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The impact of strategic human resource management on organizational performance

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Abstract

In a rapidly evolving competitive landscape, human resources represent a crucial source of competitive advantage. Effective human resource systems can foster a sustained edge by developing firm-specific competencies. Strategic human resource management (SHRM) focuses on aligning human resource strategies with the overall strategic goals of a business. Research indicates a positive correlation between the adoption of comprehensive HR practices and improved business performance. The 21st-century business environment is marked by rapid changes due to factors such as globalization, technological advancements, shifts in consumer preferences, and environmental fluctuations. As competition intensifies and markets become more dynamic, organizational performance becomes increasingly vital. Success is measured through various indicators, ensuring that companies remain competitive globally. Proper management of human resources is essential for maintaining this competitiveness. It is crucial to strategically manage HR to achieve organizational goals and adapt HR strategies in alignment with the overall business strategy.

SHRM has become a key factor in the success of businesses within this competitive environment. It encompasses the principles and practices that align HR management with the strategic and long-term objectives of an organization, with a focus on human capital. The foundation of SHRM lies in developing methodologies for long-term people management, which helps organizations gain a competitive advantage. SHRM involves integrating human resource management with the strategic management of the organization to achieve its goals effectively and efficiently. This study aims to explore the impact of strategic human resource management on organizational performance.

Keywords: Human, resource, management, strategic management

1. Introduction

The economic environment is undergoing rapid transformation, characterized by globalization, shifting customer and investor expectations, and escalating product-market competition. To thrive in this dynamic landscape, organizations must continually enhance their performance by cutting costs, innovating products and processes, and improving quality, productivity, and market responsiveness. Human resources, the workforce within an organization, have emerged as one of the most critical assets for contemporary firms. Effective management of people is increasingly crucial as traditional sources of competitive advantage, such as product and process technology, protected markets, and economies of scale, become less

impactful. Recognizing this shift in the foundation of competitive advantage is essential for developing a new perspective on human resource management and strategy. While traditional factors can still offer competitive leverage, the strategic management of human resources is now more critical for ensuring organizational sustainability.

As the business environment becomes increasingly competitive, the role of Human Resources (HR) has grown more crucial to organizational success. Recently, Human Resource Management (HRM) has faced significant pressures to adapt due to shifts in globalization, economic conditions, workforce diversity, and technology. These changes have necessitated organizational redesigns and prompted HR practices to evolve in new directions.

Companies are striving to outpace each other by expanding market share, attracting more customers, and boosting revenues. Rapid changes driven by globalization, advancements in information systems, and other factors have intensified competition. Organizations are setting ambitious performance goals, including cost reduction, achieving revenue targets, increasing customer numbers, enhancing market share, improving productivity and quality, and developing innovative products. Achieving these objectives relies heavily on effective human resource management. By leveraging their workforce as a key asset, organizations can significantly enhance their performance and reach their goals.

Human asset management is more critical than other competitive resources because employees utilize various assets within the organization, drive competitiveness, and contribute to achieving organizational goals. Therefore, companies must understand and address employee expectations to achieve desired performance outcomes. Meeting these expectations fosters the preferred employee behaviors within the organization. Key outcomes that organizations seek from effective management of their staff include: enhanced competence, improved cooperation between employees and managers, better collaboration among employees, demonstration of employee skills, increased motivation, commitment, and satisfaction, as well as positive attitudes and presence. These factors collectively influence employee behavior and contribute to the overall success of the organization.

The overarching goal of performance management is to foster a high-performance culture where individuals and teams are accountable for the ongoing enhancement of business processes and capabilities, contributing to the achievement of managerial objectives. Specifically, performance management aligns individual employee goals with organizational objectives, provided that employees support the company's culture. It involves clearly defining and agreeing upon expectations related to job responsibilities and accountabilities (what is expected to be done), competencies (what is expected to be possessed), and behaviors (how one is expected to act) (Armstrong, 2006) [2].

Materilas and Methods

Strategic Human Resource Management (SHRM) represents a strategic approach to managing an organization's human resources. Although it is considered a relatively new concept compared to traditional Human Resource Management (HRM), SHRM has evolved significantly over recent decades. Despite ongoing debates among scholars regarding its precise definition, there is broad agreement on SHRM's core function. This function involves developing and implementing a coherent set of policies and practices that ensure the human capital of a firm aligns with and contributes to its business objectives (Schuler & MacMillan, 1984; Baird & Meshoulam, 1988; Jackson & Schuler, 1995) [13, 14, 15]. Unlike conventional HRM, which often focuses on operational efficiency, SHRM aims to enhance the overall effectiveness of the organization by creating and executing strategies that continuously improve the skills and capabilities of its members, thereby driving organizational success (Ulrich, 1997) [16]. Jules and Holzer (2001) [17] highlighted that SHRM boosts employee productivity and

