
THE IMPACT OF HUMAN RESOURCE MANAGEMENT ON ORGANIZATIONAL PERFORMANCE

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Abstract

The last decade of research on the added value of human resource management and its impact on organizational performance, shows that HRM has an essential role in the process of attaining organizational goals and objectives. Unfortunately, the link is usually weak and the results unclear, therefore researchers haven't reached a consensus yet. This paper discusses the theoretical and methodological problems that arise in the human resource management and performance debate. After a short review of what has been researched until now, I try to analyze the concept of performance and what is the link between it and the human resource practices. The final section of the paper overviews the positive implications of implementing a high performance system that helps organizations align the goals of the individuals with the corporate objectives and highlight areas that need improvement.

Keywords: human resource management, organizational performance, high performance systems, learning and development, managing knowledge.

1. INTRODUCTION

The most significant assumption regarding human resource management is that an organization is able to improve its overall performance through its employees. Therefore, if the right human resource policies are implemented, the human resource management will have a direct and significant impact on the organizational performance. Nevertheless, in order to benefit from the implementation of the HR procedures, a company should understand what performance is and how it is correlated with HRM.

The concept of performance is very broad as it refers to both what has been achieved by the company and the means through which the results were obtained. Generally speaking, firm performance can be measured in several ways, but the most common approach is to take into consideration the key performance indicators (KPIs), which are related to financial results or productivity. On the other hand, assessing and measuring the "how" component is a lot more difficult, as it is based on qualitative evaluations of the organizational capabilities and effectiveness.

Organizational capability represents the capacity of companies to operate effectively in order to build a long term competitive advantage and obtain results. The organizational effectiveness is referring to the capacity of a company to attain its goals by using the available resources in an efficient manner. A significant number of researches have been done on the impact of HRM to organizational performance, but it is important to

understand what triggers the results, as to develop and implement better HR policies in the future. Moreover, Ulrich (1997) considers that HR managers should be able to explain how and why the human resource practices and procedures improve the results of the organization.

In the past decades, human resource researchers and managers have tried to demonstrate that HR policies can improve the organizational performance, and in the vast majority of the cases, the studies showed a strong link between good HRM practice and corporate performance.

Huselid (1995) conducted an extensive research regarding the use of performance work practices and their influence on the organizational results. The study reveals that productivity is influenced by employee motivation, while financial performance is correlated with employee skills, motivation and a good organizational structure. Appelbaum et al (2000) studied the influence of high performance work systems and found that these policies have a strong positive impact on organizational performance, because they enhance commitment, trust and improve the intrinsic reward from work. In 2002, Thompson conducted a study to see the role of team work, job rotation and knowledge sharing in achieving the organizational goals. The research shows that the number of the high performance work practices used by the companies influence significantly their performance.

Nevertheless, there are other researchers who claim that in most of the cases, the link between performance and the use of HR practices is fuzzy and vary according to samples and the variables used. Moreover, Purcell and al (2003) consider that studies that take into account profit or shareholder value are too distant from the human resource management. Therefore, any time someone tries to demonstrate the HRM policies have a strong positive link on economic performance, there will be many people who can claim that there are also many other factors involved in the equation.

2. IMPACT OF HR STRATEGIES ON INDIVIDUAL PERFORMANCE

Much of the research in the field has demonstrated a clear link between human resource management and performance, but there are still uncertainties regarding a cause-effect association. Nevertheless, these studies acknowledge that HRM focuses on achieving results by the utilization of human resources, which implies the implementation of appropriate practices. Therefore, organizations would have high quality and adaptable employees, committed to the organizational values and goals.

Others consider that the studies haven't succeeded in showing a relationship between HRM and performance, but even if this was the case, it is more important to understand and highlight how the human resource policies influence organizational performance. Starting with this framework, Rogg and al (2001) conducted a research and suggested that human resource practices influence first the organizational climate,

which in turn improves performance. They also claim that the influence of the HRM policies on the performance is weak, but they are able to create a work climate that improves the organizational results.

There are three main factors that influence the level of individual performance: motivation, ability and opportunity to participate. Vroom (1964) conducted a research regarding the first two factors and found that the influence of motivation on performance is dependent on the ability of workers, while the effect of ability on performance is influenced by the motivation of the worker. Therefore, the actions of ability and motivation, on performance, are interdependent. In addition, Vroom suggested the following formula to explain the relation between motivation, ability and performance: $Performance = f(Ability \times Motivation)$. In other words, a worker needs both ability and motivation to perform properly and if one of the two variables is 0, the individual performance will also be 0.

