approaches, such as workforce scorecards, in order to gain insight into how the human resources in their organization add value.

The increasing interest in measurement is further stimulated by a growing number of studies that show a positive relationship between human resource management and organizational performance. The relationship between HRM and firm performance has been a hotly debated topic over the last two decades, with the great bulk of the primary scientific research coming from the USA and, to a lesser extent, the United Kingdom. Both organizations and academics are striving to prove that HRM has a positive impact on bottom line productivity. The published research generally reports positive statistical relationships between the greater adoption of HR practices and business performance. Sample research on the link between HR and organizational performance can be seen in Table 1.

In a world in which financial results are measured, a failure to measure human resource policy and practice implementation dooms this to second-class status, oversight, neglect, and potential failure. The feedback from the measurements is essential to refine and further develop implementation ideas as well as to learn how well the practices are actually achieving their intended results.

Table 1

Outcomes of Research on the Link between HR and Organizational Performance

Arthur (1990, 1992, 1994)	Data from 30 US strip mills used to assess impact on labour efficiency and scrap rate by reference to the existence of either a high-commitment strategy or a control strategy.	Firms with a high commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy.
Huselid (1995)	Analysis of the responses of 968 US firms to a questionnaire exploring the use of high performance work practices, the development of synergies between them and the alignment of these practices with the competitive strategy.	Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organizational structures.
Huselid and Becker (1996)	An index of HR systems in 740 firms was created to indicate the degree to which each firm adopted a high-performance work system.	Firms with high values on the index had economically and statistically higher levels of performance.
Becker et al (1997)	Outcomes of a number of research projects were analyzed to assess the strategic impact on shareholder value of High performance work systems.	High-performance systems make an impact as long as they are embedded in the management infrastructure.
Patterson et al (1997)	The research examined the link between business performance and organization culture and the use of a number of HR practices.	HR practices explained significant variations in profitability and productivity (19% and 18% respectively). Two HR practices were particularly significant: (1) the acquisition and development of employee skills and (2) job design including flexibility, responsibility, variety and the use of formal teams.
Thompson (1998)	A study of the impact of high performance work practices such as team working, appraisal, job rotation, broad-banded grade structures and sharing of business information in 623 UK aerospace establishments.	The number of HR practices and the proportion of the workforce covered appeared to be the key differentiating factors between more and less successful firms.
The Future of Work Survey, Guest et al (2000).	835 private sector organizations were surveyed and interviews were carried out with 610 HR professionals and 462 chief	A greater use of HR practices is associated with higher levels of employee commitment and contribution and is in turn linked to

	executives.	higher levels of productivity and quality of services.
Purcell et al (2003)	A University of Bath longitudinal study of 12 companies to establish how people management impacts on organizational performance.	The most successful companies had what the researchers called "the big idea". The companies had a clear vision and a set of integrated values which were embedded, enduring, collective, measured and managed. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment, and operational

The assumption underpinning the practice of HRM is that people are the organization's key resource and organizational performance largely depends on them. If, therefore, an appropriate range of HR policies and processes is developed and implemented effectively, then HR will make a substantial impact on firm performance. Much of the research over the last two decades has attempted to answer two basic questions: "Do HR practices make a positive impact on organizational performance?"; "If so, how is the impact achieved?" The second question is the more important one. It is not enough to justify HRM by proving that it is a good thing. What counts is what can be done to ensure that it is a good thing.

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,

The practice areas covered by HR strategies that impact on performance are summarized in Table 2.

Table 2. How HR Impacts Organizational Performance

HR Practice Areas	How it impacts
Attracting, developing and retaining high-quality people	Matches people to the strategic and operational needs of the organization. Provides for the acquisition, development and retention of talented employees who can deliver superior performance, productivity, flexibility, innovation and high levels of personal customer service and who "fit" the culture and the strategic requirements of the organization.
Talent Management	Wins "war for talent" by ensuring that the talented and well-motivated people required by the organization to meet present and future needs are available.
Working environment—core values, leadership, work–life balance, managing diversity, secure employment	Develops "the big idea", i.e. a clear vision and a set of integrated values. Makes the organization "a great place to work".
Job and work design	Provides individuals with stimulating and interesting work and gives them the autonomy and flexibility to perform their jobs well. Enhances job satisfaction and flexibility, which encourages high performance and productivity
Learning and development	Enlarges the skill base and develops the levels of competence required in the workforce. Encourages discretionary learning, which happens when individuals actively seek to acquire the knowledge and skills that promote the organizations objectives. Develops a climate of learning – a growth medium in which self-managed learning as well as coaching, mentoring and training flourish.
Managing knowledge & intellectual capital	Focuses on both organizational and individual learning and on providing learning opportunities and opportunities to share knowledge in a systematic way. Ensures that vital stocks of knowledge are retained and deals with improving the flow of knowledge, information and learning within the organization.
Increasing motivation, commitment and role engagement	Encourages people to identify themselves with and act upon the core values of the organization and willingly to

	contribute to the achievement of organizational goals. Develops a climate of cooperation and trust, clarifying the psychological contract.
High-performance management	Develops a performance culture that encourages high performance in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately, the delivery of increased shareholder value. Empowers employees to exhibit the discretionary behaviours most closely associated with higher business performance such as risk taking, innovation, knowledge sharing and establishing trust between managers and subordinates.
Reward management	Develops motivation, commitment, job engagement and discretionary behaviour by valuing and rewarding people in accordance with their contribution.

CONCLUSION

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 its 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. Since it is clearly understood from academic research that human resources are a source of sustained competitive advantage, while, traditionally, the costs associated with the development of HR strategy have been regarded as an operating expense, these costs would be better considered as an investment in capital assets.

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