enhances the capacity of governmental organizations to achieve their missions. SHRM is grounded in strategic principles that focus on achieving corporate profitability by identifying both external and internal factors that enable firms to gain a competitive advantage and achieve superior performance. Armstrong (2008) [3] defined SHRM as "an approach to making decisions about the intentions and plans of the organization in the form of policies, programs, and practices related to employment relationships, resourcing, learning and development, performance management, rewards, and employee relations." This definition underscores a paradigm shift from a purely functional role to a strategic one, emphasizing the integration of HRM within the broader strategic management framework. SHRM is crucial for the effectiveness of learning organizations as it ensures that the needs of the learning community are met while enabling educational leaders to "add value to the learning community" and achieve the organization's goals and objectives.

Strategic HRM – A brand new emphasis

Strategic HRM involves applying overarching strategies to the development of HR practices, ensuring alignment both vertically with the organization's overall strategy and horizontally across various HR functions. These strategies encompass broad organizational issues, such as enhancing organizational effectiveness, and more specific aspects of people management, including resourcing, learning and development, compensation, and employee relations. Strategic HRM aims to implement actions that distinguish the firm from its competitors and focuses on facilitating strategic change and building the organization's capability to remain competitive in the future (Holbeche, 2004) [18]. Strategic HRM differs from traditional HR management in two significant ways. Firstly, it concentrates on organizational performance rather than individual performance. Secondly, it emphasizes the role of HR management systems in addressing business challenges—such as both positive and negative complementarities—rather than considering individual HR practices in isolation. Strategic HRM is not merely about systematization or financial performance; it is about cultivating a sustainable competitive advantage that leads to superior financial outcomes. The essence of the SHRM model is the relationship between a company's HR architecture and its overall performance. The HR architecture includes systems, practices, capabilities, and employee behaviors that reflect the development and management of the organization's strategic human capital. Superior organizational performance, linked to this HR architecture, reflects the quasi-rents associated with this strategic resource.

Strategic Shift in HRM

A significant trend in HRM is the shift towards aligning HR functions more closely with organizational strategies, transitioning from traditional Human Resource Management (HRM) to Strategic Human Resource Management (SHRM) (Liu, Combs, Ketchen, & Ireland, 2007) [19]. This evolution assumes that HRM should primarily support the organization's strategic objectives while fulfilling its legal (and to a lesser extent, ethical) obligations to employees. This shift is not surprising given the increasing role of

government regulations in employment relationships and the growing aspiration of HRM professionals to be strategic partners rather than mere administrative staff. In this context, HRM practitioners and scholars rationally seek to enhance the credibility of HRM by adopting the prevailing organizational focus on performance and strategic alignment.

The role of HRM within organizations has evolved significantly over time. Modern HRM, which emerged from traditional employee management practices, now addresses a broad spectrum of employee concerns and employment policies. Insights from both the human relations and human resources schools of thought have influenced HRM, aiming to foster fairer and more humane employer-employee relationships. This evolution has moved away from the company-centric approaches and views of employees promoted by scientific management and administrative theory. In recent decades, HRM's focus has shifted multiple times, from streamlining organizations through business process reengineering to enhancing organizational value through strategic HRM. Notably, the evolution of HRM often mirrors broader trends in organizational structures, strategies, and management philosophies, rather than leading these changes.

HRM and SHRM, like other management disciplines, are fundamentally positivist and managerial in orientation (Harley & Hardy, 2004) [20]. Consequently, they have evolved in response to changing assumptions about employment and management at both organizational and societal levels. At the organizational level, there has been an increased expectation that HRM practices will have a direct and significant impact on organizational performance. Concurrently, at the societal level, there have been shifts in how wages and working conditions are determined, how key HRM functions such as recruitment are conducted, and how employees are represented and protected. Many of these societal changes have resulted from legal and legislative reforms, while others have emerged from evolving stakeholder expectations regarding ethical employment practices.

Strategic HRM and performance

Studies between strategic HRM and enterprise overall performance has dominated the instructional and practitioner debate for greater than a long time. However, maximum research and guides inside the subject of HRM have defined the idea in terms of individual practices. According to Noe *et al.* (2007) [8], refers HRM practices and rules that affect behaviors, attitudes and overall performance of employees. They're focused on numerous important

practices which, in turn, can positively impact organizational overall performance, which include human resource planning, recruitment, selection, education and development, repayment, performance management and worker family members.