In order to evaluate the ability of an employee, managers should determine whether the worker has the right skills and knowledge to perform a certain job properly. If the employee' ability level is dissatisfactory, there might be several causes determining this situation. On one hand, the employee could be new to a job, or the tasks have changed significantly. In order to improve the individual performance, managers should identify the skills or knowledge that the employee lacks in a certain area, and offer solutions, such as training, coaching and better feedback. On the other hand, there are cases in which the job might be too demanding for certain individuals, that is why managers should either remove certain tasks which cannot be performed by employee or hire a more skilled person.

Determining the level of motivation for the employees can be done by performing a qualitative evaluation. In most of the cases, if an employee occupies a job that he wants and enjoys, then its motivation level will be high. Similarly, the rewards offered by management influence the motivation of employees. On the other hand, managers should tackle with great care personal problems of individuals, as they can severely hurt motivation. If an organization has unmotivated personnel, then the HR managers have to show them clearly that they are all evaluated correctly and the reward system is fair. Moreover, there are many situations in which a positive feedback, such as acknowledging the importance of an employee for the organization, can increase his motivation, while in other cases a manager should be counseled against stress.

If the individual performance of certain employees is poor because they don't have the right abilities or a proper level of motivation, there might be a misfit between the organizational goals and employee's values. Therefore, managers should try to make them realize the importance of the issue and give them proper feedback to correct their behavior. If by the next appraisal, the employee doesn't improve the level of performance, the organization has to find a better person for that job. Nevertheless, top performers that have both a high level of motivation and ability should be treated with the same great care, as they have enough

potential to be exploited. Rewards, praises as well as opportunities for career development keep them focused and well motivated.

Later on, based on Vroom's work, the expectancy theory claims that high levels of individual performance are determined by high motivation and the required skills. In addition, each worker should have the right role in the organization and understand its implications.

On the other hand, Baley et al (2000) focused their research on the role of opportunity to participate on performance. After assessing 45 different companies, they concluded that high performance organizations encourage discretionary effort, skill development and provide people with opportunity to perform. They also claim that the incentive and skills are the other components of high performance systems.

Later on, Boxall and Purcell (2003), based on the work of Vroom and Baley, proposed a new model that states the performance is an additive function of ability, motivation and opportunity to participate. Therefore, HRM practices have a positive impact on individual performance if they support the employees to develop new skills and provide them job opportunities.

3. HRM AND ORGANIZATIONAL PERFORMANCE

Generally speaking, it is possible to find a correlation between HRM policies and organizational performance, but it is hard to determine a cause-effect relationship, as there are many other factors involved in the process. In addition, an organization is not an enclosed environment, on the contrary, it is continuously influenced by the competitive environment. On the other hand, the reversed causality can be a serious issue, as high performance work systems can improve the organizational results, but high performance of the firm may also determine the use of complex HR policies.

The main HRM strategies that can be used to increase the organizational performance are related to developing an organizational climate that encourages development of new skills, sharing of knowledge, continuous learning or career management. Therefore, organizations should focus on attracting and retaining talented employees, who can deliver high levels of performance, adaptability, innovation and better than average personal customer service. In addition, one of the main aspects that should be taken in consideration when selecting the future employees is to choose people who fit the organizational culture and requirements of the firm.

Attract, develop and retain people of high quality

It is essential that the employees fit the strategic and operational requirements of the organization. Therefore, a firm should select, develop and retain high quality people who are able to perform efficiently, be productive and innovate. In addition, the employees should have the capacity to adapt to the changing competitive

environment, learn new skills and be prepared to move in other key position throughout the organization. In order to retain key employees, organizations have to develop involvement practices and a climate that encourages commitment and cooperation.

In order to prevent job withdrawal, HR managers should focus on increasing employee job satisfaction. Generally speaking, job satisfaction results from the feeling that one's job fits the one's values and objectives. The real challenge is to manage diverse employees, each with its own perception and views. Therefore, similar contexts are perceived differently by employees and determine different levels of job satisfaction, as every employee has its own values. Organization should improve job satisfaction by taking into account the main aspects that influence their perception: personal dispositions, tasks, peers and superiors, and pay. In addition, the selection of employees plays a great role on the long term employee satisfaction, as his values and beliefs should be convergent with the organizational culture of the company.