Pfeffer reshapes these practices into seven HRM practices; these practices are expected to beautify organizational performance and enable the company to advantage a competitive gain (1998). Such practices are particular as follows (Boxall, Purcell and Wright, 2007) [8]:

- Employment security.
- Selective hiring of new employees.
- Self-controlled groups and decentralization of selection-making because the simple principles of organizational design.
- Comparatively excessive reimbursement contingent on organizational overall performance.
- Vast training.
- Reduce fame distinctions and obstacles, which include dress, language, office arrangements, and salary variations across degrees.
- Vast sharing of monetary and overall performance records in the course of the organization.

Table-1 suggests the sample of connectivity among HRM and overall performance. thru this model is contemplated in detail the relationship that exists from business strategies to organizational overall performance measured through financial signs. In keeping with Michael Armstrong (2006) [2], within the middle of this model is the overall performance as a characteristic of the capability + Motivation + possibility (AMO). Development of human resources method comes after is crafted enterprise method. but before the drafting and components of commercial enterprise method ought to have analyzed competences of the staff, the manner how they encourage, the sorts of abilities and know-how employees. It is exactly this workforce on the way to acquire the performance indicators. So, the conclusion of enterprise approach comes thru integration of group of workers possibilities, their expectancies and different factors that influence outside and inside the employer. So, it's miles simpler tracking of a human resources approach and variation strategies with previous practice and exercise to be followed for the implementation of performance. The performance can be carried out successfully to gain organizational overall performance delight from attaining personnel, their motivation, powerful control of HR by way of manufacturing high exceptional products.

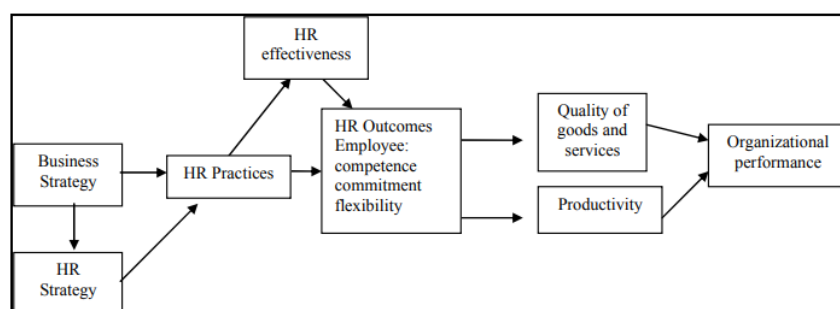


Fig 1: The Relationship between HRM and Performance

In HRM-overall performance research, the performance results of HRM may be viewed in distinctive approaches. HRM researchers have normally mentioned Dyer and Reeves“ (2020) [5] category of performance effects as follows:

- HR associated effects, together with turnover, absenteeism, process satisfaction, commitment.
- Organizational outcomes, which include productivity, great, carrier, efficiencies, consumer delight.
- Financial accounting consequences, including earnings, income, go back on belongings, return on investment.
- Capital market results, together with marketplace percentage, inventory rate, boom (Boxall, Purcell and Wright, 2007) [8].

Researchers in the field of SHRM have increasingly drawn on the resource-based view (RBV) of the firm to explain how human resource practices contribute to organizational performance. The RBV posits that a company's strategic capability is largely determined by its resource base, particularly its unique resources. According to this perspective, well-structured HR practices can lead to superior firm performance and provide a source of sustained competitive advantage. This is because such systems of practices are often unique, causally ambiguous, and difficult for competitors to replicate. When HR practices are internally consistent and aligned with each other, they can effectively manage employees in ways that support competitive advantage. Furthermore, HR practices generate value for a firm when they are strategically aligned to develop critical resources or capabilities.

How SHRM influences on organizational performance

Many companies operate in unstable market conditions and must continuously enhance their performance to create and sustain a competitive advantage. Increasingly, organizations are recognizing the value of their human resources as a key source of long-term competitive advantage. To leverage this potential, many companies are adopting measurement tools, such as workforce scorecards, to gain insights into how their human resources contribute to value creation.

The growing emphasis on measurement is driven by a body of research demonstrating a positive relationship between human resource management (HRM) and organizational performance. This relationship has been a major topic of debate over the past two decades, with most significant primary research originating from the United States and, to a lesser extent, the United Kingdom. Both companies and academics are working to validate that HRM positively impacts productivity and overall business performance. Published studies generally report significant statistical correlations between the increased adoption of HR practices and improved business performance. An overview of research findings on the link between HR and organizational performance can be found in Table 1.

In a world where financial outcomes are paramount, failing to measure human resource policies and practices relegates them to secondary importance, often leading to oversight, neglect, and potential failure. Feedback from these measurements is crucial for refining and enhancing implementation strategies, as well as for assessing how effectively these practices achieve their intended outcomes.

Table 1: Outcomes of studies at the hyperlink among HR and Organizational overall 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 <i>et al.</i> (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.

The foundational assumption of HRM practice is that people are a company's most crucial asset, and organizational performance heavily depends on them. Therefore, if a well-defined set of HR policies and procedures is developed and implemented effectively, HR can significantly influence company performance. Over the past two decades, much of the research has sought to address key questions: "Do HR practices positively affect organizational performance?" and, more critically, "How does this impact occur?" While demonstrating that HRM has a positive effect is important, the focus should be on understanding and implementing practices that ensure HRM's effectiveness as a strategic contributor.

The function of Strategic HRM on performance

Strategic management of human assets represents a

metamorphosis that is exceedingly new inside the subject of human resource control. An crucial function of strategic human useful resource control is set focusing the management in employees as a device to advantage competitive gain. Now, businesses are made conscious that a hit human sources regulations and practices of suitable can boom overall performance in numerous regions which include productivity, great and monetary overall performance.

Performance management is a planned technique in which key factors are unique size, comments, superb reinforcement and ongoing talk among managers and employees. It has to do with measurement effects within the form of overall performance achieved in assessment with the expectancies expressed as goals. Also, it has to do with the inputs and values. Inputs are the knowledge, abilities and behaviors

vital to provide the predicted effects. Needs are identified via defining those requirements and examine the diploma to which the predicted stages of overall performance are carried out via powerful use of expertise and abilities, suitable conduct.

Performance control strategy has to do with all of the enterprise and no longer simply the managers. So managers aren't best chargeable for turning in the specified overall performance. Managers should have the self belief to distribute authority and obligation for the duration of the business enterprise. In a sense, managers want to collaborate and keep in mind as a part of their personal human beings so that you can report on achieving the specified overall performance. Managers and their teams are mutually liable for the outcomes and are both concerned in agreeing what they should do and the way they ought to do it. Performance control processes are a part of sweeping throughout the enterprise. Managers and different employees of the business enterprise need to work collectively to collectively commit to achieving the overall performance.

Overall performance management method ought to cognizance at the development to a non-stop and flexible manner regarding managers and all the corporation that function as a single team. This has to decide how they can high-quality work collectively to reap the required outcomes. This makes it viable to attention at the planning of future performance and performance enhancements current. HRM strategy gives the premise for normal dialogue and frequent among managers and other personnel approximately overall performance needs and in addition development of the enterprise. Strategic human useful resource control may carry some of advantages to the business enterprise (Brewster *et al.*, 2000)^[4]:

- Contributing to the purpose accomplishment and the survival of the enterprise,
- Aassisting and efficaciously imposing commercial enterprise strategies of the organization,
- Developing and maintaining a competitive benefit for the enterprise,
- Enhancing the responsiveness and innovation capability of the employer,
- Increasing the variety of feasible strategic options available to the enterprise,
- Collaborating in strategic planning and influencing the strategic course of the employer as an similarly entitled member of top control,
- Enhancing cooperation between the HRM branch and line managers.

Conclusion

Organizations are seeking to create as a lot aggressive in the marketplace, achieving to manipulate their human resources in achieving organizational performance required. a number of the dreams are value reduction, attaining income levels, increasing the variety of clients, growing the market percent, increasing product great, progressive products, improve productiveness. Human assets are gambling an essential function in reaching these overall performance signs. However before that, groups ought to understand the expectations required from employees and so the personnel display their talents, be stimulated and behave in the manner required by means of the organization to reap performance.

Strategic HRM is a detailed system for human aid control throughout the agency that its incorporated with the company's typical approach. It allows the enterprise having personnel with the right skills and placing them in positions according to the level in their qualification and abilities.

- In view that it's far definitely understood from educational studies that human sources are a supply of sustained competitive gain, even as, historically, the prices related to the development of HR strategy have been appeared as an operating cost, these fees could be higher taken into consideration as an funding in capital belongings.
- The way an employer manages its HR has a enormous courting with the business enterprise results, a revelation that helps the aid-based view, where business competitiveness is related, as a minimum in element, to the investments in organisation particular assets. Even though the published studies commonly reviews superb statistical relationships among the extra adoption of HR practices and enterprise overall performance, it should also be stored in mind that many other elements besides HR practices should impact organizational overall performance. Additionally, it's far possible that there are complicated relationships among HR practices and other resources of the firm.
- The causal linkage among HR and organizational overall performance will enable the HR managers to design programmes so one can bring on better operational outcomes to achieve higher organizational performance. The focal point of the HR control should be to recognize organizational performance approaches and design HR practices that have an impact on process and final results variables.

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