In order to retain the high quality employees, an organization should conduct surveys designed to assess level of job satisfaction. This ongoing process should find what causes job dissatisfaction and helps managers to prevent voluntary turnover and implement changes to improve the work climate.

Talent management

Any organization should attract and manage talented and highly motivated people, as to meet its present and future needs. The process of attracting and retaining profitable employees has gained a lot more importance lately, taking into account its strategic role for the companies and the increasing competition between firms.

Job and work design

Developing proper job design creates a stimulating and interesting work climate for employees and provides them the autonomy and flexibility needed to achieve superior results. In addition, it also improves job satisfaction and flexibility, which in turn foster performance and productivity.

Learning and development

This strategy is designed to make sure that learning and development activities support the achievement of the organizational goals, as well as to create new skills of individuals and teams. A learning and development strategy supports the achievement of business objectives by promoting human capital advantage.

Implementing an organizational culture that focuses on learning and development enlarges the skill base and creates the level of competence needed in the workforce. In addition, by implementing these HR practices, employees will actively seek ways to acquire the knowledge and skills that support the corporate objectives.

Moreover, creating a climate of learning in the organization can be done by encouraging self-managed learning, training or mentoring.

A learning culture promotes learning, because it is accepted by the managers and employees alike as an essential organizational process to which they are committed and engage on a continuous basis. A learning organization is a growth environment, because it encourages employees to adopt a series of positive discretionary behaviors and because it promotes empowerment, self managed learning and long term vision. In addition, in order to create a learning culture, an organization needs to implement practices that increase employee commitment, give them a purpose in the company and give them opportunities to develop their careers.

The process begins with monitoring the competitive environment and using the results to take decisions and implement changes in the organization. Setting up an efficient information system plays a significant role in creating a learning organization, as it facilitates storing the knowledge and make it available any time and in any place to employees, even after the persons providing the knowledge have left the company. Nevertheless, people play an essential role in the process, as they must be committed to learning and willing to share what their knowledge. By exploiting the learning curve and implementing a learning culture, any organization competing in the new economy can develop a sustainable long term advantage and increase its competitiveness as compared to rival companies. In order to make the competitive advantage sustainable, organizations should develop mechanisms that encourage employees to share knowledge. The knowledge-creating organization depends to a large extent on the tacit knowledge (that which is deeply embedded in individuals). The combinations between tacit and explicit knowledge (that can be explained by using formal means) help the organization grow by stimulating innovation and continuous improvement. The tacit knowledge emerges from daily interactions between people at the workplace. Most of the tacit knowledge is dispersed within the organization, as the employees gain experience by performing their daily work and create new knowledge from interactions with their colleagues.

Knowledge Management

By managing intellectual capital and knowledge, a company provides learning opportunities for individuals, as well as framework to share knowledge in a systematic manner. Therefore, organizations should make sure essential knowledge is transferred from individuals and retained in a formal manner, improve the flow of information within the organization and support the learning and development process.

A significant part of the organization's knowledge is deeply embodied in the firm's key employees as tacit knowledge, making difficult transfer it to others by formal means. Tacit knowledge is one of the main parts of the human capital of an organization, as it contains the experience of employees, resulting from years of work

and various challenges. Transforming tacit into explicit knowledge, which can be stored and used anytime, should be a priority for any organization, as key employees might leave the company at any time, taking with them valuable expertise, maybe even the core of the competitive advantage. Therefore, companies can decrease their dependency on valuable employees by implementing proactive human resource practices that encourages knowledge transfer and creation. Some of these strategies refer to work in teams, encouraging the employees to share information, apprenticeship or coaching.

Enhancing commitment and motivation

If an organization focuses on increasing employee engagement and motivation, people will become more committed to their jobs, they will be proud to be part of the organization and will take actions to achieve the organizational and individual goals. In addition, developing a positive psychological contract between the organization and its employees will create a strong and homogeneous relationship.

4. HIGH PERFORMANCE MANAGEMENT

Performance management is the process through which managers make sure the employees' work contributes to the organizational effort of achieving the goals. In order to implement the right policies, managers should establish from the very beginning what activities and outputs are desired, monitor the employees to see if they meet the expectations and provide feedback if it necessary to correct their actions. During this process, managers and employees might encounter problems, so they have to collaborate to find the most appropriate solutions (Harrison, 2004).

The human resource department has to set up and manage a performance appraisal system. Usually, these evaluations are conducted yearly and focus on individual performance of employees, as well as on the areas that require improvement. If the appraisal is done properly, the process should generate benefits for both employees and organization. Therefore, implementing a performance appraisal should enhance communication between managers and employees, reward top performers and help the weakest performers improve their results.

The first step of the setting a performance appraisal system is to establish which elements of the individual performance are relevant for the organization. Next, the HR managers measure the performance of each individual, by implementing the performance evaluations. Last but not least, managers give employees information about their performance, and help them correct their behavior to meet the expectations and help the organization to achieve its goals. When the appraisal highlights performance problems, the managers should investigate the cause and provide useful feedback to solve the issue. On the other hand, managers

should also reward superior performers, to show them they are valued and increase their motivation, but also identify areas in which the employee can improve and have a greater contribution for the organization.

Organizations implement performance management systems to achieve three purposes: strategic, administrative and developmental. On one hand, strategic purpose refers to achieving business objectives by establishing an effective performance management system, which links employees' behavior with organizational goals. In order to achieve this alignment, the organization should state clearly what it expects from each employee, measure their performance and take corrective actions if necessary. Therefore, if an employee hasn't met the expectations, it should be trained better or given appropriate incentives. Consequently, performance management achieves its strategic purpose when the organizational goals are correlated with the appraisals and when the employees receive feedback from top management, to improve the areas where they don't perform as expected.

The administrative purpose of performance management refers to the use of information resulted from the appraisals to take decisions regarding salaries, rewards, recognition programs or decisions about employee retention, termination, hiring new people or laying off workers.

Last but not least, the third purpose of performance management systems is developmental, as it provides useful information for developing employees' knowledge and skills. Employees who don't perform as expected should hear and discuss the performance feedback with their managers and try to develop the lacking skills required to meet the objectives. Moreover, even employees with superior performance can learn from these appraisals, as they will see their strengths and weak areas that require improvement. Discussing these matters with their superiors can give them a clear view of the main causes for the lack in performance and seek for ways to improve.

Developing a performance culture encourages performance in many areas, such as productivity, quality, customer satisfaction, profits and better shareholder value. In addition, organizations should empower employees to exhibit behaviors related to business performance, such as risk taking, innovation or knowledge sharing. If a company's competitive advantage has its roots in customer service, performance management should define the behavior that have a positive impact to it, assess if the employees engage in these behaviors and provide feedback to improve results. Nevertheless, if the organizational strategies and objectives change, the employees and managers should work together to change the performance management system, as to support the new strategies.

Across organizations, there are many ways in which appraisals are performed, starting with ranking employees according to individual performance, up to evaluations that score several aspects for each person (results, behaviors, skills). Other organizations have implemented measurement systems that take into

account preceding measures, especially when performance management is complemented by total quality management.

5. CONCLUSIONS

Nowadays, organizations and employees should increase their competitiveness on a continuous basis, by expanding their knowledge, skills and behavior. In this manner they will be able to understand and meet the customer needs, deliver valued added and create a sustainable long term competitive advantage.

Numerous studies have shown a direct or a contextual relationship between implementing high performance work practices and organizational performance. Therefore, organizations should focus on developing new skills for the employees and manage with great attention the knowledge creation and transfer processes.

In the new knowledge-based economy, the competitive advantage is not obtained through the integration of capital, labor and material, but through the capacity of companies to adapt to the dynamic environment, and by generating and using new knowledge. These capabilities depend on developing human resource capital, as nowadays traditional tangible are less important than knowledge-based assets.

Individual performance of employees is determined by several factors, but the most important ones refer to motivation and ability. Therefore, the most efficient way to improve organizational performance through people is to improve their levels of ability (coaching, training, providing feedback) and motivation (positive feedback, rewards, counseling). Nevertheless, it is essential that the HR managers set the individual levels of performance that support the achievement of the organizational goals and culture. In addition, feedback should be given to poor performers to help them improve their results, but also to high quality employees to develop their skills and prepare them for new roles in the organization.

Implementing the right human resource practices to increase organizational performance requires an integrative approach, because they have to be aligned horizontally with all human resource processes and aligned vertically with the organizational goals. Obtaining horizontal fit of the human resource performance practices with all the other HR policies would improve the efficiency of employees, increase the adaptability of the organization and facilitate the knowledge creation and transfer processes. The main challenge is to link learning and development to human resource processes and to support the best practices on the long run.

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